



BIKAJI FOODS INTERNATIONAL LIMITED

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CIN: L15499RJ1995PLC010856 | GST No.: 08AAICS1030P1Z5

Ref: BFIL/SEC/2023-24/131

Date: November 12, 2023

To

Dept of Corporate Services
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai 400 001 (Maharashtra)

Scrip Code: 543653

The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai 400 051 (Maharashtra)

Trading Symbol: BIKAJI

Subject: Transcript of Earnings Conference Call for the quarter and half year ended on September 30, 2023

Dear Sir / Madam,

We hereby inform you that in continuation to our letter bearing Ref. No. **BFIL/SEC/2023-24/121** dated **October 31, 2023** and pursuant to the requirements of the Regulation 30 read with the Point 15 of Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“the Listing Regulations”), as amended from time to time, an Earnings Conference Call with the Investors and Analysts for the quarter and half year ended on September 30, 2023 was conducted on **Tuesday, November 07, 2023**. Please find enclosed herewith the transcript of the Earnings Conference Call.

In compliance with the Regulation 46 of the Listing Regulations, the transcript of the Earnings Conference Call will also be available on the website of the Company and the same can be accessed at www.bikaji.com

You are kindly requested to take the same on record.

Thanking you

Yours faithfully,
For Bikaji Foods International Limited

Rahul Joshi
Head - Legal and Company Secretary
Membership No.: ACS 33135

Enclosure: As above



“Bikaji Foods International Limited Q2 FY24 Earnings
Conference Call Transcript”

November 07, 2023



MANAGEMENT: MR. RISHABH JAIN - CHIEF FINANCIAL OFFICER, BIKAJI
FOODS INTERNATIONAL LIMITED
MR. MANOJ VERMA - CHIEF OPERATING OFFICER, BIKAJI
FOODS INTERNATIONAL LIMITED

MODERATOR: MR. VIJAY GYANCHANDANI, S-ANCIAL
TECHNOLOGIES PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY24 Earnings Conference Call of Bikaji Foods International Limited, hosted by S-Ancial Technologies Private Limited. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vijay Gyanchandani from S-Ancial Technologies Private Limited. Thank you and over to you.

Vijay Gyanchandani: Thank you. Welcome to Bikaji Foods International Q2 FY24 Earnings Conference Call. From the management, we have Mr. Rishabh Jain, CFO, and Mr. Manoj Verma, COO. Now I request Mr. Rishabh Jain to take us through the key opening remarks. After that, we can open-up the floor for the Q&A session. Thank you and over to you, Sir.

Rishabh Jain: Thank you, Vijay. Thank you very much to all the investors, who have joined the call. Our presentation has been uploaded on our website and on BSE exchange. We are excited to share our Q2 FY24 results. So, we are seeing some tough challenges and slowdown in some first quarters. But overall, from our Bikaji standpoint, we have seen a good number from sales and volume perspective.

So, in Q2 FY24, we delivered a 5.5% growth over last year's September quarter. But overall, if you see a category, Snackery points. So overall, from volume perspective, our volume and Snackery segment is above 17% which is highest in last many years.

Our EBITDA growth was close to 36% compared to the same quarter last year. And overall, our EBITDA margins stood at 14.4%, which is highest in last many quarters. This is the first year, where we crossed INR 1,000 crores top line in the first 6 months. This is the first year, where we crossed INR 100 Crores PAT in the first 6 months. This is the first year where we crossed INR 1,000 Crores net worth. So, this is a very special year for us.

Overall, from a PAT perspective, we crossed INR 100 Crores PAT in first 6 months. And this quarter, our PAT was close to 9.8%. Our gross margin was stable at close to 33%, which was the same largely in the first quarter. From H1 FY24 standpoint, our overall volume and revenue growth was close to 9.5%. Our EBITDA growth was 61.5%, close to INR 154 Crores. And overall, our gross margin was stable at 33%. From Snapshot perspective, overall, we have delivered the highest volume growth of 17% in salty snacks category. In the Sweets segment, of course, there has been a little bit shift from the Diwali perspective because last year, Diwali was in October, versus this year it is in November. So, there is a shift in sweets and gifting stock. But our salty snacks business is doing reasonably good job.

We have invested a lot in consumers. So basically, from our key products like Bhujia, Namkeen, we started Consumer offers, by giving 10% extra in our key consumer packs of 400 gms and 200 gms. In H1 FY24, our family packs contribution was close to 57.6%. Overall, from distribution standpoint, we have added 46,000 outlets in Q2 FY24. And Manoj Ji, will discuss it in detail in the coming slides. We also worked on a strong RTM plan in Rajasthan and UP. We

have added few depots in our core market and focus market like in Varanasi, Ghaziabad, Ahmedabad and Pune.

From ROCE and ROE perspective, so our ROE has increased to 20% in this quarter as analyzed based on ROCE 27%. Overall, we have recorded the highest ever EBITDA 14.4%. And we have started business expansion. We have started 1 subsidiary in the USA in last quarter. And we acquired a small company named 'Bhujialalji'. From a product category perspective, we are largely into five key categories. One is Bhujia which is close to 33% of contribution. Namkeen which is close to 37% of contribution. Packaged sweets which is close to 12%-15% of contribution depending on season to season. Papad is close to 4% of contribution. Restaurant snacks close to 6%-7% of contribution.

Gifting is the key in Diwali season. So, basically, last year Diwali was in October, so major gifting was done in September month. In the second quarter, this year Diwali is in November. So major Diwali gift shop uptake will be done in the third quarter. Overall, from capacity standpoint, so our overall capacity stands close to 2.8 Lakh metric ton. Our two plants, one is Frozen and other one is Raipur CMU. So Frozen will start in this, mostly this month.

So, in next 40-45 days, we will start the Frozen plant, which will be key for the export market. And our Raipur CMU is on target, and we will be starting it before March '24. Overall, from PLI perspective also, we have committed close to INR 438 Crores of investment. And we are on track to deliver, to commit this number, and to invest in same capex within the same given timeline. From here on Manoj Ji, I request you to take the call.

Manoj Verma:

Thanks Rishabh. Talking about distribution, if we look at, you know, last year we added about 100,000 outlets. And what we called out for ourselves was that direct reach, we will take it to 250,000 outlets. So, as we exit this Q2 FY24, we have added about 46,000 outlets in this quarter. And the number has moved up to 208,000 outlets as our direct reach. Now in an endeavor to set this distribution model strong, what we also did was that in this last quarter, we added four depots. These are at Ahmedabad, Pune and two in UP, which is Banaras, Varanasi and Ghaziabad. What we also did was that there is a shift that, these UP CFAs, what we added, are the professional, hard-core professionals one. I mean, who are CFAs for Britannia, in that line. This is the expansion that we have done.

This quarter has been, a little high on our media spends/ ad spends. We were there on air, we were there on radio, we were there on print media, while gifting was at the front. But we also shot few ads with Amitabh Bachchan in this quarter, and which are now up on air. So that's the investment that we made behind media.

Now for the first time, we went very aggressive in terms of consumer offers. This was both with respect to reward our loyal customers and also to recruit few customers, keeping in view the competitive pressures as well. So even on our core products or the flagship products, like Bikaneri Bhujia is what we gave now as consumer offers to the tune of 10% on certain SKUs.

Talking on the financials, if we look at, so in Q2 FY24 overall volume growth was 5.1%. If we look at the revenue growth, it was at 5.5%. For ethnic snacks, revenue growth was at 10.0%.

However, if we look at, you know, the volume growth of Ethnic and Western snacks together about 17.5%, which is the ever highest growth what we as organization has delivered and by far ahead of the category growth.

Papad witnessed a negative growth. This is on account of, you know extended monsoons and what we claim and what we take pride of is our handmade Papad. And this has challenges during monsoon time because you know, the drying doesn't get through and this becomes a supply issue from our side. The package sweets if we talk about, I think Rishabh has just touched upon. It's nothing but a, you know, shift from one month or one quarter to another quarter. So that's at a 12.6% de-growth. Now it appears to be on this stuff.

So overall, if we look at it from an H1 level, our volume growth was 10.5%. Revenue growth was 9.5%. Ethnic snacks were 12.7%. Again, you know if we look at overall basis, our volume growth on ethnic and western snacks was about 17.5%. Packaged sweets were at negative 7.8%. Western snacks I have already now clubbed with snackery. Papad was at minus 2.2% growth. Product mix, if you look at, what happens is that in Q2 FY24, there is a strong play of sweets. And, hence, the contribution of sweets becomes higher. However, if we compare over Q2 FY23, so in Q2 FY23 if we look at the sweets contribution to overall business was 20.7%, which this quarter was 17.1%. And again, this is a repeated statement of shift of Diwali from October to November, hence, this play. Rest overall, if we look at our by and large in line with where we were there last year.

Now coming on in terms of how we look at our business is core, focus and other markets. So, Q2 FY24, if we look at our core markets have delivered a growth of 6.3%. Focus markets, as we have been saying that will be a high index on growth, it is at 11.2%. Others is at 5.3% de-growth. Exports at 0.5%. I would wish to clarify, when we say others is at minus 5.3% growth, it is primarily on account of sweets and gifting. The sweets in itself contributes about 40% of business in other states. Because that's where we ride on the modern trade channel. And this quarter, if we look at, you know, when you look at channel-wise growth, so modern trade is one which has brought it down. And that is not actually a de-growth. This only is a shift from Q2 FY24 to Q3 FY24.

In H1 FY24, if we look at core states are at 10% growth, focus states at 13.5% growth, others at 1.1% and exports are close to 11% growth. Focus market contribution, so, if we look at now is 71% comes from, core markets, 14.1% from focus markets, 10.9% from others, and exports contribute to 4.0% to our overall business.

Region wise, if we look at, so, East is at 1.3% growth, North is at 9.6% growth, South market, where we have two focus markets, which is Telangana and Karnataka, has delivered a 13.4% growth and West is at 8.4% de-growth. And, you know, in fact, most of our states falls in others, you know, which are from West.

So in H1 FY24, if we look at East stands at 6.8% growth, North at 12.2% growth, South at 24.3% growth and West negative 3.7% growth. In this quarter, we look at impulse pack, which is INR 5 and INR 10 pack, has delivered close to 12% growth. However, family pack are at 1.3% growth. Here, the growth looks low on family pack, again, it is on account of, because most of

the entire sweets falls in family pack stuff. And that's at a negative 12.6% growth. So that's the factor. Rest are at 8.2% growth.

At our H1 level, if we look at our impulse packs are at 11.3% growth. And this is a testimony of that, how our expansion initiatives are working. Because small pack helps takes our distribution up. Family pack at 8.4% and Others at 13.2% growth.

Rishabh Jain:

Yes. So, from overall revenue perspective, so our overall revenue has reached to close to INR 609 Crores in this quarter. And overall, it's close to INR 1,090 Crores. If you compare this to Q1 FY24, we've grown at 26%, And from EBITDA perspective, our EBITDA has grown by close to 33% compared to Q1 FY24. So, our EBITDA is close to INR 88 Crores and PAT is close to INR 60 Crores.

So, we are working on multiple efficiency programs across all, be it at logistic, be it at manufacturing costs. And we have saved a few percentage point across each level. And that has improved our overall EBITDA level. Overall, from RM perspective, so basically, our few edible oil, be it at few purchase, so all has been supported and cooled off in last two quarters. That has supported our margin. So, we had started our IPO journey in June last year where our gross margin was close to 24% and has been increased 33% in last 6 quarters.

Our EBITDA has been close to 7%-7.5% and has been increased to close to 14.4% in last 6 quarters. So, we are working in a way that overall cost efficiency and EBITDA improvement. That's a core KPI of all our key functions.

From financial standpoint, for the first time we crossed INR 1,000 Crores net worth. Number two, so in Q2 FY24, our inventory are little bit on high side, it's regular. If you see our last year's September quarter also, that's on the same lines because we need to have inventory level at a big level because Diwali season is very nearby.

So, when we'll see a December quarter, again, it will reach to optimum level and same with the data, because we need to supply to few modern trade stores, and they normally do 25 to 30 days credit period. So normally, we'll see in this December quarter, it will become at optimum level. That's from the presentation standpoint. We are happy to answer all the questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on the touch-tone telephone, if you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment, while the questions queue assembled. We have our first question from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy:

Yes, thanks. Congrats on margins. My first question is on Western Snacks. So, you have given the 2025 vision. My question here is, this is a tough business given there is a large multinational player and there are a few Indian players also who are very strong. Here the issue is logistics cost is very high given the thing which is transported is air. That's the big thing inside the packs. So, that makes it very, very tough and very, very important to have very regional kind of manufacturing in every state, every key demand center. So here, once you scale this up, how do

you see profitability in this part of the business and what's the current profitability and what is the right to win here because you are seen as an Indian snack. Why you want to scale it up to a bigger business because already intense players are there in this business?

Manoj Verma:

Yes, Abneesh, I think what you said is absolutely right. That you cannot transport Western Snacks beyond certain kilometers because it starts giving diminishing returns and this perhaps was the reason that till about two years back, we were only doing Western snacks in Rajasthan or close by area that also to a limited volumes.

What we felt was that Western snacks category is larger is much bigger than what Indian ethnic snacks are. So, the choice what we had is either leave that space vacant or we do not go aggressive on that stuff yet have our presence.

By virtue of our expansion across country in all our factories which has come up in last two years across geographies and zones of the country we have built our capacity to produce Western snacks and along with our ethnic snacks.

So, that's the strategic investment what we made, and we will ensure, and we are trying, we are doing that these Western snacks would be supplied in the nearby areas only that's one. Second thing is that the perception what is there, and it is true to certain extent that Western snacks are not as much profitable is by virtue of one point you said that this eats into a lot of space and hence it's not cost effective on logistics. Second, Western snacks is primarily an INR 5 and INR 10 category and these small pack have relatively lower gross margins. So, therefore, it gets hit from both sides. So, therefore, companies high on Western snacks or majorly on Western snacks would be struggling to deliver the EBITDA level what other companies or the companies who have high contribution of family pack or ethnic snacks. So, that's the reason and this is what we are doing about it. So, this is not eroding our overall margins which we are conscious of.

Abneesh Roy:

So, two quick follow-up. One is you had a 32% gross margin this quarter. Will it be fair to say that Western snacks will be more in the 20's in terms of gross margin? And second is which are the key states you are targeting for this or is it most of your key states currently?

Rishabh Jain:

So, basically if you compare to overall ethnic snacks, ethnic snacks category, of course, the gross margin is around 26% to 28% and that's what the gross margin is for this snacks category. And from state perspective, so basically, so we came up with a plant in Assam and Bihar in last two years, all the core market. As well as in focus markets, we have a plant that came up in UP and in Southern markets. So, we are trying to cater to the state where we came up with a plant that's what our strategy.

Abneesh Roy:

My second and last question is why ad spends went up given festival demand is essentially going to come in Q3 FY24, your sales also was slow. So, is there any linkage with the slower growth? Because all FMCG companies are saying slowdown is definitely impacting in Q2 FY24. So, if you could elaborate on the ad spends and where do you see in the second half in terms of the number?

Second is, could you quantify what is your view on the festival impact? So, versus a 5% - 6% growth in Q2 FY24, where do you see Q3 FY24 not a guidance, but generally understanding how the festival impact in your businesses?

Manoj Verma:

So, I echo with what you said. And that's what is the sense we get to see and hear that the momentum what it was there in Q1 FY24 was not as much in Q2 FY24 and I think whatever results have been published or in public domain speaks loud about it.

For us, if you talk about now while we say that it's a 5.5% growth, I think it will not be – it's not an apple-to-apple comparison because in our categories or the set of categories, sweets play a very critical role. And this is what we happen to speak and touch upon in our last calls as well that there is a deferred Diwali this time. So, last year, it was in October. This year, it's in November. Diwali sales, if you look at now, starts in n-45 days, is the time when sweets start loading. So, therefore, if you look at in Q2 FY24, our Snackery growth.

So, volume growth is about 17.5%, which is ever-highest volume growth. So, I think it will not be fair to say that it has not been a good quarter for that stuff. It is only on account of, you know, sweets, which is at negative 12.6%. And you will see a complete turnaround in Q3 FY24. To your question, how do we look at Q3 FY24? No, sorry, we will not be able to give you any guidance on that stuff.

However, we can certainly speak about that one month or one and a half months, which is just passed by or about to be. It's well on track. There's quite a momentum, positivity in the market space. Our categories, you know, which are dependent on Diwali, say which is sweet and gifting, has done very well for us thus far.

Abneesh Roy:

So, one small follow-up. If Diwali impact or festival impact would not have been there, fair to say that the sweets growth would also have been in positive territory and broadly in the growth of say ethnic stacks. Could that have been a possibility?

Manoj Verma:

100% yes.

Abneesh Roy:

Sir, thanks. That's all from me. Thank you.

Moderator:

Thank you. We have our next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani:

Thank you for the opportunity, Sir, and congrats on the good margins. My first question is with regards to the clarification, the audio was not clear. You said the ethnic snacks margin are 26% to 28% and what are the margins for the western snacks?

Rishabh Jain:

Gaurav, ethnic snacks margin. So, I told you in western snacks margin is between the range of 26% to 28%, that's what I told compared to ethnic snacks. Ethnic snacks have higher margin compared to western snacks.

Gaurav Jogani:

So, you said festival packs are 26% to 28% margin?

Rishabh Jain:

Western snacks.

Gaurav Jogani: Western snacks 26% to 28%. Okay. Yes. And Sir, my next question is with regards to the distribution expansion you have taken, and you have also mentioned that, now you are moving from a model of sub-stockist to a direct reach. So, if you can explain some bit on how this is going to, you know, positively have an impact on our margins, what is the time to transition to this and the four depots that you have opened. So, something on that front if you can explain in a bit detail?

Manoj Verma: Yes, sure. So, I think the FMCG is about distribution only and it's a never-ending story. So, year-on-year, you will happen to hear from, FMCG players that the target is to increase, direct reach. Right? How it helps is that, you know, when you cover any outlet directly, your ability to sell what you want exists. Whereas, if it's through a wholesale model or it's through just, indirect distribution, then your products would move which all are pull SKUs. And for any company, they're not 100% products which are pull products. There's always a tail, which you have to push it. So, that's the reason, you know that direct coverage is important for FMCG business to have fundamentals and forward building right. Talking on this CFA model, it's not about to not to have sub-distributor. It's about reducing our dependence from direct dispatches which we were doing it, or we still are doing it from our Bikaner's factory. So, this becomes mother depots.

And this would help us improve our fill rates, fast service to the distributors in that respective area. Eventually, what we'll do is, that this will bring in some savings wherein we can rid off certain super stockists. However, this does not mean that super stockist model will not exist. But super stockists thereafter will be for smaller towns, rural penetration and all.

Gaurav Jogani: Sure. So, if I understand it right, under this new CFA model, earlier you were doing direct dispatches from your factory. Now, under this, you will now be giving it to the CFA agent and then the CFA agent will then be giving it out further to the distribution chain. Is that understanding right?

Manoj Verma: Absolutely right. So, I'll just give illustrate this with some examples. So, let's say, I have and I'm just putting some hypothetical stuff. So, let's say, there's a distributor in, say, Ghaziabad, Agra, I'm talking, say, Western UP for now. Right. So, from factory, full truckload goes, which is say, costing about INR 15 Lakhs.

Now, if he does not need INR15 Lakh of stocks and he's running out of, say, a few products, then, you know, either he's getting overstocked for products, he doesn't need. So, that again is not good for us and for him. Or he's running out of those stocks. So, now, this mother depot will help us even do part shipments, small shipments to go. It can easily be transported quickly.

Gaurav Jogani: Got it. And when we are shifting from this CFA model from the sub-stockist models, is there any part of a change in the margins for the sub-stockist or for you? And how does it create more efficiencies in terms of margins?

Manoj Verma: So, nothing changes for front-end set of people, be it retailer, be it distributor or sub-distributor or super stockist. Right? What helps us do better is that you know eventually, we'll rid off, you say, let's say, for any urban town or a large town, currently, it is getting routed through super stockist wherein we are parting 3% to 5%. These towns will then be direct distributor. And that's

the saving which will come back to us and fund for whatever we are spending on the CFA stuff. Also, I would want to, table it, that CFA what we are doing is nothing new or out of the box. I mean, that's the industry practice and companies have been doing it for many decades now.

Gaurav Jogani: Sure. Got it. My second question is with regards to you know, the margins that you're seeing, the gross-margin expansion. You know, there is definitely an element of the correction in the RM prices, especially the edible oil thing. But, you know, now with the edible oil prices bottoming out, how do you see the model going ahead? And then how do we see the margins in the future quarters given, you're also passing on some prices to the consumers?

Rishabh Jain: Yes Gaurav, so basically, from gross-margin perspective in the last two quarters, the gross-margin is stable at 33%. So, we want to be about 32%. That's what is our internal target. And we'll be passing on the prices once it increases. But looking at next two quarters, at least, we are not seeing any increase in price in edible oil. It's largely looking stable. From key commodity perspective, of course, we are looking some upward in few commodity, but it will be largely on track, and we will be not seeing any major variation in key commodity in gross margin.

Gaurav Jogani: Okay. And Sir, just last one book-keeping question. The tax rate for the quarter is a bit lower at around 20% or so. What is this because of and how are we looking to, what would be the tax rate guidance for the entire FY '24?

Rishabh Jain: So, tax guidance will always be 25%. So, tax for us will be 25%. But, yes, this year, there is some ESOP vesting right? So, there is deferred tax accounting which has just been done. And so, that's why it's looking at 23%, but yes, our tax rate will be 25% from next year.

Gaurav Jogani: So, what would be the tax rate guidance for FY '24 in that case?

Rishabh Jain: For FY '24, it will be close to 23% -23.5%.

Gaurav Jogani: 23% to 23.5%. Okay. Thank you and that's all from my side.

Rishabh Jain: Thank you.

Moderator: Thank you. A reminder to participants to press “*” and “1” to ask a question. We have a next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Hi, Sir. On your ethnic snacks, your volume growth is 17%, your value growth is 10%. So, just wanted to understand such a huge gap between volume, value, what is the reason, and will this continue for the next few quarters as well?

Rishabh Jain: So, Percy, basically, we started consumer pack in last quarter, right? So, in key commodities like Bhujia, Bhujia number one, which is contributing close to 33% overall top line. And so, in two SKUs, which is 400 gms and 200 gms, we have started consumer packing. If you see Namkeens, like, which is a big share in our overall Namkeen segment, so, we started consumer pack. So, that's why your volume is fixed and value is looking at downward of 5%- 6% gap is there. But yes, overall, that's the opportunity for us that at any point of time, if prices of raw

material increases, it's easy for us to withdraw consumer pack and again, regain our margin. That's what we want to do.

Percy Panthaki: So, if I just understand correctly, what you're saying is that you have launched smaller pack sizes and the rupees per kilo of the smaller pack sizes is lower than the larger pack and that is what is causing this? Am I right in understanding that?

Rishabh Jain: No, no. So, basically, I'll give you an example. Like, we have launched, previously, we have launched, we have 400 gram. Now, we have launched 440 gram, 10% extra in consumer pack, same with the 200 gram case.

Percy Panthaki: Okay, so extra volume. Okay.

Rishabh Jain: Yes.

Percy Panthaki: So, is this mainly to pass on the input cost benefit or is there some other reason?

Rishabh Jain: So, there are two perspectives, firstly to increase the loyal customers because ultimately, we want to gain new customers and ensure that our existing customers gain from us. And secondly, of course, to looking at competition. We want to, because, we, in Bhujia, we are leader in this segment, so we want to increase the consumption and that's what our target is.

Percy Panthaki: Okay, but given that your margins have not been affected, I am assuming that whatever you have passed on, you have gained a similar amount in input cost deflation, right?

Rishabh Jain: Yes. So, in last two quarters, we have seen reasonable cool-off in edible oil prices, which is supported and there's a few efficiency programs which we ran, and it's given a good result for us.

Percy Panthaki: Understood. And this volume, value gap of 6%, 7% will continue for next three quarters till it anniversaries?

Rishabh Jain: Percy, we cannot say much, but yes. So, largely, if any key commodity, if we see rise in any key commodity, so of course, we will withdraw that offer, but yes, in next, at least for next two quarters, there will not be much difference.

Percy Panthaki: So, assuming that input cost stays where it is, then the pricing will also stay and this gap will continue for three more quarters till it anniversaries, is that correct?

Rishabh Jain: Yes.

Percy Panthaki: Okay, understood. Second question is, on sweets, we understand the seasonality impact of Q2 FY24, Q3 FY24, the festive season changing, etc. But, apart from sweets, in the snacks business itself, is there any such seasonality impact?

Rishabh Jain: So, there is little bit seasonality impact because during Diwali season, bigger packs sales come, it's little speed up compared to impulse packs. So, like, in this quarter, family pack sales will be much higher in this quarter. So, but yes, there won't be much variation in salty snacks segment.

Largely in sweets and papad, these two categories, will have a little bit of seasonality impact, but salty snacks largely in line with the grocery, there is not much difference.

Percy Panthaki:

Okay. So, Sir, the reason I am asking this is, see, if I basically remove the sweets impact, so let's say instead of de-growing 12%, let us say, hypothetically, if the sweets had also grown by around 10%, this quarter, then your overall sales growth would still have been around 9% only for this quarter. So, that is still much below what we are targeting, which is a mid-teens kind of number, right?

Manoj Verma:

No, so see, if you look at the nature of two categories, you know, which is bringing it down this overall number, one of course is sweets, which as we explained, is on account of Diwali. Second is, which is also a large player is, you know, we call it as our Other stuff. This is our gifting business, which is huge. We do about INR 25 Crores of gifting, as well, you know, between these quarters. So, these two are purely on account of Diwali.

What has not done as well is the papad category as well. I am sure you would have seen, you know, in our presentation what we have uploaded. The reason for papad's poor performance has been, you know, early monsoons and then extended monsoons. Ours handmade papads and you do not get the papad dried up-and therefore, you know, each supply becomes a huge, huge issue. We cannot meet demand. So, that is what has been the reason that for these low performance on these categories.

Other than that, if you look at the rest of the categories, the volume guidance what we gave would be in tune of about 15%-17%. This is well on track for what we said.

Percy Panthaki:

Understood. And last question, if I may be permitted, in a situation where input costs are stable, what kind of EBITDA margin would you target, let's say, three years down the line? You have already reached around 14.5%. You are getting some PLI benefit, which has aided, also may be some point of time, some part of this PLI benefit gets passed on because of competition, etc. So, do you think there is still sort of drivers to take the margin up from this level over a three-year horizon or do you think that you would be satisfied with this level of margin?

Rishabh Jain:

No. So, basically, we want to work on two things. Basically, of course, top-line growth is paramount for us. It is important because currently we have 70% sales come from three states. It is a big opportunity for us. When we look at all the other states, we are in a very limited way. So, it is a big opportunity. We want to target the growth also. But, yes, overall, from a bottom-line perspective, basically, you will see, currently, we are using close to 40% to 50% capitalization. And two more plants are coming up in the next 3-4 months. So, of course, there is a fixed cost which is sitting in our books. So, once we start utilizing this capacity at 70%, 80%, there will be operational efficiency which will start building. And we want to be 80% plus. So, from this, we want to save at least 0.5 to 0.75 basis point from using capitalization operational efficiency. That's our target.

And from next three year, basically, our revenue will also increase, our purchasing efficiency will increase. So, of course, we want to build close to 0.5% EBITDA improvement year-on-year. That's what our internal target is.

- Percy Panthaki:** Okay. Understood. So, 50 basis points is the final flow-through in the P&L after reinvesting whatever you want into the growth, etc.?
- Rishabh Jain:** That's what our internal target is. It depends. It's just managing competition. But, yes, that's it our target here.
- Percy Panthaki:** Sure, sure. Very helpful. That's all from me. Thanks, and all the best.
- Rishabh Jain:** Thank you.
- Moderator:** Thank you. Before we'll take the next question, we would like to remind the participants to press “*” and “1” to ask a question. We'll take our next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Hi, Manoj, Rishabh Sir. Good afternoon.
- Manoj Verma:** Good afternoon, Shirish.
- Rishabh Jain:** Good afternoon.
- Shirish Pardeshi:** Yes. A couple of questions. The history tells that whenever there is a benign raw material, especially, the commodity like of wheat flour, pulses, and edible oil, which is falling, we see a lot of mushrooming of local competition. So, could you spend a minute or two, because when I look at the regional performance, I was expecting that Western should recover, but Western has declined almost 8.4%, while South, which is not a high snacking market, has shown a growth of 13.4%.
- Obviously, there will be some distribution benefits you would have gained. But could you talk something about is the competition angle is also holding the snacking? Because some of the snacking companies are highlighting the local competition is beating them or regional competition is also mushroomed very quickly?
- Manoj Verma:** I think, you're absolutely right and the feedback what we get to see and hear is very, very true. You know, during COVID times, what happened was that these regional and local players got very badly impacted and there's a lot of shut shops kind of a thing which happened. Then, you know, Up till beginning of Q1 FY23, wherein the inflation was at the peak, these companies could not survive.
- However, if you look at the last four quarters, things are picking up and that's where is the kind of pressure from local and regional players is there. But not to the tune of how it looks like or how it would impact us as adversely because it's a huge, huge category. And we even today are a very, very small player in terms of the opportunity what we see for ourselves. And this I'm talking more with respect to the south market, you said, wherein growth is high, but we hardly ever share in those markets.
- Shirish Pardeshi:** Okay. Similarly, could you spend some time explaining what is it that export, because export has stagnated around INR 24 - 25 Crores in this quarter. So, is there any growth lever which we

can expect in second half or is there any specific on ground changes you guys are doing or how should we look at the growth for international?

Manoj Verma:

I think, see Shirish, we have been talking in the past as well that exports we see is a huge growth opportunity, right? We have been investing, so, we are on to it. What has been holding thus far is our capacity to supply what exports market need. And this is the frozen part. If we look at, you know, about 40% of our business, export business depends on our frozen products and which we were not, we even today we don't manufacture ourselves, we get it outsourced. And we were always, constrained on supplies when the demand and all that stuff comes in.

Coming December, which is next month, is when our frozen factory is getting commissioned and that will unleash our you know export opportunities. It will not be fair to say next six months, but I think the right timeframe would be next four quarters or next one year. And you'll see a substantial difference, you know or a growth driver and this exports market will be for us. Now, in this journey, what we did in this last quarter, and Rishabh spoke about in this field as well, is that we have opened our office in US, which is where the highest Indian diaspora or these consumers stay.

So as to get best out of it, we thought of having our office and this will help us do much better in these markets. But I think it will take some time, Shirish, as we said, that we have to be ready with back-end supplies to support demand and be competitive in these markets.

Shirish Pardeshi:

That's helpful, Manoj. My second and last question is on the gifting packs. Though you have given some numbers, I'm specifically asking, during the festive seasons, starting from Durga Puja in Calcutta or maybe Diwali across the nation. What that 45 days period brings the contribution for the gifting part of the business? Will it be substantially 50% or will be lower than 50%? Because you've spoken a lot about it?

Manoj Verma:

Shirish, can you be a little, what percentage? I mean, say again.

Shirish Pardeshi:

I'm saying that gifting part of the business, which picks up, especially for the sweets?

Manoj Verma:

Now, Ok. Ok.

Shirish Pardeshi:

In the 45 days period, what kind of quantum, in terms of quantitatively, if you can say that what contribution comes from gifting part of the business?

Manoj Verma:

So, you know, these Diwali gifting or what we say seasonality. So, this has two elements. One is sweets. So, sweets in itself, which is say soan papdi, rasgulla, gulab jamun, then kaju, some premium stuff. So that's one – sweets. And the second is gifting. This is nothing but, you know, gift boxes, which contains, a set of different products inside it. And what we call gifting. And we have various designs, different price points, in the tune of about 10 to 11 numbers. Now, if you look at if your question is that what is the contribution of just gifting boxes to overall gifting sweets and this put together, it's 25%.

Shirish Pardeshi:

So, you're indexing sweets as 100 and of that 25% is gifting.

- Manoj Verma:** Yes, so this is I'm talking incremental, otherwise, sweets is round the year business gifting is only in this period of Diwali and Dussehra.
- Shirish Pardeshi:** Okay. And for full year, with the year which has gone by, what would be the gifting part of the business for FY '23?
- Manoj Verma:** 1%
- Shirish Pardeshi:** 1%!
- Manoj Verma:** Yes. As I said, it's about INR 25 Crores. So almost about 1%.
- Shirish Pardeshi:** Alright, so, that means this year you're expecting a very strong growth and that's what Rishabh was alluding saying that now you have inventory in your control. So, that can expect a higher momentum in Q3 FY24.
- Manoj Verma:** No, inventory. Sorry, Shirish I couldn't connect this with inventory.
- Shirish Pardeshi:** No, Rishabh in the beginning said that because of the Diwali festival, our inventory levels have gone up. So, I would assume that we have enough inventory to cater this festive season?
- Manoj Verma:** Yes, of course. That's the mindful and thoughtful inventory buildup. So, as to cater these, because what happens is that all demand comes up just, you know, n-15. That's when a retailer wants to get stocks on his shelf, you know even there's a stock constraint in a distributor place also, irrespective of during Diwali, they hire additional space and additional depots for them. But the offtake of velocity of sales is Shirish so high that they cannot hold these stock and that's why we have to build it at our factory, at our depots and all.
- Shirish Pardeshi:** Wonderful. I hope you will break the records historically.
- Manoj Verma:** Thanks Shirish.
- Shirish Pardeshi:** All the best.
- Moderator:** Thank you. We have our next question from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Hi, Sir. If you can just give some more granularity on your focus markets in terms of which are the within the 6 what is the Pareto like I'm sure two or three of them will probably account for a very large part of your sales. What is the market share in those geographies? And overall, out of your 2.5 Lakh direct distribution, what is the split between focus states and core states and how do you plan to grow it ahead?
- And finally, culmination of all this, focus states growth rate would be what percentage, what basis points higher than the core states in your view? So, sorry, many parts to this question, but just this one question?

Manoj Verma: No, no, thanks for this question and I think it's a very, very important question and a part of our core strategy as well because beyond the point growing in our core states where we enjoy in the mid 40s kind of a market share will be difficult to hold and take it beyond. So, hence is the major role of focus market. What we've identified focus markets for ourselves are four from North India, two from South India and these six markets in itself is about 41% of category business.

So, that's where is the area where to play, we have identified for ourselves. To your question, that which are you know, the Pareto states among these focus states that we look at. So, UP in itself is big enough. So, UP versus we put all together is almost the same number. So, that's the right kind of opportunity.

And with this opportunity comes a lot of complexities as well because there are you know, monster brands sitting which we have to take head on. Our inroads thus far has been very, very, you know, encouraging, promising. We were able to get into these markets in terms of our expansion, what we have done. To your question, you are asking that no the coverage, how is that we are looking at it. See, in core markets, our brand is very strong. So, hence, there is a huge wholesale pull as well.

So, our direct reach does not matter as much, though it is icing on the cake. But it is not dependent only on the direct reach. However, when we speak about focus states, there the brand recall is not as much. So, therefore, it is only when our salesman visit the store, he talk about the Bikaji story, talk about something with Amitabh Bachchan ads and all. So, that is a reminder that is what recalls, create the brand recall and able to make a successful or a productive call to place our products. So, therefore, our efforts on increasing direct reach in focus state is by far high.

Putting, quantifying on numbers, if we look at, so we have reached by end of this last quarter, 208,000 outlets, of which 107,000 outlets are in focus states that we are covering. Hope I answered this question on the coverage reach you know, you were talking about.

Percy Panthaki: Yes, very helpful and in terms of your targets?

Manoj Verma: So, in terms of growth target, these focus states will be at 1.4 to 1.5 index growth to a core states.

Percy Panthaki: Understood. That is very helpful. Yes, that is all from my side.

Manoj Verma: Thank you.

Moderator: Thank you. Ladies and gentleman, to ask a question, please press “*” and “1” on your phone now. As there are no further questions, I would now like to hand the conference over to management for closing comments. Over to you, Sir.

Manoj Verma: With this, thank you so much, the investors. Now, you took out time for this call. Hope we were able to answer the questions and our presentation was good enough to give clarity. Our endeavor has been to keep it very transparent, give it, as many as much details what we can we have tried to do.

Howsoever, if you feel any question has been left unanswered or you could not ask in this call, please feel free to reach out to our team and we'll be happy to revert back. With this, wishing you all and your families a very, very Happy Diwali. Thank you very much.

Moderator:

Thank you, Sir. On behalf of S-Ancial Technologies Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.