PFL/2024 **November 04, 2024**

To
BSE Ltd.
Floor No. 25,
Phiroze Jeejeebhoy Tower,
Dalal Street,
Mumbai – 400 001

National Stock Exchange of India Ltd.,
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E),
Mumbai – 400 051

BSE Scrip Code: 500368

NSE Symbol: PATANJALI

Dear Sirs/Madam,

Sub.: Transcript of Earnings Conference Call Q2FY25 of Patanjali Foods Limited ("the Company')

This is in continuation to our earlier letter dated October 25, 2024 regarding audio recording of Q2FY25 earnings conference call held on October 25, 2024. Please find attached transcript of the said earnings conference call.

The aforesaid information will also be hosted on the website of the Company at www.patanjalifoods.com .

You are requested to take the same on record.

Thanking you,

Yours sincerely,
For Patanjali Foods Limited

Ramji Lal Gupta Digitally signed by Ramji Lal Gupta Date: 2024.11.04 16:55:42 +05'30'

Ramji Lal Gupta
Company Secretary

Encl.: as above

"Patanjali Foods Limited Q2 FY '25 Earnings Conference Call"

October 25, 2024

E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on October 25, 2024, will prevail.

MANAGEMENT: **MR. SANJEEV ASTHANA – CHIEF EXECUTIVE OFFICER, PATANJALI FOODS LIMITED**
MR. KUMAR RAJESH – CHIEF FINANCIAL OFFICER, PATANJALI FOODS LIMITED
MR. PRIYENDU JHA – VICE PRESIDENT AND HEAD OF TREASURY MANAGEMENT, PATANJALI FOODS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Patanjali Foods Limited Q2 FY '25 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjeev Asthana from Patanjali Foods Ltd. Thank you, and over to you, sir.

Sanjeev Asthana: Thank you so much. Good morning. Season's greetings to all. Welcome, and thank you for joining us today for Patanjali Foods Limited's Call to discuss the Results for Q2 of FY '25.

I am joined by the Company's CFO – Mr. Kumar Rajesh, along with Mr. Priyendu Jha from the IR Team, and our Investor Relations Advisor, Strategic Growth Advisors. We have uploaded the results collateral on the stock exchanges, as well as the Company's website for your reference.

During the course of this call, we will be referring to Standalone Financials. I am pleased to update you that we reported a healthy quarterly performance with double-digit margin growth at EBITDA and PAT levels. The Company reported revenue from operations of Rs. 8,154.19 crores, with EBITDA of Rs. 493.86 crores and PAT of Rs. 308.97 crores. The Company declared an interim dividend of Rs. 8 per equity share. This quarter's EBITDA is our best operating EBITDA since the Company came under the management of Patanjali Group. It stood at Rs. 493.86 crores. Healthy performance came in the backdrop of a fairly challenging market environment that we witnessed in the past quarter.

We faced erratic and uneven rainfall throughout the country, which has impacted the FMCG volumes, out-of-home consumption, and consumer offtake across the industry. However, the green shoots are visible in rural demand in the previous few quarters kept pace to a certain extent. The overall performance of the FMCG industry for the second quarter of the fiscal was mixed, with some categories performing better than the others. We also saw some pressure in terms of the raw material prices.

Due to reduced supply in the physical market and delay from the government to release in MSP, the wheat prices shot up anywhere between 9% to 10%. Pulses also saw an upward price movement in Q2 versus Q1. And likewise, even the palm oil prices have moved up substantially. The edible oil market remained in the normal range, both in domestic as well as the international markets. The domestic prices of crude and refined oil observed an approximate 30% increase in the month of September '24. This is largely due to the two-way price increase; one, due to an increase in the custom duty of nearly 20%; two, because of an 8% increase in the price of the major imported edible oils and which continues on the upward spiral.

Coming to our segmental performance during the quarter, the food and FMCG segment achieved a revenue of Rs. 2,303 crores, with an EBITDA of Rs. 234.71 crores, with a margin of 10.2%.

The staples, which include rice, atta, pulses, wheat products recorded a revenue of Rs. 1,032.43 crores, with a sequential growth of 9%. Cow ghee, chyawanprash, honey, et cetera, the Indian ethnic foods category recorded a revenue of Rs. 621.48 crores as opposed to Rs. 405crores (Should be read as Rs. 405.92 crores) in Q1 of '25. As shared earlier, we are re-evaluating our strategy for the cow ghee business. In Q2 of FY '25, the ghee segment achieved a revenue of Rs. 355 crores, which is pretty much in-line with our strategy. Also, we ran a pan-India print Media campaign for cow ghee.

Our biscuits sales segment recorded its highest (Should be read as second highest) ever quarterly sales of Rs. 438.73 crores, driven by a volume increase of 5.9% year-on-year. Adjustments in grams and pack sizes have contributed positively to the growth of the biscuits segment. Doodh biscuit maintained the leading position in the category and contributed about two-thirds of our biscuits sales. I would like to highlight that our previously launched ragi, 7-grain & digestive biscuits, and Patanjali Tea are being well accepted by the consumers.

In the soya chunks category, Nutrela demonstrated steady growth, with quarterly sales touching a new high. To strengthen Nutrela's brand presence in the category, we have onboarded celebrity and fitness icon Shilpa Shetty as a brand ambassador. We have also collaborated with star chefs, Ruchi Bharani and Varun Inamdar to create enticing recipes using Nutrela products for the YouTube and Meta platforms.

Our efforts to drive and stabilize the nutraceutical division continue, and in Q2 of 2025 we have booked Rs. 23 crores in revenue. Newly launched gummies, vitamin powder, and other nutraceutical products are showing promising results. We have also added Nutrela plant protein and creatine monohydrate, along with new variants of weight gain and superfoods to our nutraceutical range. We continue to reiterate our guidance of a revenue range of Rs. 100 crores to Rs. 125 crores in revenue in FY '25, with a 25% margin. We have just onboarded Shahid Kapoor for the nutraceutical product range, which will help us to maintain brand awareness for nutraceuticals.

In the first half, we added approximately +125SKUs in the food & FMCG segment. Notably, more than 80 of these SKUs are introduced during the second quarter. With the rise of new age channels such as e-commerce and quick commerce, a new trend has been emerging in the distribution model of the FMCG industry. The number of consumers opting for these alternate channels of distribution over General trade is increasing. Patanjali is also present on these platforms in key markets.

In the edible oil business, we registered revenue of Rs. 5,939.21 crores, with an EBITDA margin of 4.05%. The global dynamics of edible oil have been observing a gradual increase of edible oil usage in biofuels, and this is acting as a catalyst for maintaining higher prices of edible oils. Harvesting of soyabean in India is delayed due to extended rainfalls. Due to lower prices of soyabean in the physical markets, the government has announced for its MSP procurement increase. The government also increased the MSP of raw materials for the seeds by Rs. 300 per quintal, making it Rs. 5,950 per quintal for marketing season '24-'25, which last season was Rs. 5,650 per quintal. With these dynamics, all-India average prices of packaged oils have increased between 15% and 24% over the last two months.

Further, over a longer-term period, our endeavor is to increase our dependence on the oil palm plantation business. In Q2, we expanded our cultivated land by over 5,200 hectares, making the total to 80,952 hectares. Of this, 64% is yielding which generates an EBITDA to the tune of 16% to 18%. Our plan is to take the area under plantation to 0.5 million hectares over the next five years. This should cover about 60% of our requirement. We are rapidly growing through partnerships with farmers, providing training and workshops. We are not only dedicated to supporting the local farmers and communities, but also play a role in creating Atmanirbharta for our country by reducing imports of edible palm oil.

Now, I would like to summarize our overall financial performance in the quarter. The total income stood at Rs. 8,198.53 crores. Our total EBITDA stood at Rs. 493.86 crores, with a 17.81% growth on a year-on-year basis. The PAT of Rs. 308.97 crores, registered a 21.38% growth on a year-on-year basis. In the first half of FY '25, the numbers stack up as follows. The total income is Rs. 15,400.88 crores. Total EBITDA of Rs. 928.93 crores, an improvement of nearly 47% against the same period last year. The PAT registered an improvement of 67.07% to reach Rs. 571.87 crores. Looking forward, the latter half of fiscal 2025 is anticipated to bring improved performance driven by the festive season, higher incomes, supportive government measures and an above average monsoon.

With respect to the acquisition of HPC business, we have already got CCI approval and the shareholders approval and are hopeful to integrate the HPC business by Q3 and perhaps in very early November once we receive all the approvals, et cetera, from the lenders. This will give a further shot in the arm to our performance.

With this, I conclude our Presentation and open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhiraj Mistry from Antique Stock Broking Limited. Please go ahead.

Dhiraj Mistry: Sir my first question is on oil business. We have seen 30% plus inflation in the month of September. So, in light of that, is there any inventory gain which we have realized in this quarter, or expected to realize in next quarter? And related to that, what kind of price increase have we taken post this price increase, and what would be the implication and margin going ahead because of this?

Sanjeev Asthana: So, two parts to your question, Dhiraj. So, the two things which occurred in really second half of September. So, the edible oil has continued performing quite strongly in the first quarter also, and likewise in the second quarter as well. The announcement of the increase in the custom duty by nearly 20% plus was beneficial. But that benefit is only accounted for once we do that sale and it is invoiced. So, we really got the gain maybe just for about 10 to 12 days in the second quarter.

There is some inventory gain which is accrued on account of the sudden duty increase. But we are also benefited by the position that we had, as well as the movement up in the international markets, both have been beneficial to the Company. So, we will carry forward the momentum in the next quarter as well. And hopefully, the prices look very tight. We believe that the markets should be supported. The international markets are looking quite sort of less supply and more demand. So, I expect this to continue. And hopefully, our edible oil should continue on the path of better performance, like we have always say, of margin constructor between 2% and 4%. And then both the previous two quarters, we have consistently maintained a 4% plus margin, and we hope to continue with this momentum.

Dhiraj Mistry: And sir, what kind of price increase we are expected to take or already taken in edible oil price?

Sanjeev Asthana: So, price increase, there are two ways it moves. One is that there's no one-to-one equation. So, for example, if the price had moved up, so normally there is a pass-through mechanism that works. But there is a local dynamic in the market as well. And that does not allow you to pass on the full sort of duty and the price increase to the consumer. So, typically, the prices have moved up in the range of 8% to 10% internationally. And our price increase also has been pretty much in-line with that. Part of the duty has also got accounted for this. So, anywhere between 10% to 12% margin price increase has occurred in the marketplace.

Dhiraj Mistry: And as a percentage of sales, margin will be impacted because of this because our price increase is lower compared to what commodity price inflation is?

Sanjeev Asthana: No, it would not, it is overall beneficial, as I mentioned, that we typically run the business on a long-only basis where the prices are, typically, they start to look up. So, you hold the inventory at the X price. And the international markets have moved up with them either immediately or with a lag, typically, the prices tend to adjust in India. So, even if there's a lag, eventually the prices will start reflecting the global prices. And it can go both ways also, it can go down as well as the inventory pressure. But broadly, the price increase is going to benefit and reflect in our margins in the coming quarters as well.

Dhiraj Mistry: Okay. And second, related to the oil businesses, what kind of revenue realization we have got from the palm oil prices, palm oil plantation I mean.

Sanjeev Asthana: Yes. So, the revenue, like in the palm business, oil palm plantation, quarter one we were Rs. 292 crores in revenue, this quarter we did Rs. 354 crores in the revenue (Wrongly said on the call; Correct number is Rs. 364 crores). And so, of course, there is a seasonal impact also because the peak harvesting season also, so that benefited us.

Dhiraj Mistry: And coming to the food division, can you tell us the revenue and margin, divide the food business revenue and margin for staple and non-staple foods? And also, for the margins for biscuits, Nutrela and nutraceutical also.

Sanjeev Asthana: So, I will go one by one. So, for example, in the overall FMCG, our total business in the food and FMCG space, we did about Rs. 1,654 crores. So, first I will tell you the overall FMCG food portfolio. The total revenue we did was Rs. 2,304 crores this quarter. Our EBITDA margin was Rs. 235 crores and it was 10% that we got. Now I will give you the breakup of the FMCG business, so within that the Food was Rs. 1,654 crores, EBITDA margin of Rs. 140 crores, and it was 9% margin that we got. Within that the breakup of this is that the Indian ethnic food was Rs. 621 crores, where the EBITDA margin was Rs. 133 crores at 21% margin. In the consumer staple, we had Rs. 1,032 crores of revenue, EBITDA margin of Rs. 6.7 crores which was around 1% margin. It came down largely on account of the higher price inventory of staples that we carried and market did not reflect that.

Then on the Nutrela side, which is our CBD business, we did revenue of Rs. 188 crores, with a Rs. 43 crores, margin percentage of 43% (Wrongly said on the call; Correct number is 23%). We were benefited quite well on account of much lower soyabean prices. So, our raw material prices really sort of went down and the consumers continued paying at the same level, we did not have to adjust our prices. Nutraceuticals, we did Rs. 23 crores of revenue made Rs. 10 crores margin. It was mainly 44% but there was some one of the exceptional benefits that we got on account of the accounting but otherwise typically that run rate of 25% is what we are supposed to maintain. Biscuits, we did Rs. 439 crores and Rs. 41 crores EBITDA, and a margin of 9%. Here, the margin declined on account of much higher wheat prices and much higher edible oil prices, palm oil prices essentially that impacted overall sort of the EBITDA margin.

Dhiraj Mistry: That's very clear. Thank you, sir. And just the last question on bookkeeping that we are seeing significant increase in our overheads in employee cost as well as other expenditure. So, can you divide your employee expenditure between ESOP and what is the normal course of employee cost? And also, in other expenditure, what would the A&P spend contribution in this quarter versus last year? That's my final question.

Sanjeev Asthana: So, this question would be answered by Kumar Rajesh – our CFO, who is on the call. And so Rajesh ji, I will leave you to answer this question from Dhiraj.

Kumar Rajesh: Yes. So, Dhiraj just, I would like to say, we gave an increment for the employees in this quarter and basically the employee cost is increased by that only. So, near about between Rs. 12 crores to Rs. 13 crores has been increased from the previous quarter, if you can compare. So, this is on account of increment of the employees, along with arrears, since April 2024. As far as other expenses is concerned, major expenses is on advertisement, that is near about Rs. 40 crores to Rs. 50 crores. And sales promotions and schemes which are the marketing initiatives taken by the management.

Sanjeev Asthana: Is it clear?

Dhiraj Mistry: Yes. And what kind of run-rate can we expect in employee cost going ahead?

Kumar Rajesh: So, we have not integrated now non-food business, but as far as existing business is concerned, this is a run-rate which we have shown in the quarterly results.

Moderator: Thank you. The next question is from the line of Prateek Bhandari from ART Ventures. Please go ahead.

Prateek Bhandari: Just wanted to get a sense as to what kind of volume growth are we witnessing in terms of our milk biscuits category versus the non-milk biscuits category?

Sanjeev Asthana: So, in the milk biscuit category, the Doodh biscuit, we have grown about 3.5%, so that's slightly tapered off. But overall, the biscuit continues to grow, we have grown nearly 6% this quarter. But milk biscuits are still slightly lower.

Prateek Bhandari: Sir, out of the 3.5% of revenue growth that you are seeing for milk biscuits, how much of it would be on account of volume?

Sanjeev Asthana: It's largely volume-led. The volume growth we have received is, so there's no price increase, if that is the question. So, it's largely entirely on the volume basis, we have not taken any price increase during the quarter.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Sir, three questions in the beginning. We have been seeing off late starting for the bellwether Company like Unilever been talking slowdown in urban. Also, the rural is seeing a gradual recovery. So, can you give some little more color for our type of business? Because edible oil businesses always will have uptrading, downtrading, looking at the price parity between the branded and premium. But then it can be some on ground activities. And what is the contribution we derive from rural if you have some numbers handy?

Sanjeev Asthana: So, for example, the sort of urban markets, really, there is some stress that is visible. 60% of our business typically comes from the urban areas that we saw. The rural markets have had a fairly good sort of robust growth. That momentum has sustained in the last quarter also. We are clearly seeing that there's some slowdown in the urban areas, and that is causing stress. But we had reasonably good growth overall. Like, for example, in our food vertical we grew nearly 20% plus. Biscuits, of course, slightly tapered off, as I mentioned, 5.3%. (Wrongly said on the call; Correct number is 5.2%) Nutrela, that CBD we got a growth of 8.7%. And nutraceuticals, of course the base is very small, so it's not relevant as to what the growth percentage was.

But overall, we are seeing that urban areas are feeling some stress. Rural demand continues quite a bit. So, in our category that we have, we have not seen any distinct slowdown in the rural areas. In fact, it had supported, the growth is there. But now with the festivals coming, we are hoping that the urban areas should respond better. And the same trend that we are seeing right now, from the beginning of October, there's some push which has to be done. But broadly, I would say that this quarter, because of the festivals, et cetera, should sail us through.

Shirish Pardeshi: The reason I am asking is because, see, edible oil business price fluctuation, and we are now just on top of the season, so that will get digested. But then, non-edible oil business, what are the top two, three, three things we are trying to do? Because in the beginning you also said that the alternate channel likes of e-commerce and modern trade is the focus area, but is it really meaningfully scaling up for our type of business?

Sanjeev Asthana: The e-commerce and quick commerce, yes, without a question.

Shirish Pardeshi: E-commerce and modern trade, alternate channel.

Sanjeev Asthana: And so without a question, I think that we can clearly see there is visible signs in all the major urban areas that have taken a firm route. And so, we are sort of very cognizant of that, we are continuously working on that space. Our e-commerce sales, we are continuously sort of working in terms of expanding that business. Modern trade also had a marginal impact, but that continues to grow. The stress is largely on the General trade level. But this phenomenon still, I would say, in the top 20 cities is much more pronounced. But if the pace continues at the same level, then we clearly see a very distinct growth at the cost of General trade in the larger cities.

Shirish Pardeshi: Any number you would like to throw for alternate channel, modern trade and e-commerce program? What is the contribution?

Sanjeev Asthana: Yes. So, that number is very clear, we do close to about, off the FMCG volumes I am not including the edible oil business, we do in total about 12% through modern trade, e-commerce and quick-commerce. And our e-commerce and quick-commerce sales are about 4% currently, 6% goes to modern trade, and balance we are now expanding. So, this is growing at nearly 20% plus for us, so that is a broad basis. Edible oil, of course, is a very substantial part. I am not including that in it. It's only for the FMCG businesses that we co-have.

Shirish Pardeshi: The other question I wanted to check, if I look at the industry trend and when speaking to few distributors across the country, I think with the disappointed quarter one, I think the system inventory has gone up. So, could you throw some light how we are managing? Are we really taking some inventory cuts? Because edible oil inventory would always have the benefit to the retailer, so they will not cry. But non-edible oil inventory will always be a problem. So, any color you can throw on the inventory part?

Sanjeev Asthana: Yes. So, there is some buildup of the inventory, as we are very clearly seeing, that both at the secondary sales level as well as at the tertiary sales level, we are seeing some inventory buildup with General trade. Modern trade is much more nimble in terms of adjusting to the requirements. And so, to that extent, that stress can be seen very clearly. And so, largely, in terms of our own actions, we are working a lot more in terms of in-store promotion, the work on that area is continuing. But that is something basically in demand space which has occurred, which has caused the stress on the e-commerce and quick commerce side. And I think that the Company will have to continue to adjust. We are working on it quite actively, but we are seeing a clear build-up in the inventory.

Shirish Pardeshi: Sir, generally, non-edible oil, what kind of inventory would we have in the system, say, in the trade and in the distributor base?

Sanjeev Asthana: Total inventory, typically, that you would have is, it's around 30 days, but that's an entire system's inventory. And that would be between the Company level and the distributor level. But otherwise, overall, we do about 6x to 7x turn on the business. So, typically, I would say that 45 to 50 days of inventory would be maintained, specifically across the Company.

Shirish Pardeshi: And the last question on the other part of the business, which is getting inducted , you mentioned that from November it will get consolidated.

Sanjeev Asthana: Yes.

Shirish Pardeshi: And any ballpark number, how much would we have done in the first half?

Sanjeev Asthana: In the HPC business? So, HPC business would be about, I am not sort of in a position to give you the precise number of the first half, but we should be close to about Rs. 1,500 crores we would have done.

Shirish Pardeshi: So, if I understand correctly, will you integrate that business after November?

Sanjeev Asthana: Not after November, very soon. It could happen any day when everything is done and ready. We are simply working on the final stages of documentation, and you will hear from us very soon. It could be next seven days, 10 days also.

Shirish Pardeshi: Okay. The reason why I am asking, Asthana-ji, there are two questions actually here. Will it go with the existing distributors? And then, if that is going to be existing distributor, how is this funding or the issues which will get sorted? Because whenever there is a transition, it is on the face of it looking good. But then, structurally, the distributor will have an issue. So, I just need a clarification from you that are we going to look at existing distributors which are currently HPC products, or will we merge both the distributions together?

Sanjeev Asthana: No. So, as we have done in the past, and this is the time as well that nothing changes at all. So, the simple part is the SAP integration at the backend has been done. The team, the distribution, the entire manufacturing, and the entire structure of the function, everything moves entirely and that integration happens. So, really in terms of the disconnect or adjustment process at the ground level, nothing will happen. But what we gave as guidance even in the last quarter also, the plan is that over the next 18 months we will work towards 200 basis points efficiency-led improvement, not talking of the organic sort of growth in the business, as well as some bit of rationalization at the ground level that we will start to sort of work on. And we should be able to sort of take that benefit on account of this integration. But right now, I do not see any disruption at all in either the distribution at the ground level, or the teams coming on board, because it's almost nearly like a plug and play, because they're moving from the parent to the listed entity, and they will just get started very quickly once it gets going.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Yes. The ethnic food specialty, Indian specialty, that part of the business has registered 21% margin in this quarter, did I get that right?

Sanjeev Asthana: That's right.

Bharat Shah: So, that clearly is probably superior to what we might have intended, or we might have constructed, or is this the kind of a likely margin profile that should prevail over time?

Sanjeev Asthana: So, Bharat bhai, what we have as a margin construct, in the ethnic food side we have always maintained that typically that business is good to go with 18% plus margin. So, in some quarters, for example, in the previous quarter our margin in that space was 16%. This quarter, we registered 21% on account of some pre-pre festival push for cow ghee, some benefits that we got on account of the honey sales. There are a couple of other categories. But I would say that this cannot be taken as a guidance of 21% plus, it would typically always be in the range of 18% to 19% is what is something that we are targeting.

Bharat Shah: So, clearly in this quarter it has been better, and therefore, overall, longer term picture probably should be in that 18% to 19% range?

Sanjeev Asthana: That's right. Because that business also has a certain degree of subjectivity on account of the butter prices, the fat prices as it prevails, the market itself there are movements in the prices availability, et cetera. And you need to carry inventory at a certain price point. So, that's fine, but I would say, normal expectation range of 18%, 19% is what we should have from the ethnic category.

Bharat Shah: So, quite remarkable, I would say, in the backdrop of the kind of scenario that has prevailed in the last few months, that definitely is a very healthy kind of margin in performance in that area. My second point on which I wanted to gain understanding. See, digital channels are kind of definitely affecting the traditional distribution strength that many consumer firms, more older generation consumer firms have typically got, but digital channels are clearly impacting. Other factor which is affecting, may be chipping away margin, but certainly the new-fangled phenomena of direct-to-consumer brands, each of them in itself may be small one, but at a local level, local entrepreneurs, some of the direct-to-consumer brands are nibbling away at the traditional advantage of the distribution strength that earlier generation consumer firms have been enjoying.

But when you are looking at the performance of the businesses like Unilever or Tata Consumers and others, including even now Nestle, it is very clear that unless the business models are distinguished in the consumer side, both growth and margins over a period of time will be challenged, and there will be impact on the distribution side. Therefore, two ideas I wanted to understand, our effort at premiumization. Our Indian ethnic food clearly is a very distinguished portfolio, so to that extent it holds a very competitive advantage. Nutrela platform also is a distinguished portfolio, so it enjoys that competitive advantage. But in terms of premiumization, and secondly, gathering the strength in each of the digital and whether quick commerce or e-commerce and specialty offerings through these channels, what are your thoughts on that?

Sanjeev Asthana: So, the two things that we are seeing right now, that the path forward for us, because of the sheer volatility some quarters tend to be good, is that we need to work on premiumization very actively. Consumers are willing to pay, there is a class of consumers which is very keen on buying products which are distinctly different, which carry proposition and there are attributes which they believe that they should be paying a premium for. Health and nutrition is becoming center stage, but that comes along with a range of other complications as well, like, for example, the packaging, the branding, the positioning, the distribution, et cetera.

So, I will give one live example that what we have gone through in terms of, after a huge push that we had in our premium biscuits, we saw that it tapered off, then we started rebuilding the entire thing, and we are now seeing stability in that growth. But that growth is not skyrocketing at 20% and 30%, it is really a very moderated growth of 8% to 10% is what we see in our premium range. Similarly, nutraceuticals for example, after a very heavy start, we came down, but after that we took the price cuts and readjusted portfolio, then we started rebuilding the entire portfolio, but at a premium level now, and very differently packaged, very contemporary.

We have gone through, Bharat bhai, I do not know if you heard that we have now got four, all the businesses have got different brand ambassadors now in the last year and a half. So, for example, from Dhoni to Tiger Shroff and Tamanna Bhatia, then we went into Shilpa Shetty for Nutrela, now we have got Shahid Kapoor for nutraceuticals. So, all these elements have to go in, but that premium category growth to say that segment is very small. The effort to launch it and the sort of demise at the retail level is also fairly high, because not all these products tend to succeed. And your ability to stay and continue building that up is very high.

So, I would say that the trend is good. We are working on it. Our premium portfolio, in any case, when we count our cow ghee, for example, or quite a few other products in that category, that premium portfolio is reasonably decent, between 15% and 18%. But adding new products to build up our premium and continuous growing that, it's a challenge. That growth rate will not exceed 7%-8% at any level where the base is very small. And so that we work on. We are now looking at adding a range of other products. For example, there's a consideration which is going on in the biscuit category after the success that we had. Now,we want to come out with new sort of premium products, a new premium offering that we would like to do. And all our competitors are doing it as well.

Likewise, in the ethnic food category, we are coming out with our HPC, which is also going to soon come. We have launched a new range of Saundarya and others. So, hopefully, that effort is going to be more organic, it is going to be more long-term. And it will come through its own sort of hits and stock in terms of the success rate there. But broadly, the trend is very clear, the urban consumer is a distinct class which is willing to pay. And directionally, for a Company like ours, we need to head in that direction.

Bharat Shah: So, let me try to kind of put the point in a little different way. I would say, in consumer kind of businesses, the kind of fast-moving, regular consumption kind of businesses, I would say four critical parameters to my mind for long-term success. One I would put is product innovation. Secondly, whether our business model is distinguished. In other words, our portfolio has a freshness and difference compared to the typical competition. Third is channel innovation. And fourth, I would put it as premiumization. Now when I put these four factors into the play, I would say, our product innovation rate at Patanjali is phenomenal. I have not seen really any other consumer firm innovating so regularly so many new products. So, we score very well there.

Secondly, with Indian ethnic foods, also Nutrela platform and nutraceuticals, when it becomes material, our product portfolio is a distinguished one. Our business model is a more distinguished one. And we scoredwell there. On premiumization, I think it's an important long-term journey because the country is getting more and more aspirational. And secondly, on the distribution channels, quick commerce, digital e-commerce, these channels are they expressing, I mean, have alternate ways of expressing the distribution strength. On those two, I wanted to understand what kind of long-term strength and the thoughts we have in our offering.

Sanjeev Asthana: As I mentioned, Bharat bhai, on the distribution side, we have a long way to go. Our current e-commerce and quick commerce sales are just about 2% plus if you look at the overall basis, and about 4% if you look at only pure FMCG basis, removing the edible oils. So, that may need clearly a lot of work. So, we have got a D2C channel, for example, our nutraceuticals business, the base is very small, but nearly we are seeing 35% to 40% is going through now e-commerce and D2C. Similarly, in businesses like biscuits, we are seeing a pickup now on the e-commerce and quick commerce side that's picking up.

But to answer your question, on a targeted basis, we would like e-commerce and quick commerce to get closer to 6% of our FMCG portfolio, I am not talking edible oil in that. And likewise, our modern trade share should be closer to 12%. So, this means on a combined basis we would like about between 16% to 20% coming through the new age distribution channels, which we currently are at just about 10%. We need to travel some distance, we need to refine our strategy, we need to work through that. Some of our products are never on that category, which are very emerging kind of a channel that we are seeing continuously as consumers are evolving. And we will be riding that bandwagon.

We are beefing up our teams. We are working on strategy. We have got, for example, across the board on the social media front, we will find that, I will go one by one, nutraceuticals, Nutrela, biscuits, we are less there, we are now ramping that up. And likewise, on the food side, our presence on social media is exceedingly high. And from the social media platform, the site, we are seeing a lot of sales now moving into converting. But we have some distance to travel, and that work is clearly cut out for us, and we are working on that. Our intent is very clear of moving closer to 20% from emergent new age channels and remaining the balance 80% to our traditional channels, so GT.

Bharat Shah: Sure. No, thank you, Asthana-ji. And just on the last point, the fact that our share of the modern trade relatively is lower as well as into the digital channel sale is relatively lower, in a way to look at it as an opportunity. And I think, in a way, it can be a significant competitive advantage compared to the last, I mean, legacy, large consumer firms that have been around for decades, but they have probably been more on a legacy side and need to adapt. So, in a way, both of them represent an opportunity along with, of course, premiumization in an aspirational society and aspirational country.

Sanjeev Asthana: No, absolutely. And we are seeing that growth, and we are seeing that momentum and we are very positive about it that this is going to be a big channel of our business. So, it's not a weakness, it's an opportunity that we are looking at in terms of building that side of the distribution channel.

Moderator: Thank you. The next question is from Rajiv from Arihant Investments. Please go ahead.

Rajiv: First of all, congratulations on a great result. So, I have two questions. One is around the other income, the other income has increased by 50% in quarter two. And the other one is the other expenses, which I think shot up by 45%. So, is there any one-off income or expense in the second quarter?

Kumar Rajesh: Yes, I am taking this question. Basically, other income basically increased on account of mark-to-market gain of mutual fund investment. So, if you see the balance sheet, we have realized so much of debtors and invested into the mutual fund. So, as on 30th September, a mark-to-market gain is there.

Rajiv: And what about the other expenses?

Kumar Rajesh: Other expenses is mainly on account of advertisement and sales promotion schemes. So, many marketing initiatives have been taken by the management in this quarter, so that this has been increased.

Moderator: Thank you. The next question is from the line of Sanjay Gupta from IS Investment Private Limited. Please go ahead.

Sanjay Gupta: Sir, my question is regarding the arbitration award going against the Company, so how will it affect our Company in the future? If we have to give 1.86 crores share to Ashav Advertisement. And then second question is regarding the green tick given to our Patanjali Dant Manjan, there is some controversy going around that. Can you clarify regarding that?

Sanjeev Asthana: Sure. Rajesh-ji on the Ashav Advisory, you can go ahead and answer.

Kumar Rajesh: Yes, surely. Yes, I am taking this. Basically, the case of Ashav Advisory is related to the application of preferential allotment applied by the opposite party in early 2020. As you all are aware that the application was not completed, we have not allotted shares due to regulatory requirement due to regulatory NOCs from the banks and from the SEBI. After that, they have appealed to the SEBI and the appeal got rejected. After that, they appealed to SAT also. SAT also rejected the appeal. And they went to High Court and after that in arbitration.

So, we have a strong ground to file an appeal, that's why our name has been included in that Arbitration Award. We have a strong ground to appeal in the High Court and after that Supreme Court. We have been advised by our lawyers to file an appeal and we are in the process of preparing the appeal. We do not expect any significant impact right now on our balance sheet and shareholding patterns. Obviously, after the decision of the court.

Sanjay Gupta: No, but the arbitration award has already been rejected, it has been gone in the favor of Ashav Advertisement. You may appeal further, but let us say, let us presume that it is going against the Company, then as a shareholder I am asking, how will it affect our Company?

Sanjeev Asthana: None at all, The arbitration has happened between the promoter group and Ashav Advisory. So, if at all the promoter group will transfer the shares, you might get additional. If at all that goes against the promoter, the issuance of that 1.86 crores shares or whatever will just simply be given to them by the promoter. On the Company Patanjali Foods, there will be zero impact.

Sanjay Gupta: Okay. The second question is regarding green tick to Patanjali Dant Manjan.

Sanjeev Asthana: So, like this, this is one thing, likewise we have similar many such instances there, we are contesting any of this. I do not have a specific answer to the question that you raised right now. But there are similar kind of cases that keep coming up. We are dealing with that. It is still being done at the parent right now because the business is pretty much with them. But in case you are interested, we can give you further details on that on the specifics of that case as to where it is and how it has to be executed as well.

Sanjay Gupta: And my last question is regarding the penalties that is being levied on the Company every now and then. So, is there anything that the Company is doing to protest those penalties, all kinds of penalties that is being levied every now and then?

Sanjeev Asthana: Is there any specific penalty you are referring to or not understanding?

Sanjay Gupta: Yes. Just yesterday I read some Rs. 50,000 penalty is being levied on the Company.

Sanjeev Asthana: I do not have a sort of specific question that you raised. We can come back to you on what account this is imposed.

Sanjay Gupta: Metrological, I think.

Sanjeev Asthana: Okay. So, that's a department which is at the state level, Indian Metrology, and it is consolidated. And so, whenever such an instance would come, we regularly protest and contest those claims. And it is there, but it's not of any significant nature that it can either impact the Company's results or whatever. There is an interpretation of laws at the state level that can be many times different. And we deal at the state level and have to address those issues.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question. I would now like to hand the conference over to the management for closing comments.

Sanjeev Asthana: So, many thanks for a very good set of questions and we are quite thankful for that. Now, I will conclude the call. And a very Happy Diwali to you and your families. Thank you all for the patience. If you have any further queries, please contact SGA, our Investment Relations Advisor, on any matter at all. And greetings to everyone.

Kumar Rajesh: Thank you. Thank you very much to all.

Moderator: Thank you. On behalf of Patanjali Foods Limited, we conclude this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.