GOPAL SNACKS LIMITED
(Formerly known as Gopal Snacks Private Limited)

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BSE Limited
Department of Corporate Services,
Pheroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001

Script code: 544140

National Stock Exchange Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra-Kurla Complex,
Mumbai – 400051

Symbol: GOPAL

Sub: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 –Transcript of Earning Conference Call – Q2 UFR FY25

Dear Sir / Madam,

In continuation of our letter dated 09th October 2024 for Analyst / Investor Earning Conference Call and in pursuant to Regulation 30 and 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time, enclosed herewith the transcript of the Earning Conference Call with the Investors and Analysts held on Tuesday 15th September 2024 at 03.00 PM (IST) to discuss the operations and financial performance for the quarter and half year ended on 30th September 2024.

The transcript of the Earning Conference Call will be available on the website of the Company at: www.gopalnamkeen.com

Kindly acknowledge and take on your record. Thanking You.

Yours Faithfully,
For, GOPAL SNACKS LIMITED

Gangani Mayur Popatbhai
Digitally signed by Gangani Mayur Popatbhai
Date: 2024.10.18 14:24:03 +05'30'

CS Mayur Gangani
Company Secretary and Compliance officer
Membership No. FCS 9980

Encls: a/a

"Gopal Snacks Limited

Q2 FY25 Earnings Conference Call"

October 15, 2024

MANAGEMENT: **MR. RAJ BIPINBHAI HADVANI – CHIEF EXECUTIVE OFFICER – GOPAL SNACKS LIMITED**
MR. MUKESH KUMAR SHAH – CHIEF FINANCIAL OFFICER – GOPAL SNACKS LIMITED
MR. NAVEEN GUPTA – CHIEF BUSINESS OFFICER – GOPAL SNACKS LIMITED

MODERATOR: **MR. SUMANYU SARAF – JM FINANCIALS**

Moderator: Ladies and gentlemen, good day and welcome to the Gopal Snacks Limited Q2 FY25 Earnings Conference Call, hosted by JM Financials. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumanyu Saraf from JM Financials. Thank you and over to you, sir.

Sumanyu Saraf: Yes, thank you. Good afternoon to all the participants. We are pleased to host the earnings call of Gopal Snacks Limited for Q2 FY25. From the management, we have with us Mr. Raj Hadvani, CEO, Mr. Mukesh Shah, CFO, Mr. Naveen Gupta, Chief Business Officer. I will now hand over the call to the management for opening remarks, post which we will follow up with a Q&A. Thank you and over to the management.

Raj Hadvani: Good afternoon, everyone. My name is Raj Hadvani. Thank you for joining us for the earnings call. We hope you all got a chance to go through our Investor Presentation uploaded on the Stock Exchange. I will share our key operational highlights for the quarter and half year ended 30th September 2024. I am pleased to report that during the second quarter of FY25, we delivered strong performance in line with our guidance.

Our top line grew by 13% Y-o-Y, reflecting our ability to drive sustainable growth through strategic initiatives. This growth was primarily driven by our enhanced market position, which focused on the expansion of our distribution network, innovative product portfolio, and strengthened brand visibility. Looking at the segment performance, our focus on increasing the contribution of Gathiya and Wafers to the revenue mix in both the core and focus market yielded positive results.

The Gathiya segment grew by 13% Y-o-Y, while Wafers witnessed a substantial increase of 47% in Q2 FY25. Speaking of H1, Gathiya has shown growth of 12% and Wafers 49%. Talking about state-wise performance, our core market showed growth of 6% Y-o-Y in Q2 and 4% in H1 FY25.

Our focus market continued its growth momentum with revenue growth of 29% Y-o-Y in Q2 and 32% in H1 FY25. This was largely a result of our ongoing efforts to expand our distribution network within these regions. During the year, we have added approx 150 dealers in the focus market.

We are also expanding our footprint in other states where we are well accepted and witnessed stellar growth. During the quarter, we also launched a marketing campaign for Cristos Brand, reaffirming our commitment to expanding our product offering and strengthening market penetration. As we look ahead, we plan to introduce additional branding and marketing initiatives in the upcoming quarters to increase our brand visibility.

In recognition of our strong financial performance, I am pleased to announce that the Board has approved the first interim dividend of INR 1 per share that is 100% on the face value of INR 1 for FY24-FY25. This reflects our commitment to delivering value to shareholders while maintaining our focus on sustainable growth and profitability. One of the key drivers of our success continues to be the robust distribution network. We have expanded our distribution network to 828 distributors and increase of 161 distributors in the past six months. This growth has been instrumental in driving our revenue and increasing our market share across any region.

From a manufacturing standpoint, our total production capacity now stands at 4,10,154 metric tons, which provides us ample room for growth. Our current capacity utilization is at 35% to 40%, which ensures that we are well positioned to scale operations in the upcoming two to three years without significant additional investment. We are confident in the strength of our strategy, which is centered on expanding our market presence, enhancing operational efficiencies, and fostering innovation across our product lines. We are well positioned to capitalize on future opportunities and drive continued success in the quarter ahead.

I will now request Mr. Mukesh to provide his thoughts on the quarter going by.

Mukesh Shah: Thank you Raj bhai. Good afternoon, everyone. Let me take you through the financial highlights for this quarter and the half year ended 30th September. So, I'll start with revenue first, during Q2 of this year we have achieved a revenue from operations of close to INR 403 crores, which marks an Y-o-Y growth of 13% and Q-o-Q growth of 14%, which is in line with our guidance, which we have been giving in our calls.

Coming to margin, our gross profit reported at INR 117 crores, which reflects a 14% Y-o-Y growth and 13% Q-o-Q increase. Our GP margins remain steady at 29%, showing a slight improvement compared to the same quarter last year is consistent with the previous quarter.

In the month of September, the government has raised the import duty of palm oil by 20%. As you all know, 5% import duty has increased to 25%. To address this inflationary pressure and safeguarding our margin, we have implemented corrective measures in the month of September, which include reducing grammage in our INR 5 price point and INR 10 price point. And even in a couple of larger packs, we have revised the MRP as well, which have kind of nullified the impact of increase in raw material prices.

Coming to EBITDA, for the quarter, we reported EBITDA at INR 47 crores, which reflects a 3% increase Y-o-Y and 14% increase Q-o-Q. EBITDA margin remained at 11.6%, down from 12.7% last year. While there has been an inflationary pressure because of increase in raw material prices for Chana and palm oil and a couple of other raw materials, but we have negated that by a couple of our initiatives, which includes grammage reduction as well as some cost optimization measures.

However, the slight decrease in the margin is on account of two reasons. One is the employee cost, which has increased due to the annual increment. And second is advertisement and promotion cost, where we have unveiled our Cristos campaign in Q2 of this year, which has resulted into a bit higher cost compared to Q2 of previous year.

From a PAT perspective, we stood at INR 29 crores, showing 6% increase Y-o-Y and 19% increase Q-o-Q. And PAT margin remained at 7.2%. Now talking about H1 FY25 performance. For H1 FY25, we reported revenue from operation of INR 757 crores with Y-o-Y growth of 12%.

Gross profit stood at INR 219 crores with a gross profit margin of 29%. Gross profit has witnessed Y-o-Y growth of 8%. EBITDA on a cumulative six-year basis, we reported at INR 88 crores with EBITDA margin of 12%.

EBITDA margin of 11.6% compared to 13.9% of last year. Coming to our balance sheet, we maintained one of our strongest balance sheet in the industry. Our ROCE stand at 16.8%, which is when annualized, it will be close to 33%. The H1 is simply multiplied by 2 and ROE is 12% on a half-year basis. However, annualized basis, it will be more than 25%. Our asset turnover ratio for six months is 3.7 times, which is close to 7.5 times on an annualized basis, reflecting the current capacity utilization of 36%.

We see significant potential to further leverage this capacity as we scale up in the coming quarters. From a borrowing perspective, we have been very judicious in managing our cash flows. Our operating cash flow stood at INR 77 crores for H1, which was utilized to repay working capital of INR 60 crores in the first half, and the remaining was allocated towards capital expenditure being incurred during the period.

In summary, we remain well positioned to drive future growth while maintaining financial discipline. Our focus remains on optimizing operational efficiency, enhancing profitability, and delivering values to our shareholders. Thank you. That's from my side.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Navpreet Kaur from Samar Wealth. Please go ahead.

Navpreet Kaur: Good afternoon, sir. Congratulations for a good set of numbers and thank you for giving me the opportunity. I have just two questions from my side. Firstly, could you share some insights on the company's growth strategy moving forward, specifically in the focus beyond domestic, expanding or growing it forward globally, or additionally, within India with its future growth peaks, driven by core or focus markets, or are there any plans to explore new regions?

Naveen Gupta: Coming to the growth strategy, we remain focused on three basic pillars which are required in the industry. One is distribution. As Mukesh Bhai already shared, we have added more than 161 dealers, which is a strong 25% growth on our base in our distribution network.

We will remain focused on three basic parameters for the growth strategy. One is distribution network. We will keep expanding on our distribution network. Second is around product. Whether it is product innovation, whether it is product renovation or product re-engineering, we have been working around all these parameters in product. We have been renovating many of our products, introducing new price points.

For example, in the last quarter, we launched soya stick, which we can say is a national-level product. We launched sabudana chivda, which is a regional product. We introduced 20 MRP price points, wafers and all.

There are multiple things which we are doing. And third is our marketing endeavour. We rolled out our Cristos campaign in Q2 and results are clearly visible that our wafer growth are more than 40%. Now coming to your second question, whether we intend to go to the other regions. Yes, we intend to go to the places which make commercial sense to us. We may avoid going in general trade in Kerala or Tamil Nadu, but we are exploring anything and everything which is possible.

For example, we are ensuring our footprint on all e-commerce platforms, in railways. Now we are present at Vendee Man Machines, Mumbai Airport, Delhi Airport, Bangalore Airport, all the major airports. We are ensuring that we are present at regional modern trade chains as well. So we intend to go to the other regions, but our primary focus will remain anything which is in the vicinity of 500 km of our Nagpur factory, will remain our preference.

Navpreet Kaur And sir, my last question is regarding the capacity utilization. If I am correct, 34% for Gathiya and 28% for Namkeen and 11% for Wafer. Do you take these levels to improve the company's growth and any guidance for this year capacity utilization?

Mukesh Shah: So, what we could understand from your question is, the product mix what you are asking is, saying is Gathiya and Namkeen is something which is contributing 54% and Wafers is contributing 11%.

Navpreet Kaur: Sir, I am asking about capacity utilization. Relating to the growth of the company?

Mukesh Shah: Yes, capacity utilization is going to improve. So there is two factor which impacts capacity utilization. When we installed our capacity sometime two, three, four years back, our INR 5 price point, we were offering close to 30-35 grammage of products. Now over a period of years, this 30-35 grammage has come down to 20 grammage, 22 grammage. So almost 20% of the reduction in the material consumption has led to increase in the availability of the capacity.

Another is for sure with the increase in revenue what we plan this year and going forward, by FY27 we expect the capacity utilization will be close to 70%.

Moderator: Thank you. The next question is from the line of Nitin Gupta from Emkay Global. Please go ahead.

Nitin Gupta: Yes, thanks for the opportunity. My question is again related to the capacity utilization. So like for Besan we already reached 78% and Wafers at 70%. So just wanted to gauge on like how we are looking to add capacity or maybe we can shift line and can enhance the capacity for Besan and Wafers. That's my first question.

Mukesh Shah: For wafers we have already ordered 1,500 kg per hour machines line which is expected to get installed sometime in Q1 of next year. Currently our utilization is close to 65%. Besan is something where we have a plan to have another Besan plant somewhere in Nagpur where we are working on cost-benefit analysis, etc. So with the increase in the growth, the point is that Besan is something where these materials are available from the market directly also.

So, while we are contemplating and will decide on whether we will have a plant in Nagpur or not, but that's not a worry. For finished product like Wafers, we have already ordered for a machine.

Nitin Gupta: Yes**.** Thank you. And given like we are expanding our footprint, this quarter we have added Odisha also. So, any plans we have to sort of have some facility in the Eastern part where like we can cover the larger Eastern region plus we can also maintain the product freshness?

Mukesh Shah: So, we are open for any kind of M&A deals wherever the company gets value out of the acquisition, be it synergy benefit from production, distribution etc. Even the Eastern part of the country if we get some opportunity, we have visited a couple of plants and we are in the process of doing due diligence. But still the work is on. So we are open. Whenever there is an opportunity, we will look for acquisition in any part of the country. Especially Eastern and southern where our footprints are less, we will focus more there.

Nitin Gupta: Okay. For the first time we have provided a slide for alternate channel. So, can you show some light in terms of what all actions we are taking here? And how big is this channel particularly for this quarter and what is our aspiration here?

Naveen Gupta: Nitin, hello, good afternoon. Naveen Gupta this side. As far as alternate channels are concerned, our current run rate is INR 26 lakh per month. So, in absolute value terms or percentage terms, it's quite low number. We entered this channel four-five months back only. Today only we closed our negotiation with one of the largest e-commerce platforms who have a national presence.

Across there 20 DCs across India. And Reliance and DMart, we are in advanced phase of negotiations with them to increase our number of SKUs. We have now slight presence there with very limited SKUs which was not earlier there. Right now we are present at Amazon, Flipkart, and then Jumbotail, BigBasket, Zepto, Blinkit. And we closed our negotiation with this DMart Daily as well.

And four-five months back, we brought our presence to Railways as well. And we got approval from IRCTC as well. Because within Railways, there are two kinds of businesses which happen. One is through nine Railway zones; you can be available at the platform. And through IRCTC, you can get inside the trains as well. IRCTC approval we got a month back. We expect all this business to be INR 3 crores plus per month by end of this financial year.

Nitin Gupta: Thank you, Navin Ji. And lastly, just can you throw some light in terms of how is the profitability of these channels?

Naveen Gupta: See, there are two kinds of buyers in this alternate trade channels. One is like where we are giving to the consumer and using their platform. That's a loss-making thing. However, quick commerce like BigBasket, Zepto, Blinkit, even DMart Daily, all these channels take stocks from us on their DC. Wherever we are giving stocks at DC level, our profitability is either at par with general trade or rather little higher than general trade. And contribution of DC model channels is more than 80% in these alternate trade channels.

As far as Railways are concerned, In Railways there is always provision of giving different grammages, different price points. We make reasonable money there as well. None of these channels are loss-making except couple of platforms where we don't go by the DC route.

Moderator: Thank you. The next question is from the line of Sanjay Manyal from DAM Capital. Please go ahead.

Sanjay Manyal: Hi, sir. I specifically have question for this particular quarter. Our EBITDA margin has contracted during the quarter. You mentioned that it is largely because of the A&P spend. Can you quantify that? What kind of A&P spends we do? And is it specifically higher in this particular quarter?

Mukesh Shah: Yes. So, overall, this quarter, as I said, in Q2, we had this Cristos campaign across Gujarat where our Cristos campaign was available in all the leading OTT channels. And then couple of hoardings in Rajkot, Ahmedabad, Baroda, even at airport site, etc. So, we had compared to last year, if I compare, last year, we had close to INR 2 crores of A&P spend in Q2, which got increased to INR 5.5 crores. So, there is INR 3 crores to INR 4 crores of increase which has come in marketing cost.

And then there is a natural inflation which is because of the employee increment cost. So, overall, the margin has contracted because of these two costs.

Sanjay Manuel: So, what is the sustainable level of A&P you want to do going forward?

Mukesh Shah: Overall, our estimate for FY25 is close to 1.5% of our revenue, which will be INR 18 crores to INR 20 crores this year. And going forward, in FY26 also, we will have a higher, close to INR 25 crores of revenue, 2% of revenue being spent on advertising and marketing.

Sanjay Manuel: And, sir, one last question on this. Specifically, you mentioned that you are open for M&A, for geographical expansion. So, if you are looking, in which area, which geography, you have been looking for expansion specifically and for M&A in particular?

Mukesh Shah: We have a facility in Rajkot, in Gujarat. We have a facility in central India, in Nagpur. We don't have a facility somewhere in eastern India, UP, in southern side, even in the northern side. So, we are open for a facility anywhere where our footprint is currently not available. Because we wanted to grow PAN India, and the transportation costs, etc., play a very critical role in terms of margin availability in making the product available at the right time to the customers. So, we are exploring acquisition across all these locations, and we are open there.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: My first question is on the category growth in your state, areas of operation. Is it also similar to the 12%-13% growth, and are you gaining some share of wallet from, noodles, etc., in terms of snacks? Because now in many areas, noodles are about INR 10 pack. So, do you see that as an opportunity? I am speaking of the national players, I know that at INR 10, there are regional noodles brands. But the good growth which the category is getting, the snacks category of yours is getting, is it because you are gaining share from noodles, etc.?

Naveen Gupta: See largely in INR 5 price point, its regional player, they sell at cutthroat pricing, and with increase of palm oil pricing, it will become unsustainable for those regional players as well. As far as INR 10 price point, our snacks, our Namkeen growth, noodles contribution is significant in terms of growth. Our Gathiya has primarily grown by 13.4%, which is our 15.7% in terms of volume and 13.4% in terms of value. So, Gathiya has significantly contributed to our salty snacks category growth.

And Wafers have 40% growth in volume and 46% growth in revenue and value term. Noodles is a sort of, wherever we can take advantage of our distribution strength, we are trying to sell there. We are trying to sell at a margin, we are not selling at a discount.

Abneesh Roy: No, my question was different. One is your growth in Gathiya or say in Wafers, what is the market growth rate in your areas of operation? Second, I was not asking on your noodles, I was asking from a consumer preference perspective, is noodles losing share? I know you have a small presence in noodles. I was not asking on your presence. I was asking on the market leader's slow growth in noodles. Is it because customer is shifting towards Bhujia, wafers, etc.?

Naveen Gupta: Consumer behaviour is changing so fast, it's difficult to measure whether consumer of noodles is shifting to, snacks and salted snacks category. Typically, what happens in summer vacation, consumption of noodles goes up when children are at home and when school time starts, so every snack which is ready to consume, its consumption goes up. And as far as growth of salted snacks category, other players or industry growth is concerned, since we are the market leader in Gathiya, there is no major brand as such who can proclaim to be number 2 or number 3 in Gathiya. So their numbers are not available whether who is going at what pace in Gathiya.

Abneesh Roy: Okay, understood. Second is, in the opening remarks you mentioned on the vending machine in airports and IRCTC, these will be mostly marketing initiatives because I think here there is a lot of visibility which you also get, especially vending machines. Do you make money in this part of the business?

Naveen Gupta: Vending machine business, yes, we are making money. Even after spending on marketing, net-net we are making money and railway products, we are making money at par with our general trade market.

Abneesh Roy: Okay, that's all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Resha Mehta from Green Edge Wealth. Please go ahead.

Resha Mehta: Yes. Thank you. It's Resha. So the first one is on the distribution. So, you know, it's possible to keep adding distributors at, you know, say to the tune of 80 distributors per quarter. So do we see this kind of aggressive runway continuing, let's say, for the next one, two years? And also a large part of these distributors, are they being specifically added to the focus markets or are we seeing a more uniform kind of expansion across our states? So this is the first question.

Naveen Gupta: Okay. Hello, Resha. Naveen this side. Resha, coming to your first question, whether it is something sustainable that we keep adding 80 distributors every quarter, right?

Naveen Gupta: So, we intend to have footprint at the sea level or Taluka level within 400 to 500 kilometers vicinity of our Nagpur facility. So that means by the end of this financial year, we'll have more than 1,000 distributors. And we will continue to add, you know, one distributor per working day in the next financial year as well. And there is a humongous scope. Right now we have 170 distributors in the rest of Maharashtra.

So if we just take Vidarbha region, there's a scope of adding another 30-40 distributors within Vidarbha itself. Then Marathwada, we can add roughly 60 more distributors. So the number of distributors will keep growing. Right now, the size of the newer distributor is small, but how the business will happen if these small distributors will, you know, keep becoming bigger and then we'll keep adding smaller distributors.

And as far as this footprint is concerned, whether this will be confined to focus markets or specific markets, adding more number of distributors in Gujarat will never be at pace of what the other markets will have. Gujarat, we have a different strategy that we will keep splitting our existing distributor to create more distribution points so that, you know, wherever distributors have challenge of putting more money or infra, we'll have a greater number of distributors definitely in Gujarat as well. But the pace of making newer distributor in other states will be 4x or 5x versus Gujarat.

Resha Mehta: Right. And also, one related question is that there are a lot of new distributors that you have added, some of them are also new to category distributors. So are you seeing any diversions on, you know, let's say the performance of these new to category distributors versus, let's say, y'all having added a distributor, which was already selling this category or familiar with this category. Are the throughputs any materially different from these distributors?

Naveen Gupta: We do not make a single distributor, Resha, who already sells a competitive product. However, anybody who is selling, say, biscuits or cold drinks or confectionery or rusk or bakery, we add those kinds of distributors. So no existing distributor can sell the same product.

Moderator: Thank you. The next question is from the line of Sukant Garg from Equible Research. Please go ahead.

Sukant Garg: Hi. So my core question is regarding the trade payables and inventories. If I see the presentation that you've published, in that trade payables and inventories have been steeply down from March FY24 to FY25. And my second question is on PBT and EBITDA. Why PBT and EBITDA is, you know, de-growing while the gross margins have been maintaining? Are there any kind of inefficiencies in the billable line products, in the billable gross margin expense accounts?

Mukesh Shah: So your first question is on the working capital where you mentioned about the trade payable is increasing, right?

Sukant Garg: No. Trade payables and inventories have been decreased.

Mukesh Shah: No, if you go through the slide, the inventory impact has increased. If you refer the slide, inventory in terms of number of working days has increased, which used to be 30, 42 days in FY23 has increased to 64 days in H1 of FY25. And the debtors and creditors are more or less similar in 6 days and 5 days. So why the inventory has increased?

Why inventory days have increased is because in the initial part of the year, in Q4 and Q1, we have procurement of crops. Whenever there is a crop season, we do procure chana, potato and then store for 7 to 8 months of the consumption. So initial first two quarters, you will see increased days of holding of inventory and over a period, as the years progress, the inventory number of days comes down.

In terms of creditors and debtors, it is more or less uniform in all the four years. This is the slide, if you are referring to our earning deck, it is at slide number, Page 23. In terms of creditors and debtors it is more or less uniform in all the four years. This is the slide if you are referring to our earning debt, it is at slide number, page number 23.

Sukant Garg: So I am referring to the Slide Number 22 in which the inventory is at sorry, the trade payable came down from INR 20.9 crores to INR 8.3 crores from FY24 to H1 FY25?

Mukesh Shah: Well, it is something where we make payment to vendors. So there is no outstanding at that point of time. Maximum payment has been carried out. We hardly have trade payable. It is close to 2 days to 3 days of our creditors. So we are healthy in terms of quick payment to our vendors. So it has come down from 21 days to 8.3, right? So there are no signs as such. It is something where our credit pay to the vendors is within 7 days, we try to make payment to our vendors.

Moderator: Thank you. The next question is from the line of Palak from MIV Investment Management. Please go ahead.

Palak: Hi, sir. So I have couple of questions. My first question is regarding the competitive intensity that we experience in the state of Gujarat. So is the major part of the advertisement expense was for the focus state or was it for the core and focus state? The second question is that this quarter we saw that the focus state grew by 30%.

So do you think that this kind of growth is possible for the next two years, three years or you can share the expected growth that you see in the core and the focus market for this year and let's say next two years to three years?

Naveen Gupta: So, in our core markets in wafer segment, we have been growing at more than 40%. So competition intensity is there, but if competition is trying to eat our market share in our category we are eating their market share in their category. So as you know that before these two quarters, earlier two years we had flat growth in our core state.

Now whatever corrections we had to take, we did in Q1 in this financial year. Now we are in growth trajectory, and we have ample strategies in place how to not only protect our market share rather take market share from the competition as well in core state. So that will be around our marketing endeavour whatever advertisement spends we did were completely focused on our core state. We didn't go to our focus states even with our marketing expense.

Now coming to your next question that focus states which are our four focus states like Maharashtra, UP, Rajasthan and MP. So we have grown there by 30%. So whether this kind of growth is sustainable or not? I previously answer probably to Resha's question that we intend to add one distributor per working day at least for next 500 days.

So we will keep getting organic growth through our existing product growth plus addition of new products plus inorganic growth through addition of newer distributors. So this kind of growth is definitely sustainable in focus states as well as other states.

Moderator: Thank you. The next question is from the line of Shreyas Srinivasan from Bain Capital. Please go ahead.

Shreyas Srinivasan: Hi, good afternoon. So, you said your EBITDA margin was down slightly from last year and you said it's driven by broadly your employee cost and marketing expense. And you also said that essentially what you did is because raw materials went up you implemented some corrective measures by reducing grammage in INR 5 and INR 10 and then revising your MRP in larger packs.

Now the question that I have is how quick were you to implement this reduction in grammage and pass it on to the consumer. And B, do you expect raw material prices to cool down in the coming quarters or if not when do you expect them to start cooling down or correcting?

Mukesh Shah: So I will take your first question. The grammage correction etc, it is a very quick implementation time for us because it is all digitally maintained in terms of the grammage of raw material to put it into the SKUs. So, it is something where when we take a call it can be implemented the next day. In terms of your next question which was on can you repeat your next question?

Shreyas Srinivasan: The next question was around raw material prices. So raw material prices like you said have increased over the last few quarters. Now the question is if you look at all the key raw materials especially for Namkeens, all of them have gone up in FY25 versus 24. The question is when do you see them correcting over time?

Mukesh Shah: So Q4 is the quarter where again the crop of chana will come and looking at a favourable monsoon which we see last month. I think Q4 is a time where we will see the ease in the raw material prices specifically in chana and potato, palm oil is something which is because of increase in the import duty which the Government has imposed sometime in September. To wait and see, I see there has been ample supply of palm oil in Malaysia etc.

But because of the incremental duty which has come, there is an increase in the price of palm oil. This is something we have to wait and see, but I think Q4 is a time where again the revision in import duty is expected is what my guess. So Q4 will be the time where the raw material prices again are going to get ease off. Yes, Naveenji wants to add.

Naveen Gupta: I would like to rather add one point to this typically in our industry, a brand like us or a company like us is okay with RM prices high, because it gives us opportunity to take market share from unorganized players. So whenever palm oil prices, edible oil prices are like this, so that helps us to gain market share from unorganized players. It's okay with us.

Shreyas Srinivasan: Another question I had is, sorry can you repeat what was the import duty on palm oil before and what did it go to now?

Mukesh Shah: 5% has gone to 25% in September.

Moderator: Thank you. The next question is from the line of Saloni Jain from Nirmal Bang - PMS. Please go ahead.

Saloni Jain: So my first question is, on your plans to expand exports since they are only 0.2% of our sales this quarter and what kind of fraction can we see in Indian ethnic snacks in our export markets?

Naveen Gupta: We are in process of doing a lot of correction in our product market in terms of grammage, in terms of design, in terms of key line dimension, etc. Export remains on our radar, but we have so many other low-hanging fruits that we purposely deferred our export focus for Q1 next financial year. Because for that, right now our approach will be to go through some sort of unconventional arrangement. For example, we met a guy in Mumbai who is doing roughly INR 3 crores, INR 4 crores Chikki export, right? So, he has some export base.

So right now, we will go through this unconventional route that we will use some other platform to maintain our run rate in exports. But our focus in exports will start coming from Q1 next financial year.

Saloni Jain: Okay, sir. And so, my next question is, you mentioned that we are expecting 70% capacity utilization by FY27. So at this capacity, what is the peak revenue that we can expect and what would be the sustainable margins flow after operating leverage is also playing out?

Mukesh Shah: By end of FY27, we are expecting revenue to be in the range of INR 2,150 crores to INR 2,200 crores. And our EBITDA margin will be in the range of 14% to 14.5%.

Moderator: Thank you. The next question is from the line of Ashok Shah from Elara Securities. Please go ahead.

Ashok Shah: Thanks for taking my question. Sir, are we doing something for the Diwali season? Something like sweets or something we are planning to launch?

Naveen Gupta: No, Ashok Bhai. I don't intend to come out with sweets category at least this financial year. It needs a lot of preparation, and the preparation has to start from the month of April if we have to do something in Diwali. We are not doing anything in sweets category for Diwali.

Ashok Shah: Thank you. That's all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Rishi Kothari from Pi Square Investments. Please go ahead.

Rishi Kothari: Hi. Thank you so much for the opportunity and congratulations on a good set of numbers. So, I was going through the quarterly results and Q-o-Q growth is very promising for the company. It seems like the company is on revival after two years of, mutated growth and all. So, what type of quarterly growth we are expecting, let's say two years, three years quarter down the line. So right now we see a top line of 13%, 14% and PAT of what 20%, 21% odds. So what are the targets for next 2 to 3 quarters in terms of growth?

Naveen Gupta: In this financial year, Rishi, on annualized basis, our growth rate will be more than 14%.

Rishi Kothari: More than 14%.

Naveen Gupta: More than 14%. So we can easily do a reverse calculation Q1 we grew by 11.2%, Q2 we grew by 12.6%. So we have a clear plan in our hand that we grow by 14% in Q3 and 16% in Q4. So that will translate into an annualized growth of 14% plus. Now, next financial year, we intend to do our A&M expense by 2% and whatever investment this financial year we are doing, either in people or in products that will start yielding us good results right from Q1 next financial year. So, next financial year, we intend to have a growth of 18%-20%.

Rishi Kothari: 18-20%. Okay. Makes sense. And we do have the similar target of INR 2,150-INR 2,200 crores of top line by FY27?

Naveen Gupta: We must deliver that because since there was no growth in last two financial years, which made our base flat. So, we must plan that kind of growth. So, every platform which is required to deliver that kind of growth, we are working on each of the platforms.

Moderator: Thank you. The next question is from the line of Dharmil Shah from Dalmus Capital Management. Please go ahead.

Dharmil Shah: Hi, sir. Thank you for taking my question. So, first question is more on the distribution side. So, Gopal has already added 80 distributors last year and 160 distributors in the current year. This is almost 30-35% on the base of last year. So, in context of this, I mean, I just wanted to understand why is the revenue growth is lower at 14% or 18%? And how much time does a new distributor take to get to a point where he is contributing to a level where a mature distributor is right now?

Naveen Gupta: Yes. Hello, Dharmil. See, there are two things. One, on weighted average contribution terms, Gujarat was contributing more than 71% in last financial year, right? So, contribution from Gujarat as such has come down by 5-6 bps. So, if you see, revenue growth has largely come from focus states. So, initially, every new distributor, there is a ladder which gets created. Every new distributor starts from basic working capital of INR 1.5 lakhs, INR 2 lakhs.

And then it takes him three months to six months to move to an average business of INR 3 lakhs. After INR 5 lakhs per month business, breakeven starts coming. And this is how the ladder starts getting to build up. So, precisely when we talk about 18%, 20% kind of growth next financial year. So, everything which we are working right now, whether it is product, whether it is distribution, whether it is marketing endeavour.

So, all these three things will start giving its own result. Distribution platforms which we are building right now, its reflection in revenue will start coming in Q4 and then Q1 onwards.

Dharmil Shah: Understood. But broadly, if I see the current number of distributors, broadly we get around INR 2 crores per distributor as a run rate for the entire year. How much time does a new distributor take to reach to that level, in terms of years? Is it within one or two years or it takes slightly longer time?

Naveen Gupta: It takes. You mean to say INR 2 crores per annum means INR 15-INR 18 lakhs per month, right?

Mukesh Shah: So, this is valid for Gujarat where you see average revenue from dealer is more than close to INR 2 crores on a year. But when it comes to outside Gujarat state, the number is slightly lower. And it takes, the break-even point is something what Naveen Ji said, it is three to six months once the dealer is on boarded. And then there are lot of efforts which we must put in terms of increasing the range selling, upselling whoever is retail touch point, increasing the retailers at a distributor end. So, it takes close to one year.

Naveen Gupta: See Dharmil let me put it like this. In Rajasthan our run rate was INR 2.5 crores, number of dealers were 27. I am talking six months back. Right now, we have 54 distributors, and our run rate is INR 3.25 crores. So, we can say number of distributors have doubled but the turnover has gone up just by 35% in Rajasthan. So, that clearly shows that newer distributors average revenue contribution is roughly INR 2.5 lakhs only.

Now, contrary to that if I go to Chhattisgarh, Chhattisgarh my number of distributors were 35 and my value business was just INR 70 lakhs. My number of distributors in Chhattisgarh is 28. Earlier it was 24. It has come to 28 whereas revenue has gone up from INR 70 lakhs to INR 2 crores per month. And very good sign in a state like Chhattisgarh 52% contribution is coming from larger packs in Chhattisgarh.

So, it will differ from place to place but generally it takes three to six months to come to a breakeven point to a new dealer and for coming to a level of INR 2 crores per annum it may take two to three years Dharmil.

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

Naman: Sir, my question is on the market outlook. How do you expect the market to grow from here?

Naveen Gupta: Market outlook is Naman very positive for us. We will grow with our existing product baskets as well we will keep introducing newer products in line with urbanization trend. The way consumer behaviour is changing in terms of consumption similarly buying patterns are also changing. So, market outlook is quite positive. Indian consumption story remains intact. Per capita income is going up so per capita consumption will keep going up.

Earlier frequency of consumption of meals was thrice in a day. Now people have meals thrice in a day and in between snacks probably three times in a day. So, India's per capita consumption of snacks is just 35% to 40% of developed countries. So, market outlook is quite positive. Thank you.

Moderator: Thank you. The next question is from the line of Yash from Stalin Assets. Please go ahead.

Yash: Hi, thank you for the opportunity. So, I just wanted to understand that we've seen good volume growth across all the Gathiya, Namkeen, wafers, but for pellets and extruded snacks I see there is a 5% de-growth on half year basis, so what has happened on this category?

Management: I was wondering that nobody asked this question from me. Yash, we know exactly the reason why we have declined in snacks pellets, and we already have action plan and we have initiated that action plan. Let me give you glimpse of what two action plans we have just initiated. We were selling in a strip size of 8 pieces in a strip unlike competition who was selling 12 pieces in a strip.

So, we have already done a course correction whereas in 50% of our snack pellet items in first week of October we started selling in 12 pieces strips. So that will increase our depth at an outlet. And the second one is our snack pellets are typically traditional snack pellets like ponga, katori, etc. So I will not disclose name of the product, but we will introduce very upmarket kind of snack pellet within next 15 to 20 days. So that is targeted at the urban consumer. Price point will remain INR 5, INR 10 only, but the product is upmarket product.

So the snack pellet category also you will see in positive greener numbers in next quarter as well as in this H2.

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

Bhumin Shah: Hi sir. Good afternoon. So can you provide the breakup of wafer sales in core market and focus market out of INR 45 crores?

Management: Hi Bhumin so if we have to break up in terms of core market and focus market, overall revenue from core market it is INR 21 crores, and from focus market the number is just a second INR 18 crores. So INR 21 crores plus INR 18 crores and the balance is from focus market.

Bhumin Shah: Okay. So where we are seeing the more traction in the core market or the focus market because in core market there is one leader which is having around majority market. So wherein focus market it will be a same player?

Management: So growth is there in all the markets for wafer segment, but the maximum growth in terms of percentage growth if I say the growth has come from the focus market.

Bhumin Shah: Okay and one more question is regarding the EBITDA margin. So we have already spent around INR 5 crores this quarter on advertising and promotion and we are planning to spend another

INR 10 crores for next two quarters. So what would be the EBITDA margin like it will remain around 11.67 crores or we can see the operating leverage playing out over here?

Management: So, my estimate is that it will be bit higher than Q2 maybe in the range of 12% provided the raw material prices etc remains in the current range. We will get to a 12% margin in Q3.

Bhumin Shah: Okay. That's it from us. Thank you.

Moderator: Thank you. The next question is from the line of Dharmil Shah from Dalmus Capital Management. Please go ahead.

Dharmil Shah: Hi sir like you mentioned for pellets and extruded snacks Namkeen products as well has been growing slightly at lower rates. So, any reason why the growth is lower?

Naveen Gupta: Namkeen segment compared to Gathiya it is little lower. So Namkeen we understand that there is a need of some sort of marketing spend. So we understand that we need to grow in Namkeen segment. In Namkeen segment, growth will come from two, three elements. One is our larger pack contribution through modern trade and e-commerce platform will start coming.

We are in process of developing larger scanty pouches like 400 grams INR 100 price point. As far as smaller packs are concerned, we are in process of improving our designs and pack sizes and introducing few new contemporary products as well. So, Namkeen segment also we will see growth in double digit in coming quarters.

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

Mukesh Shah: Thank you everyone. I hope we have given satisfactory response to all your questions. For any further information, I request you to please get in touch with our Investors Relation team. Stay safe, stay healthy and thank you once again all of you for joining us. Thank you.