FOODS LTD.
Feeding the world..

5th November, 2024

National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051. **Symbol: ADFFOODS**	BSE Limited, Department of Corporate Services, Phiroze Jeejeebhoy Towers , Dalal Street, Mumbai - 400 001. **Scrip Code: 519183**

Dear Sir/Madam,

Subject: Transcript of Q2 FY24-25 Earnings Conference Call.

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we attach herewith a copy of the transcript of Earnings Conference Call held on Thursday, 31st October, 2024. The same is also available on the website of the Company at www.adf-foods.com.

This is for your information and record.

Thanking You,

Yours faithfully,
For **ADF Foods Limited**

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"ADF Foods Limited

Q2 & FY '25 Earnings Conference Call."

October 31, 2024

MANAGEMENT: **MR. SUMER THAKKAR – PROMOTER, GENERAL MANAGER-SALES AND STRATEGY – ADF FOODS LIMITED**
MR. SHARDUL DOSHI – CHIEF FINANCIAL OFFICER – ADF FOODS LIMITED

MODERATOR: **MR. RAVI UDESHI – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day and welcome to ADF Foods Limited Q2 FY '25 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Udeshi from EY. Thank you, and over to you, sir.

Ravi Udeshi: Thank you, Neha, and good afternoon, everyone. We welcome you to the Q2 and H1 FY '25 Earnings Conference Call of ADF Foods Limited. To take us through the results and to answer your questions, we have with us the top management of ADF Foods Limited, represented by Mr. Sumer Thakkar, the Promoter and also the General Manager, Sales and Strategy; and Mr. Shardul Doshi, the Chief Financial Officer. We will start the call with an overview of the business and the current business update by Mr. Sumer Thakkar; and then Mr. Shardul Doshi will give his comments on the financials. As usual, the standard safe harbor clause applies while we start the call.

With that said, I now hand over the call to Sumer. Over to you, Sumer.

Sumer Thakkar: Thanks, Ravi. Good afternoon, everyone. Coming to the quarter gone by. Our consolidated revenue increased by 29.5% to INR 161.4 crores on a year-on-year basis. This was driven by demand across all our brands with our flagship brand, Ashoka achieving deeper market penetration. The U.S. expansion of our Truly Indian brand has seen good acceptance in its initial stages.

It's seen good success in terms of listings in highly prestigious accounts like Whole Foods, Stop & Shop and Raley's as well as some key online platforms like Amazon. We expect this customer engagement to gain greater momentum in the forthcoming quarters. Our India focused ADF Soul brand expansion is progressing according to the plan. We've made inroads in quick commerce and e-commerce, and we're preparing for a strategic push into modern trade channels which should happen in the second half of FY '25.

Our core business continues to achieve double-digit growth, and we plan to invest further in both the area of Soul and Truly Indian brands. We anticipate these investments will generate returns in the future. Overall, we're enthusiastic about our business' growth potential and remain committed to achieving sustainable and robust progress in the coming years. Overall, we remain committed to our earlier guidance of doubling revenue by FY '27 and high-teens margins for the long term.

In line with our expansion plans, we're strengthening our management team, the Surat Greenfield Phase 1 expansion, aiming at supporting both new and existing frozen food lines is progressing as planned. We are optimistic about the business' future potential and remain committed to achieving strong and sustainable financial growth.

I now hand over to Shardul, who will comment on the financials.

Shardul Doshi: Thank you, Sumer. Good afternoon, everyone. I'll first share the standalone performance. In Q2 FY '25, we saw revenues from operations at INR125.6 crores. This marked a 29.1% Y-on-Y growth and 29.5% Q-on-Q growth. Our EBITDA for this quarter was INR27.7 crores, again, a Y-o-Y increase of 22.3% and Q-on-Q increase of 21.8%, while our EBITDA margin was at 22%.

Though our EBITDA margins are healthy, we saw a slight decline in our margin due to increased investment in our brand building activities for ADF Soul and Truly Indian brands, hiring at senior level management and higher freight costs, which we have seen in the Q2. However, we were still able to partly mitigate the same through cost control and process efficiencies. PAT for the quarter was INR21.4 crores, a 20.6% increase Y-on-Y and 24.8% increase Q-on-Q. Our PAT margin for the quarter stood at 17%.

Coming to the H1 FY '25 performance. Our revenues from operations was at INR222.7 crores, up 22.4% Y-on-Y. EBITDA was INR50.5 crores, registering an increase of 15.3% Y-o-Y. EBITDA margin was 22.7%, a decrease of 140 bps on Y-o-Y basis. PAT was INR38.5 crores, up 13% Y-o-Y, with a PAT margin of 17.3%.

Moving on to the consolidated performance. Our revenues from operations for Q2 FY '25 was INR161.4 crores, an increase of 29.5% Y-on-Y and 32.7% increase from the last quarter. Our EBITDA for Q2 FY '25 was INR27.7 crores recording an increase of 27.2% Y-on-Y, an increase of 41.2% from the previous quarter. Our EBITDA margin stood at 17.2%, a slight decrease of 30 basis points on a yearly basis.

As explained earlier, our investment in brand building and a strong management team will drive continued growth for our flagship brand Ashoka and expand the market presence of Soul and Truly Indian in the short to medium term.

Our PAT for the quarter was INR19.7 crores, marking a Y-on-Y increase of 31.8% and a Q-on-Q increase of 36.7%. For Q2 FY '25, PAT margin stood at 12.2%. For half year ended September 30, 2024, consolidated revenues from operations was INR283 crores, up 19.4% Y-o-Y and EBITDA was INR47.3 crores, a growth of 8.2% Y-o-Y. The EBITDA margin stood at 16.7%, a decrease of 170 bps Y-o-Y. PAT was INR34.1 crores, up 14.8% Y-on-Y with a PAT margin of 12%.

Our distribution business has done well too in this quarter due to better supply chain from our principals and good demand from the market. This has helped us to do a sales of INR31.2 crores in distribution business. All our capex plans are on schedule. Our capex spend for H1 FY '25 was INR15 crores.

Cold storage at Nadiad will become operational in the current quarter. We have commenced work on greenfield too and we have finished with the land leveling and have received necessary local approvals to commence construction there. We have placed orders for civil work and construction staff has been mobilized. We are in the process of placing orders for the major equipment now. We expect our greenfield project to be commissioned by September '25.

Our balance sheet continues to remain debt-free as on date, and we are sitting on a cash balance of INR138 crores. Considering company's performance, Board has declared interim dividend of 30%. Overall, we continue to judiciously invest in our manufacturing capabilities as well as our brand building exercise in order to focus on increasing our margin profile as well as deliver greater returns in the long term.

With this, I now request Ravi to open the floor for question and answer. Thank you.

Moderator: The first question is from the line of Kuber Chauhan from Anand Rathi Group.

Kuber Chauhan: Congratulations on good set of numbers. There are 2 questions from my side. First of all, I want to know about the penetration of the Truly brand and Ashoka in overseas market. Have we tapped into new markets? Or have we increased the distribution network? And secondly, how the global demand is looking right now given the Red Sea crisis have been there? And I have also heard that there are some freight cost increase. Container availability has been an issue. So on that terms, how things are looking on?

Sumer Thakkar: Sorry, correct me if I'm wrong but your question in terms of demand was for Truly Indian and Ashoka, correct?

Kuber Chauhan: Yes, all the 3 brands, if I may.

Sumer Thakkar: So Truly Indian, we've just got some fresh new listings with supermarket chains in the U.S. like Whole Foods. Whole Foods is a PAN US listing. So, we're in about 530-odd stores. And then we've also got some regional names, but that are still very strong brands like Stop & Shop and Raley's. This, if you put them together, will be another 600, 650 odd stores. So overall, in the US., we're listed in about 1,300 stores with Truly Indian, which is all fresh listings that happen this financial year.

With Ashoka although we're still selling to our existing markets, what we've been able to do successfully is get more depth within our current stores. So, we started selling more products to the same stores, which is what we've done over the last 3 years consistently, which is why if you look at Ashoka's numbers, you can see about a 30% CAGR. And for Soul, currently the business mostly comes of quick commerce and e-commerce, but we are in the process of opening new accounts, both in modern trade as well as within e-commerce and quick commerce. So those numbers should start reflecting in December as well.

To answer your second question, in terms of demand, demand continues to remain robust. There are some challenges with shipping, but it's getting streamlined. It got streamlined this quarter. A lot of the issues that we had last quarter, got resolved in the very first month of this quarter and freight rates are also softening. I mean, it's nowhere close to where it was before the Red Sea crisis, but it is on the downward trend.

Shardul Doshi: So just to give you a number on the freight cost, freight cost went up by almost 2.5% for us of the top line in this quarter. However, in the month of October itself, some of the sectors where we operate, costs have come down by almost 25% to 45% from the level which we have seen in the month of September. So hopefully, it should not continue in Q3, and we should get maybe a couple of percent benefit on top line from the freight reduction.

Kuber Chauhan: Can you repeat the number, the 2.5% of top line, right?

Shardul Doshi: 2.5%, correct. Yes.

Kuber Chauhan: Okay. And you mentioned about the 1,300 stores for Truly Indian. So, can you name some stores and was it the fresh 1,300 was the overall count? Or if it is an overall count, then what is the fresh stores from that?

Sumer Thakkar: So, we just launched Truly Indian in the US. Truly Indian only sold in Germany before this, US is a new market. 1,300 stores have been over since March to now, maybe since Jan to now. And the names are mainly these three retailers, there's Whole Foods, Stop & Shop and Raley's. It's all listed on the Investor Presentation if you need the names of the stores and the logos as well.

Kuber Chauhan: Yes. And how much percentage are you selling in domestic markets?

Sumer Thakkar: Anywhere between INR12 crores to INR15 crores.

Kuber Chauhan: Okay. So, if I may ask, are you witnessing any kind of shift from a modern trade to quick commerce?

Sumer Thakkar: Currently, we don't sell on modern trade. It's just e-commerce and quick commerce. But we are seeing quick commerce really grow as a channel, which is why we want to be actively involved in that growth journey, which is why we're trying to list our brand across all the various platforms. And with our sort of product range, we do feel like quick commerce will contribute a substantial part of Soul numbers in India.

Kuber Chauhan: Okay. And post this commission of greenfield plant, how much are we expecting from that?

Shardul Doshi: So generally, we follow 3x of our investment rule, so we should be in a position to generate INR 250-odd crores of top line from that.

Kuber Chauhan: Okay. At peak utilization, right?

Shardul Doshi: Yes. So peak utilization, it will go up to, say from INR 280 crores, INR290 crores also.

Moderator: The next question is from the line of Shalini Gupta from East India Securities Limited.

Shalini Gupta: Now I had a couple of bookkeeping questions actually. So what was the capacity utilization during the quarter?

Shardul Doshi: So, some of the capacities are almost full. But I think on an average, we'll be at around 70% to 75%. While some products, we will be touching 90-odd percent.

Shalini Gupta: Okay. And if you could just say how much was the expense on brand promotion in the quarter?

Shardul Doshi: So brand promotion, it's almost 7% of top line.

Shalini Gupta: Okay. Which is how different from the last quarter? I mean, how different Q-o-Q?

Shardul Doshi: Q-o-Q will be similar because in this year, we have spent around 7% plus on brand promotion. But from Y-on-Y number, this number used to be around 6% or less. So it's increased by maybe 1.2%, 1.3%.

Shalini Gupta: Okay. And sir, if you could just talk about the Soul...

Moderator: Sorry to interrupt, madam, I request you to come back for a follow-up question. The next question is from the line of Bhumin Shah from Sameeksha Capital.

Bhumin Shah: Congratulations on good numbers. So I had 2 questions. First is on distribution business, the margins have increased by twofold on a year-on-year basis. So is it sustainable? Or what will be the steady-state margin? And the second question, the employee expense on a quarter-on-quarter has increased by INR3 crores to INR4 crores. So is it because of some in personnel hiring? Or will it remain at the same level going forward also?

Shardul Doshi: Yes. So distribution margin has increased, one, of course, because the top line is better as well as there are certain promotions, which -- promotional incentives which we received from the principles. But on a sustainable basis, we have been saying that it should be around 10%. But in this year, it should be around 12%, 13% based on some of the incremental incentives which we received.

And what was the other question? Sorry. And employee cost, yes, I think as we mentioned in our commentary also, there are certain senior-level hirings which we have done considering our future growth as well as the expansion, which is happening. So there is increase in manpower and especially at the senior level in all the sites on the production side as well as marketing side, and hence, the cost has slightly gone up.

Bhumin Shah: Okay. And if I may ask 1 more question. So Surat plant is expected to go live by quarter 3 or quarter 4?

Shardul Doshi: As I said, September '25. So I'll say, in Q3 next financial year, we'll start getting numbers from there.

Moderator: The next question is from the line of Neel Mehta from ICICI Securities Limited.

Neel Mehta: Very hearty congratulations on a very happy with Diwali, sir. My main question was that you're estimating the Surat plant to go, one, by September 2025 and another greenfield expansion by FY '26, where do we see the top line coming from FY '24 was INR500 and INR250 crores you're saying is addition the new plant. So by FY '26, what do we estimate, FY '26, FY '27 at a peak utilization capacity?

Shardul Doshi: So in fact our guidance is that we will double our top line every 3 years. So our plan is definitely to achieve INR1,000 crores by FY '27. So that's what we are trying to work towards. Yes, that remains intact. And there is only one Greenfield. So right now, of course, there are multiple stages in Greenfield which will happen later on because we are just going at with the Phase 1 at Surat.

But right now, we are just doing one Greenfield. All of the capex which we are doing they are either in our existing plant in nature of Brownfield or the capacity expansion which we have to do.

Neel Mehta: Right. And sir one more question. We've usually seen in the past that H2 has done obviously very well for us compared to H1. With such stellar results that we have given in quarter 2, what is our guidance for this year now considering -- is there an upgrade on the guidance?

Shardul Doshi: So we are maintaining our guidance. Of course, this quarter has been good and we are working on in H2 also to ensure better numbers, but yes we are definitely setting our standards high now.

Neel Mehta: Okay. Thank you so much sir. Wishing a very Happy Diwali.

Moderator: Thank you. The next question is from the line of Naitik Mohata from NV Alpha Fund. Please go ahead.

Naitik Mohata: In terms of capacity where are we today and how much are we adding in terms of Surat plant, Greenfield plant?

Shardul Doshi: Can you just repeat your question, sorry?

Naitik Mohata: So my question was in terms of capacity. What is the current capacity that we have and what is the addition that we are doing from the Surat Greenfield?

Shardul Doshi: So our current capacity is around 28,000 metric tons. And Surat should give us in the first phase around 6,000 to 8,000 metric tons.

Naitik Mohata: And the same capacity in the last 2 years, 3 years we haven't added anything or we have added? The 28,000 metric ton I'm talking about.

Shardul Doshi: Right.

Naitik Mohata: And also can you give me the run rate of our various brands for this year?

Shardul Doshi: There is a run rate in the sense?

Naitik Mohata: I mean, annual run rate for the brands like Truly Indian and Soul?

Shardul Doshi: So Truly India i's just -- I think -- see we have been selling to Truly Indian brand in the German market and in this current year we have launched it in the U.S. market. It's just the beginning, but we are expecting the U.S. business to give us a top line of around USD1 million in the current financial year and hopefully then that number will multiply in the next year. While Soul, as Sumer mentioned, our current run rate is around INR12-odd crores and which will go up in the next financial year.

Naitik Mohata: Sure. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, we have 28,000 metric ton manufacturing facility. At which percentage we are working, can you tell in the percentage terms?

Shardul Doshi: As I mentioned I think our overall capacity utilization right now of the total capacity will be at around 70% to 75%. So we have still capacity which we can utilize for further top line which we have to achieve. And to achieve that whatever needs to be done in terms of debottlenecking, we have been spending that money on our plant because some of these lines, I think when the capacity expansions are happening, we have to ensure that the debottlenecking is also happening.

Ravi Naredi: And sir, out of INR8.51 crore, other income, how much from incentive from government as a PLI this half yearly?

Shardul Doshi: No. So other income doesn't have a government incentive. Other income is mainly your treasury income and your other income like miscellaneous and scraps, those kind of stuff.

Ravi Naredi: So any other income as a PLI we are expecting this year?

Shardul Doshi: We have -- so that's part of our, in fact, operating income itself. We have -- as far as PLI is concerned, in first half, we have booked around INR6-odd crores of PLI income.

Ravi Naredi: INR 6 crores.

Shardul Doshi: Yes.

Ravi Naredi: This same amount is repeating in second half?

Shardul Doshi: Yes, it should be. It's slightly higher, in fact.

Ravi Naredi: Okay. Sir, other expenses rises by 27%, while top line rise by 19% in first half, any specific reason, sir?

Shardul Doshi: As we mentioned, freight cost is the main reason why our costs have gone up.

Moderator: Thank you. The next question is from the line of Amit Agicha from HG Hawa & Company.

Amit Agicha: Happy Diwali to the ADF Foods' team, sir. My question was with respect to -- are there any specific markets or segments that the company is targeting for acquisition? And are there any new products which are being expected to launch in coming quarters.

Sumer Thakkar: So new product development is something that's constantly being undertaken by our team. We are looking at certain categories in the second half of the year, and we are also looking to adding a few items on the Truly Indian. And on the acquisition front -- I mean, we're always actively looking at good opportunities if something happens to come our way. But currently, at the moment, no, there's nothing.

Moderator: Thank you. The next question is from the line of Ashish Agarwal, an Individual Investor.

Ashish Agarwal: So first of all, a happy Diwali to the entire ADF team. So I just had 2 questions. One is, any new products that we have launched in Soul brand in India in this quarter?

Sumer Thakkar: Nothing this quarter, but you'll actually see pretty vast new range coming in, in the next 2, 3 months. This is across certain dips and frozen items.

Ashish Agarwal: Okay. So no new category that we have launched currently, right?

Sumer Thakkar: No, but hopefully by January, you'll see them in stores and across certain quick commerce and e-commerce platforms.

Ashish Agarwal: Okay. And in the Aeroplane brand that we have got, I see that this quarter -- I mean, last quarter, we have launched frozen Indian breads and Indian snacks. So this is typically targeting to your expatriate audience in Middle East who are quality conscious. So how does this overlap with our -- I mean, our other brand, which is Ashoka, which is also present in the Middle East?

Sumer Thakkar: So the Aeroplane Frozen is actually just for the Bahrain market. It's -- the Aeroplane brand has been there for a long period of time and it has very strong brand equity. And one of our partners there requested if we could do Aeroplane instead of Ashoka. So there's no overlap, Ashoka is not -- Ashoka Frozen at least is not sold in that market. And all our key product items are now in Aeroplane in Bahrain.

This is just 1 market. This is not something we've launched across the Middle East. Across the Middle East, Ashoka remains.

Ashish Agarwal: And which geography does this Aeroplane -- I mean when you say Middle East, only some couple of countries? Or where does it cater to?

Sumer Thakkar: Just the 1 country, which is Bahrain.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Sumer Thakkar: Thank you all for taking time out on Diwali to join the call. And wish you all a very happy Diwali and hope to see you next quarter. Thank you.

Moderator: Thank you. On behalf of ADF Foods Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.