Ref. No.: PSL/2022-23/CS/SE/56
Date: 12th November, 2022

To,	To,
Listing Department	Corporate Relationship Department
National Stock Exchange of India Limited	**BSE Limited**
Exchange Plaza, 5th Floor,	P.J. Towers,
Plot No. C/1, G Block,	Dalal Street,
Bandra Kurla Complex,	Mumbai - 400 001
Bandra (E), Mumbai - 400 051	
	Security Code: 540724
Symbol: DIAMONDYD	Security ID: DIAMONDYD

Dear Sir/Madam,

Subject: Transcript of the Investor Call held to discuss the Unaudited Financial Results of the Company for the quarter and half year ended 30th September, 2022

In continuation to our letter dated 3rd November, 2022 and pursuant to Regulation 30(6) read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Investor call held on 7th November, 2022 to discuss the Unaudited Financial Results of the Company for the quarter and half year ended 30th September, 2022, is enclosed herewith.

We request you to take the same on record.

Thanking You,

Yours Faithfully,

For **Prataap Snacks Limited**

OM PRAKASH PANDEY

Digitally signed by OM PRAKASH PANDEY
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Om Prakash Pandey
Company Secretary and Compliance Officer

Encl.: As above

Prataap Snacks Limited

Q2 FY2023 Earnings Call Transcript

November 7, 2022

Mit Shah: Good evening everyone and thank you for joining us on Prataap Snacks Limited's Q2 & H1 FY23 earnings conference call. We have with us Mr. Amit Kumat, Managing Director and CEO, and Mr. Sumit Sharma, CFO of the Company.

We will begin the call with a brief opening remarks from the management, following which we'll open the forum for an interactive Q&A session.

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

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

Amit Kumat: Thank you. Good evening to all the participants and thanks for joining our Q2 & H1 FY23 earnings conference call. I trust all of you have gone through our presentation which was shared with you earlier.

I'm pleased to share that we have delivered a strong revenue growth of 23% during the quarter and 29% during H1 FY23. This robust revenue growth was due to rise in volumes driven by an uptick in consumption and demand across most product categories and key geographies. We have seen volumes increasing all over markets with several product categories witnessing growth above 25% year-on year. Growth for Avadh has been 25% year-on-year, which is in line with Yellow Diamond products integrating the broad-based nature of revenue growth.

While economic activity continues to rebound strongly after the disruption of last two years, we have taken several steps to capitalize on the anticipated return of demand. The continuous addition of new retail touch points and enhancing of the distribution footprint in focused markets have added to our reach. The shift towards direct distribution and the compression of the layers to our distribution network has enabled us to strengthen our entire distribution platform. We have added many vehicles to our fleet in the last six months along with above-mentioned initiatives have resulted in better coverage of territories leading to higher volumes.

Coming to margin performance, where there is a further good news. We have witnessed softening in the prices of key raw materials like palm oil and also in packing material. This reversal in input prices and our cost-cutting initiatives undertaken in previous quarters resulted in a better margin performance. EBITDA this quarter has been 4.8% compared to -0.5% in Q1 FY23. During the quarter, our subsidiary Avadh has delivered an EBITDA margin of 8.7%, surpassing the margin performance of the parent company. As you can see from our slide 19 of our presentation, the average EBITDA margin for a period of five years during FY16-20 was 6.9%. From end FY20 due to the COVID disruption and the sharp rise in commodity prices primarily palm oil but also in packaging cost, fuel as well as corrugated boxes we've witnessed immense pressure on margin, which dropped to low-single digits. In the last quarter, as palm oil prices were at the peak, we reported a negative EBITDA margin.

To counter this margin pressure, we restructured our distribution model to eliminate the super-stockist layer as shared on slide 11. With the arrangement, we are able to save around 3% margin due to lower distribution costs primarily margin from one layer of distribution and onward freight. Further, this has provided us some more controls and understanding of the consumption pattern for products. We also implemented process improvements by introducing automation, pruning our product portfolio to remove less popular products and by tweaking pack sizes to enable better realization. Further, we have actively sought to procure key raw materials under longer-term contracts to lock-in attractive prices whenever possible. The result of these initiatives is that there has been a structural improvement in the sustainable EBITDA margin that the business can deliver.

The commodity cycle has only just started to ease-out and we anticipate further positive impact on EBITDA margin from reducing input prices. We are confident that with our new cost structure in-place, we can target double-digit EBITDA margin in the coming years. We believe we can deliver a double-digit margin despite prevailing raw-material prices, which remain substantially higher than the pre-COVID level.

One key development during the quarter was the addition of manufacturing facility in Jammu region. This facility will help us enhance our reach in the Northern market. We have partially completed the purchase of land there and the proposed facility will be second largest in our manufacturing grid after Indore. The proposed investment in the facility will qualify as committed investment as per the approval of PLI scheme. The addition of the facility is in-line with our goal of deepening our footprint as a Pan-India player.

In this regard, I would like to bring your attention to slide 6, which shows the evolution of our company. In less than two decades we have emerged as a Pan-India player with a diverse product portfolio with operations at scale. A large part of the growth has come in the last eight years where we have seen increase in products, presence and facilities, allowing us to scale revenues over 3x in these 8 years, which include two years of COVID-induced disruption. We believe we are differentiated from many of the snack-food players who are largely regional in their focus. All of this has been undertaken in a short span of time compared to other companies, some of which are 4 to 5 decades old.

In that backdrop, let me now quickly take you through our financial performance during the period under review. In Q2 FY23, revenue grew by 23%, came in at Rs. 45.72 crore. EBITDA for the second quarter stood at Rs. 22.1 crore with margin steady at 4.8%. EBITDA during H1 FY23 stood at Rs. 20.1 crore. PAT during the quarter stood at Rs. 4.2 crore, while it stood at (Rs. -7.2) crore in H1 FY23.

To summarize, we have delivered a strong performance during the quarter and are optimistic of delivering better performance in the quarters to come. With the structural changes made in distribution model and other improvements measures coupled with reversal in commodity prices, we are confident of delivering better margins for the full year.

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

Moderator: The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, couple of questions. One, we have had a fantastic sales growth in this quarter. So how do we expect this momentum to continue in coming quarters and what has helped us to deliver this growth and typically how do we look at the next three, four quarters going ahead in terms of the sales momentum? That is my question number one.

Amit Kumat: Okay. So on the growth front, if you see we grew by more than 30% in the last quarter and 23% this quarter. In the last quarter, definitely we had a little bit base effect of the COVID times, but with deeper distribution model starting in new areas and with the new product portfolio, we think we can deliver the growth what we did in Q2. The minimum basically what we committed is 15% probably, but the growth can be more than that. If you see our distribution structure, we were at 1.8 million outlets and currently we are at almost at 2 million outlets. With direct distribution going up and getting entry into A and B Class outlet with Rs. 10 and Rs. 20 product, we are very confident of this kind of growth in probably next two to three years' time.

Rahul Jain: Sure. So how did we look at the larger pack and the Namkeen percentage moving ahead as a proportion of total sales?

Amit Kumat: I think there is almost more than 35% growth in the higher value packs in the last quarter. And we think it can further grow substantially from here, but it will take time, it's a slow process, can't be done in a day or two, it will take some time but definitely growing. Namkeen as a category-wise also we have grown quite a bit. Compared to last year probably the overall sales percentage of Namkeen has increased by more than 3% to 4% in overall sales volume.

Rahul Jain: So sir, for us the margins in Namkeen and also not just the gross margins and EBITDA margins, both how did they pan-out for us in Namkeen?

Amit Kumat: I think they are little bit on the lower side. But if you see combination of all the products, all MRPs, we are confident with the softening of raw-material prices which has already happened and are already in the process. We are targeting double digit EBITDA probably in next two to three quarters time.

Rahul Jain: Sure. Last two things, sir. One is, on the other expenses side, we have seen a sharp jump in the other expense in this quarter. Typically, if I see the numbers for almost last 10 to 12 quarters, including before COVID also, the other expense for this quarter seems to be on the highest side. Any particular one-off kind of expenses or any particular expenses which we have incurred?

Sumit Sharma: There is some restructuring in the sales force settlement. We have a large sales force which is largely on the role of a distributor and traditionally we used to settle the cost of those SRs through credit notes to our distributors. And when we settle any credit note, that is netted-off from the revenue. From May onwards, we have restructured these and most of the sales representatives have been transferred to the third-party payroll. In this case, we are directly settling the salary of those sales representative and now with this arrangement, the cost of those sales representatives is a part of other expenses. So earlier, that used to be netted-off from revenue, now that is a part of my other expenses. The quantum of that SR cost is roughly around 1.3% of revenue. So, that much difference is because of the restructuring in the sales force payment settlement mode. I think barring this, most of the items are in-line there is some pressure on the fuel cost, some increase in the logistic cost, not very significant and there is a minor increase on the contract labor cost because of the minimum wage revision.

Rahul Jain: Typically, the other expenses will remain somewhere around this number?

Sumit Sharma: So, in terms of percentage that should largely remain in this range because most of the items are variable in nature, so that will be in line with the growth in revenue and production.

Rahul Jain: And sir, with the completion of rainfall and also some extended rainfall in some particular areas, how do we look at the availability of potato and the prices of potato going ahead. Any concerns or any positive pillars over there?

Amit Kumat: I don't think there is any concern on the quantity or availability of the potato for the going year ahead. The only issue for us is crop might get delayed by seven to eight days. Earlier, probably we used to get around 27 or 28 of November, the new crop used to come, it might get delayed by another seven days.

Rahul Jain: Sure. So, we don't see any issue on the availability and the pricing part?

Amit Kumat: Yes. Not as of today.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, my first question is this, our aspiration to go to double-digit margins. That is exclusive of the PLI benefit, right. This is operational EBITDA that we are talking about.

Sumit Sharma: Yes, certainly. That is exclusive of PLI scheme. But we believe that with PLI scheme, we should be able to clock double-digit margin very soon, because in quarter two, we did not get the entire benefit of the reversal in the raw material pricing, because you always have a basket and there are some short-term contracts. So, the entire benefit of the reversal in commodity pricing will flow may be in one or two quarters, but in a long-run, certainly we are aspiring for a double-digit margin, even without PLI scheme.

Dhwanil Desai: Second question is sir, now raw-material prices have softened across-the-board and how do you see the actions of the peer group in terms of pricing. Are they kind of willing to pass-on this price reduction and gain market share vis-a-vis getting better margins and I mean what is the impact of that on our strategy, if you can talk a bit about that?

Amit Kumat: I think, as of today, there is very little impact as for the competitor is concerned in this regard. But going-forward, if the prices further drop, there might be some increase in weight for the consumer and probably this we will also be able to do with them. So, no major margin transfer from here to that level unless and until there is a steep fall in raw-material pricing.

Dhwanil Desai: And sir, with whatever CapEx that we have planned for PLI benefit and our existing capacity put together, what is the revenue number that we can do. Will you be able to do Rs. 2,700, Rs. 2,800 crore after the CapEx is done?

Sumit Sharma: So, including the proposed CapEx what we are planning in Jammu and some other locations, we should be able to clock at least Rs. 2,600 crore to Rs. 2,700 crore revenue, assuming the full utilization.

Dhwanil Desai: Okay. And also last question from my side. So, we are focusing on larger packs and traditionally we have not been there. Large part of our revenue come from Rs. 5 pack and hence our focus was Cat B outlet. So how easy or difficult it is to get into Cat A and B outlet with only larger pack where we did not have any presence before that?

Amit Kumat: I think we started this activity six months back and the response has been extremely good. We have appointed different set of sales officers and sales representatives who can go on these outlets and the results are encouraging.

Dhwanil Desai: So, there is a separate sales team looking at Cat A, Cat B stores?

Amit Kumat: In few areas. In few areas, we have different set of sales representatives and sales officers who are going into the market.

Moderator: The next question is from the line of Kunal Patel from Equilligence Capital. Please go ahead.

Kunal Patel: Sir, my first question is regarding ad and marketing spend. So, at what level do we see this as a percentage of revenue going ahead, given economy has returned back to normalcy now? And do we plan to hire any ambassadors for our products like we did in 2017-18?

Amit Kumat: If you see, basically we did the same activity in 2017-18 with Salman Khan. And currently, last two, three years, because of COVID, we are just concentrating on kids' advertisement that's with our Rings product. But going forward, definitely with the raw material pricing easing out and the margins improving and more coverage in the market, we definitely intend to have probably one good brand ambassador and do some branding activities in Q4 or coming Q1.

Kunal Patel: So would it be roughly around mid-single-digit kind of number, as a percentage of revenue that we are targeting?

Amit Kumat: I think with the current set of numbers, it is around 1% is basically our advertisement cost. I think probably it can grow by another 1% to 1.5% max.

Kunal Patel: Okay. Sir, regarding Avadh, what kind of volume growth did we see in Avadh, and do we see more scope of margin improvement apart from the fact that raw material prices have gone down. So, any other scope of margin improvement there?

Amit Kumat: Okay. So basically, definitely, we have done a lot of changes in Avadh, basically just changed the pack sizes and got some better machines to improve the yields also. And the thing is, that could easily be a double-digit EBITDA number, but not much changes in the distribution structure there because the distribution structure was already lean there. But the margin, probably would be a little bit better than our parent company, Prataap Snacks.

Kunal Patel: Okay. So, you talked about bringing new machinery, so does that expand capacity for Avadh?

Amit Kumat: Little bit, yes. Getting better packing machines, getting better extruders.

Kunal Patel: Okay. And what was the volume growth?

Amit Kumat: For us, I think the volume and the value growth are almost similar.

Sumit Sharma: Yes. Because we consider number of packets as a volume because the consumer buys the product as a packet, not in terms of grammages. So, for us, it's all a transaction growth, volume growth.

Kunal Patel: Okay. Sir, lastly, on the gross margin side. So, we did roughly around 28% gross margin and the raw material prices have started to come down. So, what was the average raw material cost last quarter and where do you see it stabilizing in this quarter or coming two quarters? And do we see low 30s gross margins over next couple of quarters?

Sumit Sharma: In our COGS, the key raw materials are basically the packaging laminates and palm oil. Palm oil last quarter was roughly in the range of Rs. 124 per kg to Rs. 126 per kg and that has come down further. So that was the average price because you always have some short-term contracts of next one to three months' time. Packaging material has also reduced a bit after the quarter one. From the quarter two, the average price was roughly around Rs. 211 per kg to Rs. 213 per kg. That has also reduced further.

Kunal Patel: Got it. So do we see low 30s gross margin in coming two quarters, given where the raw material prices are right now?

Sumit Sharma: Certainly. They will be the positive impact, yes, which is still left.

Moderator: The next question is from the line of Gaurav Agarwal, an Individual Investor. Please go ahead.

Gaurav Agarwal: Sir, the double-digit EBITDA margin, sir, that you talked about. So, is there a possibility that we can see those kind of margins in FY'24?

Sumit Sharma: Yes. Certainly, we are aspiring to have double-digit margin in FY'24. Because over the period, we have made a lot of changes. If I just take you through the journey, as Amitji also mentioned in his opening remarks that if we consider average period from FY16 to FY20, our EBITDA margin used to be in the range of 6.5% to 7.5%. The average for those five years was roughly around 6.9%.

And during that period, the average palm oil price used to be in the range of Rs. 55 per kg to Rs. 65 per kg. Now with having pressure on the key raw material pricing, we have made lot many changes in our overall structure, including the direct distribution, changes in pack size and other process improvement measures. And because of those savings, even with higher raw material pricing, even more than 50% higher price in terms of palm oil, we can get to double-digit EBITDA margin.

Gaurav Agarwal: Sure. And these double-digits will certainly have scope to improve further like in years beyond FY24, like they can move to mid-double digits also. Is there a scope to do that or we would be happy at 11%, 12% kind of EBITDA margins?

Sumit Sharma: No, there is always scope to further improve, so scope never ends. So certainly, there will be further scope for improvement.

Gaurav Agarwal: Okay. Sir, your business at 15% EBITDA margin will be possible?

Sumit Sharma: I won't comment on the exact number of 15%. But yes, certainly, there is a possibility for us, slightly higher double-digit margin, yes.

Gaurav Agarwal: Okay. And sir lastly on the inorganic side, do we want to acquire any brand which is on the healthy side of snacks or anything which we are looking to acquire, any regional brand, which we are looking to acquire at this point in time?

Amit Kumat: Not right now, nothing in mind right now. Many people have approached us many companies have approached us to do, we couldn't find the right fit, not looking for anything as of today.

Moderator: The next question is from the line of Mit Shah. Please go ahead.

Mit Shah: I had a question regarding the Jammu facility. Which would be the key markets which you would cater from this?

Amit Kumat: So if you see in Northern India, we are already strong in Haryana market, but the Punjab, Himachal, J&K, Uttaranchal market, we are not that good. I think we definitely target J&K, Himachal, Punjab and Uttaranchal market from there. Though we will have supplies coming to Haryana and Delhi also, the reverse logistics advantage is available in Jammu. But the key market what we are looking to target are Himachal Pradesh, J&K, Uttaranchal and Punjab.

Moderator: The next question is from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.

Priyank Chheda: Sir, my question is regarding the grammage. What is the contribution from the Rs. 5 pack? I think it was more than 90%, and we target to reduce that. What are the steps and the strategy that we want to deploy to reduce that segment of the grammage?

Amit Kumat: So firstly, basically, it used to be more than 90%, it is currently a little bit less than 90%. Secondly, we are targeting A and B Class outlet with Rs. 10 and Rs. 20 per pack. Thirdly, we are trying the higher packs of Namkeen in the range of Rs. 20, Rs. 40, Rs. 100. All these three things, activities put together, we definitely intend to bring this closer to 90% level to 75% in next two to three years' time.

Priyank Chheda: Okay. And the second question is regarding the PLI scheme. So, we would be getting that incentives from FY'25. So, I just wanted to understand the accounting part of it. Would it be that we will be accounting for the full sales and that additional 7.5% would directly flow into the EBITDA?

Sumit Sharma: So, the PLI scheme is available even from current year and we have started recognizing it in our P&L account. That is part of our other operating income. The income is recognized on an accrual basis. So based on the full year estimate, we recognize for the quarter.

Priyank Chheda: Okay. So that would be a part of other income or other operating income? And what was that income? What was the percentage of it?

Sumit Sharma: For this quarter two, the exact amount is roughly around Rs. 3.6 crore.

Moderator: The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Yes. Just a bit new to your company, just needed a little more detail regarding Prataap Snacks. We have gone ahead and removed the super-stockists from our distribution layer as well as you have done some operational efficiency savings, which you have done in the last two years. So, what do those savings amount to in terms of basis points. Would it be 100, 150 basis points savings in operational efficiency?

Sumit Sharma: Yes. We have migrated from a 3-tier distribution model to 2-tier distribution model, and we have eliminated one layer of super-stockists. Now we are directly delivering the entire goods to the distributor. On account of the direct distribution, we could able to save almost 3% to 3.25% on the channel margin front.

Arpit Shah: And what kind of operational efficiency you would have accrued in the last two years?

Sumit Sharma: So, there are a lot of other things which we have done at our factory level and at a product level. For example, we have changed the recipe to reduce the oil content, that's one. We have resized our all packets. So, there was saving on the packaging cost and that has also positively impacted the cost of corrugated boxes, because we could also reduce the size of corrugated boxes. And that has also benefitted us in the transportation costs because with the smaller pack size, we could able to transport more number of packets in the same truck. We also reduced the number of labours in few production processes by automizing the things. So, these are few things as an example, what we have implemented across all our operations and product level.

Arpit Shah: So total, this should accrue I will say, Rs. 15 crore, Rs. 20 crore of savings in the next one year?

Sumit Sharma: So, if you compare our gross margin pre-COVID and now, so pre-COVID, the oil price used to remain in the range of Rs. 60 per kg to Rs. 65 per kg. And for FY'22, if I take the full year, the average oil price was roughly around Rs. 122 per kg. So it was 100% inflation in oil price, and in terms of impact on EBITDA margin, it was almost 10 percentage points. And if you compare our reported number, there was a very small decline in the gross margin or at EBITDA level, that was roughly around 1.5%. So, the entire 8.5% has been mitigated through various measures, including the direct distribution and other operational efficiencies and some amount on account of reduction in the grammages, so that has flown in the financials so far. Still there is some scope, that is a continuous process which we always evaluate, but yes, most of it has already been reflected in our bottom line. And that's the reason with the reversal in raw material pricing, even the raw material prices, palm oil doesn't go to the previous level of Rs. 65. Even if it stays at Rs. 90 or Rs. 100, we are confident to get to double-digit EBITDA margin.

Arpit Shah: Got it. Just can you help me with the working capital differential in the direct model? And through the super-stockists earlier, what were the working capital difference that we require over there?

Sumit Sharma: Practically, there is no change in the working capital requirement if you simply migrate from a super-stockists model to distributor model. There may be some negative impact slightly because distributors are relatively smaller in the nature. So, they might seek some help from the company on the working capital front. But from May onwards, we have shifted to a zero-credit policy. So now we are not offering any credit to the distributor. The credit is only for the transit time. So, we have significantly reduced our receivable days in last seven, eight months.

Arpit Shah: Got it. And what will the margin difference, let's say, in a small packet in a large manner because if I see our small packets is close to less than 90% of sales currently and around 10% to 12% will be larger packets. So, what will the margin differential in both and what kind of driver because that would be a large driver for us to drive margins as it gets post FY'24?

Sumit Sharma: So initially, there is no significant difference in the margin profile because when you move to bigger pack, you need to offer more quantity to the consumers because it has to be more economical for a consumer, which motivates him to buy the larger pack. So, you have to offer more quantity to the consumer. However, there is a saving in the packaging cost and the logistic cost, so typically that gets offset. But if your bigger packs contribution increases, you can improve your realization over the period and that's how you can have better margin in the bigger pack, but this journey takes a little bit time.

Arpit Shah: Got it. And can you explain me the PLI scheme, which you all have got into and you also accrued around Rs. 3.65 crore of PLI incentives in Q2 and probably for H1 it is around Rs. 7.9 crore. So, what kind of sales base are we taking into the picture and which plant is part of the PLI scheme?

Sumit Sharma: So, based on the initial applications, the Government of India has approved the PLI scheme to certain players. We are one of them. We got the approval under the PLI scheme. As per the scheme, we'll be getting the performance-linked incentive up to the period of FY27. And the PLI incentive is given on the incremental sales. So as per the scheme, FY19-20 is a base year and they have kept the turnover of FY19-20 as a base year turnover. And whatever incremental turnover you get over the base year turnover, the entire incremental turnover is eligible for the PLI incentive. All the products are eligible as per the scheme, except potato chips. Potato chips is not eligible under the scheme. However, the entire Avadh sale is also eligible under the scheme. So first four years from FY20 to FY25, the rate of incentive is 7%. So, 7% of the incremental revenue is entitled as an incentive. For FY25-26, the incentive percentage will come down to 6.75%. And the base year for FY25-26 will also be moved from FY20 to FY22. So for FY26, the base year would be FY22. And for FY27, the rate of incentive would be 6% and the base year will be the FY'23 revenue.

Arpit Shah: On incremental sales?

Sumit Sharma: On incremental sales, yes. And the base year is fixed. So, every year, if you are growing, you can have higher incremental sale and you may be entitled for the higher incentive amount. So, there are two conditions attached to it. There has to be a minimum CAGR of 10% over the base year and the benefit is also capped at 13% CAGR. So, if you are growing more than 13%, the benefit will be capped at 13%.

Arpit Shah: Got it. So this Rs. 3.6 crore that you generated, let's say, in this quarter, so for that, if I just reverse calculate after 7%, Rs. 51 crore would be incremental sales on the base number, right?

Sumit Sharma: Yes, you may calculate because you have all the details available.

Arpit Shah: So, this base sales is all of company sales or some plant specific sales?

Sumit Sharma: No, it is at a company level. So irrespective of any location, any plant, any product category, it is at company level. The only thing is that chips is not eligible under the scheme. So, sale of potato chips is not considered for the benefit.

Arpit Shah: Got it. So, what kind of incentives you are, let's say, guiding for FY23 and FY24?

Sumit Sharma: We are not guiding the exact amount. But over the period, we believe if we are able to grow at the current pace, definitely, we should be able to get the benefit in the tune of Rs. 200 crore to Rs. 225 crore up to FY27.

Arpit Shah: Total incentives. Got it. And then you've moved to, let's say, directly to distributor, are you having any freight savings because you would be directly moving all the products on the depot or from the factory to distributor warehouse.

Sumit Sharma: Yes. Certainly there is a saving. So that 3% saving includes two elements. One is the super-stockists margin which we used to offer. We could able to save on the super-stockists margin. And then other element is the secondary freight. The secondary freight is the freight cost from the super-stockists godown to distributors godown. Now since we are directly delivering it to the distributors' godown, there is no cost of secondary freight.

Arpit Shah: Got it. So, the ROC ratio you are targeting, about 20%. So don't you think it sits on the lower side because, let's say, once we move to higher margins, where we had around 3%, 3%, 4%, margins around 10% and where our margin goes to 10% EBITDA margins, so ROC will be significantly higher, right? Because our ROC that you see when the margins were around 6%, 7%, they were close to 15% to 16%. So, the only thing is ROC will be significantly higher once our margins go higher by 400 basis points?

Sumit Sharma: Certainly, there will be a positive movement in ROC, and it will be definitely higher than the current level because the incremental CapEx, as I mentioned in my earlier comment, with the planned CapEx, we can generate revenue of up to around Rs. 2,600 crore to Rs. 2,700 crore. So after this planned expansion, we don't think we will require a significant expansion in next three years' time. So, our incremental CapEx will be lower. And with expansion in the bottom line, certainly, we'll get to much better ROC going forward.

Arpit Shah: Because you broadly have three line of items where your margins are going higher, one is your distribution channel getting rationalized, the second is the PLI scheme where you would be doing broadly less than Rs. 15 crore, Rs. 16 crore a year. And the third item will be the operational efficiency, which you have gained in the last two years or so. So, you would probably have a lot of margin levers which are there to pull-up your ROC like.

Sumit Sharma: Certainly. And parallelly, we are also working on the working capital management. As you can see, our receivables have reduced significantly. So similar kind of things we are also working upon inventory and payables.

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

Shirish Pardeshi: Congrats on a good set of numbers. Sir, just 2 clarifications. I'm referring Slide number 7 where you have given the split between the various sub-segments. So, I'm more curious that what would be the gross margin. If the companies have averaged 28% gross margin, which are the segments are above 28% and which are lower?

Sumit Sharma: So gross margin I can explain you in a relative manner. In our case and generally for the industry, Extruded has the best margin. Even in Extruded category, the Shaped Extrusion has relatively better margin followed by Random Extrusion, which is Chubule in our case and then Pellet. Chips is also average. Namkeen would be slightly below average in our case because Namkeen is relatively smaller category for us. On a stand-alone basis, Namkeen is 11% to 12% for Prataap and including Avadh on a consol basis, that is around 15%.

Shirish Pardeshi: Okay. No, I was more curious because last 2, 3 odd years we have been talking to expand our sweet snacks and that will definitely add some improvement in margin. But when I look at the number, it's still in the range of about 3%, 4%, 5%. So, I mean I'm not going back to asking how the margin expansion will happen, but just wanted to understand does it make sense to continue with a low-margin product and not concentrate on the high-margin product?

Sumit Sharma: If you see 2 years of COVID, 2 categories have been badly impacted in our case. One is Rings and other is Sweet category because these 2 categories are more focused towards small kids. So now we are expecting slightly better growth from Sweet snacks even there was a severe raw material pressure on the Sweet category as well. There are a few key ingredients where we have experienced a severe pressure, severe spike in the raw material pricing including the sunflower oil, whey protein. So, at a current level, sweet margin is almost at par with rest of the categories. It's not very significantly different. But yes, with the reversal in the raw material pricing even for the sweet category, certainly it gives much higher margin than the snacks category.

Shirish Pardeshi: I agree your point of view. But just 1 honest question that last 3, 4 years we have been talking to get the improvement. Now at least I can see that the rural improvement is within the visibility and the sales momentum will pick up. With that, are you fairly confident I mean you have been saying that double-digit margin, but why it should restrict to double digit when highs of 15%, 16% is visible for next 3, 4 years?

Amit Kumat: See, initially we have been at a very low margin for last 2, 3, 4 years where it was close to 6%. So definitely we aspire for 10% first, get it to 10% for 1 or 2 years and then definitely we can aspire for more. But getting consistent 10% double-digit margin for 1, 2, 3 years is more important as of now.

Sumit Sharma: To add on Amit ji's answer, actually the idea is to get at least 10% margin first and then whatever we get more than 10%, we would like to invest for the top line growth by way of marketing and brand building. So, in last 4, 5 years, we have not spent on brand building. So, the time to invest in the brand building since we are also getting some benefit on the raw material pricing. So, we are planning to invest some amount for brand building as Amit ji has also mentioned in his previous comment that 1% to 1.5% we intend to invest for the brand building, having a brand ambassador on board and having some advertisements on the TVCs.

Shirish Pardeshi: My second question is on the direct shipment so we said that we save the CFA cost. So, what percentage of revenue we get through the direct shipment?

Amit Kumat: See, almost more than 80% to 90% will come from direct shipment as of now.

Shirish Pardeshi: 80% to 90%?

Amit Kumat: Yes.

Shirish Pardeshi: And just last question, Amit. On the 23% growth, what would be the volume growth in quarter 2?

Sumit Sharma: I think largely volume growth, Shirish, like around 2.5% to 3% would be the price growth where the price realization has improved over the period because of direct distribution and some other reason. But yes, the rest entire growth is the volume-led growth where we have sold more number of packets.

Moderator: The next question is from the line of Keval Shah from Jeetay Investments. Please go ahead.

Keval Shah: Sir, first question is that with all the restructuring exercise that we have done with our products, does our value proposition still stay the same by sort of providing higher quantity than our competitors right now?

Amit Kumat: To some extent, yes. Not to a great extent because almost everyone has dropped their weight. We have also done that. But definitely if you talk about one or two top players, we give more weight compared to them.

Keval Shah: Okay. And that should still be how it used to be in the past right now or it would have sort of narrowed down?

Amit Kumat: Probably narrowed down a little bit, but that would definitely continue going forward also.

Keval Shah: Okay. And that would be the case for the bigger size pack like Rs. 20, Rs. 30 pack, right? You have the same proposition there as well?

Amit Kumat: Yes.

Keval Shah: Okay. Got it. Second question was, sir, that our aspiration is to I mean I'm talking about 3 to 5 years down the line, is to take the small pack segment contribution down from roughly around maybe 85%, 90% right now to somewhere around 40% to 50%. So that replacement you're expecting it to be done by a Rs. 10 pack at the same time or are you expecting the bigger size pack is contributing more to the revenue over the period of time?

Amit Kumat: I think 40%, 50% number would be quite aggressive. We are targeting somewhere close to 75% in 2 to 3 years' time, but probably by which time it might go down to 60%. And the major change will come from Rs. 10 and Rs. 20 pack of chip and other major change will come from the bigger pack of Namkeen, that will be the take home purchase.

Keval Shah: Okay. And with the Rs. 20 pack and the bigger part of Namkeen, do they sort of contribute higher gross margins than the ones that you have might be having right now? Just specifically these 2 segments.

Amit Kumat: I think those going forward they will definitely have much better margin.

Keval Shah: So any rough range if at all you can provide for these from a.

Amit Kumat: I think very difficult to provide now.

Keval Shah: Okay. And sir, you mentioned that with full capacity utilization, we have a revenue potential of around Rs. 2,800 crore so that includes the J&K facility as well?

Amit Kumat: Yes, yes. It is inclusive of that.

Keval Shah: Okay. So, this is inclusive of all the CapEx that we are in process right now and sort of considering everything, we should potentially be reaching Rs. 2,800 crore on a full utilization, right?

Amit Kumat: Right.

Keval Shah: Okay. And sir, the last question was, sir, are we targeting any new categories right now?

Amit Kumat: No, no new categories as of now.

Sumit Sharma: We are fairly diversified, and we have presence in almost all the categories. Currently the entire focus is on the distribution expansion. So, we are going deeper in the existing territories and we are also targeting new geographies where we have little presence with the J&K facility.

Moderator: The next question is from the line of Prolin Nandu from Goldfish. Please go ahead.

Prolin Nandu: Just want to understand the impact of inflation little bit better. In the past instances when, let's say, the raw material basket has come down, has the grammage been very sticky and that has not gone up? Is that how it works or how soon we have to pass on this benefit to the end consumer based on the competitive intensity and will it be any different this time around?

Amit Kumat: I think it has worked that way only. Once the grammage has been reduced, no one increases the grammages. But if there is steep fall in raw material prices, there might be some extensions to some extent an increase of the grammages. But I think we can assume that the weight will stay at the same level and the margin should improve.

Prolin Nandu: Right. So let's say for example even if palm oil were to go back to the pre-COVID levels, we can expect the grammage to remain at a similar level, right? Is that correct?

Amit Kumat: No, no, no. From Rs. 140, Rs. 150 probably it goes to Rs. 60 level, then definitely everyone will try to increase some weight.

Prolin Nandu: Fair. By the way, what is the Q3 run rate of palm oil? You mentioned Rs. 126 if I'm not wrong for Q2 on an average Rs. 126 to Rs. 128. What is the current run rate that we are working with?

Sumit Sharma: It's difficult to share the average price for the current quarter. I can share you the prevailing range because still the fluctuation is very high in the palm oil pricing. It came down to Rs. 95, currently trending roughly around Rs. 103 and again it varies location to location because of difference in the freight cost.

Prolin Nandu: So if, let's say, ignore the Rs. 95. So if we assume it's at Rs. 105, still that's the Rs. 15 to Rs. 20 correction, right, on a sequential basis?

Sumit Sharma: I'm not saying this is going to be the average price for this quarter. This is the prevailing price.

Prolin Nandu: Okay. Got your point. Sir, the largest point that I wanted to make is that this Rs. 5 grammage is something which is very sticky, right? And what happened with the Cola company sometime in 2005, 2006 was that everybody came together and decided we don't want to sell that Rs. 5 kind of I mean pack. So is that something a possibility where I mean this whole trend of moving away from Rs. 5 is slightly more faster than what you are guiding or what we are assuming. Can that happen in such an environment?

Amit Kumat: I think if you take 1 more COVID kind of cases, probably it has to go from Rs. 5 to Rs. 10.

Prolin Nandu: I hope not. Okay. And so slightly I mean coming back to your point on this whole margin thing. So, I see multiple levers to be very honest, right? I mean one, you mentioned that grammage little bit is sticky, right? That inherently should bring in some margin improvement. We have done lot of things in terms of logistics and all that meaning 300 bps improvement, packaging things we have changed, then also PLI benefit, then we are changing the mix as well, right? So, I mean are we slightly under-guiding when it comes to the margin improvement and do we want to take it first to 2% and then is that a fair point where you can give a better guidance in terms of margin improvement? Because I see lots of levers, right? What am I missing in terms of slightly higher improvement in margin trajectory for us?

Amit Kumat: We have covered almost everything as far as margin improvement is concerned.

Sumit Sharma: Prolin, we are certainly aspiring for higher margin. But at the same time, we want to invest for the brand building. As I mentioned earlier, we want to invest for brand building. We are hoping to invest at least 1% to 1.5%. If we are able to get more margin than 10%, certainly we would like to invest. But yes, aspirations are much higher, and we don't want to limit ourselves at 10% EBITDA margins. Whatever costs reduction measures we have taken over the period, that are going to continue and certainly those will help us to improve even from 10% level.

Prolin Nandu: Sure. And just last question on this whole movement away from Rs. 5, do we also have adequate products in our basket which will help us penetrate the Rs. 10 or above Rs. 10 kind of the counters or do we need some other products in our basket to probably gain more market share there or do you think our products basket is enough and we have enough products to cater to that Rs. 10 and above grammage segment?

Amit Kumat: I think we have sufficient range and product available for Rs. 10, Rs. 20 market to go into A & B class outlet, Mainly I think it would come from Potato Chips and Namkeen.

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

Kunal Patel: Sir, 1 question is on Jammu facility so can you please talk some more about the Jammu facility. What kind of investments we are doing there? What kind of benefits will we get from the state and obviously get covered under the PLI? So, if you can just talk more about it.

Amit Kumat: So I think first on the investment for that, it would close to anywhere between Rs. 90 crore to Rs. 100 crore is the investment what we are targeting there. Secondly, it would be the biggest capacity after Indore so it will have almost everything other than sweet snacks because we don't need Sweet Snacks because already capacities available in Indore. It will have Potato Chips, Extruded snacks, Pellet line and full range of Namkeen. So, there are some state benefits also, probably if Sumit can highlight.

Sumit Sharma: So, in addition to PLI benefit, there are other schemes for J&K state, which is central government scheme and where the company is eligible for additional incentive. And the eligible investment under that new J&K scheme is investment in the plant and machinery. So, whatever you invest in plant and machinery, if you get the approval, subject to the approval certainly, you are entitled for the benefit equivalent to 300% of your investment in plant and machinery. So, for example if someone invests Rs. 50 crore in plant and machinery, the benefit would be available equal to Rs. 150 crore over the period of 10 years from the commencement of production and every year 10% benefit will be available. So, if I continue with the same example Rs. 50 crore investment, the total pool available is Rs. 150 crore and that Rs. 150 crore is available over the period of 10 years, Rs. 15 crore every year. So that additional benefit is available for the Jammu facility.

Kunal Patel: Okay. And this would be in addition to the PLI benefit that we are getting?

Sumit Sharma: Yes, this is in addition to the PLI benefit. So, company has to apply under the scheme, then there is an assessment process and subject to that assessment, eligible companies will get the approval.

Kunal Patel: By when do you think this facility will be started with commercial production if you get the approval?

Amit Kumat: I think that probably by end of Q1 next year.

Sumit Sharma: June we are targeting.

Amit Kumat: June we should be able to start.

Kunal Patel: Okay. Related question because this would be the second largest facility for us so safe to assume that Indore facility will now start addressing markets which are more south and west? Is it a safe assumption to make?

Sumit Sharma: We are fairly decentralized in terms of the manufacturing facilities. South is anyway catered by our Hyderabad plant and Bengaluru plant. We have a facility in Hyderabad for potato chips and we have a facility in Bengaluru for Extruded. Namkeen is supplied from here because anyway the logistic cost for Namkeen is relatively very less. Indore is largely catering to Western market and some part of Northern market because again we have facilities in North India. We have 1 facility in Hisar for Chips and Extruded. We have another facility in Karnal for Potato Chips and Pellets. So, J&K facility is essentially to cater to newer markets like Punjab, Uttaranchal, Himachal and Jammu & Kashmir. Certainly, that will also help us in catering the Hisar and some part of Haryana. But that is largely for the market, which are currently under penetrated.

Kunal Patel: Got it, sir. Sir, last question on the sweet snack side. Based out of Ahmedabad, I'm still waiting to see your product in the stores near me. So, what's stopping you from selling those rights over to a neighboring state in Gujarat? So, what are the challenges there?

Amit Kumat: For Gujarat basically, our main market is through Avadh only, so we are targeting now Avadh to distribute our Sweet Snack in Gujarat market. Unfortunately, they are not that strong in Ahmedabad. They are very strong in Saurashtra area. Hopefully by next probably 1 year, you will see our product in sweet snacks across complete Ahmedabad.

Kunal Patel: Okay. And it will be catered through the plant in Indore that we have?

Amit Kumat: Yes, through the plant in Indore and through our distribution from Rajkot.

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

Sumit Sharma: Thank you all for joining us on this call today. Enjoy the rest of your evening and stay safe.

Moderator: Thank you. Ladies and gentlemen, on behalf of Prataap Snacks Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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