Ref. No.: PSL/2024-25/CS/SE/50
Date: 16th November, 2024

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

Subject: Transcript of the Investor Call held in relation to the Unaudited Financial Results of the Company for the quarter and half year ended 30th September, 2024

Dear Sir/Madam,

In continuation to our letter dated 7th November, 2024 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 12th November, 2024 in relation to the Unaudited Financial Results of the Company for the quarter and half year ended 30th September 2024, is enclosed herewith.

We request you to take the same on record.

Thanking You,

Yours Faithfully,

For **Prataap Snacks Limited**

Parag
Gupta

Digitally signed by Parag Gupta
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street=Indore,
pseudonym=d43cb9cd0dba03669019905f07308bff,
serialNumber=810ecfc4ca47eb0f8cb8393fe440cd9d2ba96d15159d22cf53476b295a49b151, o=Personal,
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Date: 2024.11.16 15:42:54 +05'30'

Parag Gupta
Company Secretary and Compliance Officer

Encl.: As above

Prataap Snacks Limited

Q2 & H1 FY25 Earnings Conference Call Transcript

November 12, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Prataap Snacks Limited's Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mit Shah from CDR India. Thank you and over to you Mr. Shah.

Mit Shah: Thank you, Rutuja. Hello everyone. Welcome to Prataap Snacks Limited's Q2 and H1 FY25 Earnings Conference Call.

We have with us Mr. Amit Kumat – Managing Director and CEO, Mr. Sumit Sharma – CFO and Mr. Amrit Chaudhary – National Sales Head at Prataap Snacks.

Before we begin this call, I'd like to point out that certain statements made in today's call, could be 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, Mit. Good afternoon, everyone and thank you for being here today. I trust you have had a chance to review the earnings document that we shared earlier.

I am pleased to report that Prataap Snacks has delivered a resilient performance in Q2 FY25. The revenue from operations was Rs. 441 crore, an increase of 2% year-on-year compared to Rs. 434 crore in Q2 last year. This was achieved in spite of the challenging macroeconomic environment marked by persistently high inflation which had influenced consumer behavior across key markets. As a consequence of these inflationary pressures, there has been industry-wide stress on volumes of MRP Rs. 5 in Q2. Interestingly Prataap has managed to beat the trend as we have reported higher volumes at this price point which represents a significant proportion of overall volumes for us. Over 80% of total volumes for us is from packs priced at Rs. 5.

We are encouraged by the strong performance in our Pellet snacks category this quarter, demonstrating the strength and appeal of our product offerings. As you know Pellet snacks were a flagship offering of Avadh snacks and we have now extended these popular products nationwide under the Yellow Diamond brand. The positive reception across markets reaffirms the strong consumer demand for this category.

In addition, we continue to advance the Sales Force Automation and Range Selling initiative, within our distribution network. By extending these strategies into incremental territories each quarter, we are progressively achieving gains and operational efficiency. Having said that our long-term strategy is to gradually shift towards higher price points by enhancing the contribution of large packs. This move is intended to drive sustainable structural growth and strengthen our business model over time.

To achieve this, we are focusing on four key initiatives, premiumization, new product development, exports and expansion into quick commerce. As part of our premiumization efforts we introduced the brand 'Seven Diamond'. This line will feature 'Better For You' premium snacks such as protein puffs and peanut butter puffs. Initially these products will be offered in large packs priced at Rs. 30, targeting quick commerce and modern trade. We plan to introduce these snacks to the general trade in due course with additional smaller pack options at Rs. 20 and possibly Rs. 10 but not at the Rs. 5 price point.

We have initiated exports this quarter and the initial shipments have been dispatched in Q3. Our teams have actively participated in several international trade fairs including SIAL in Paris, ISM in Dubai and BSM in

Saudi Arabia, receiving an encouraging response across all events. This initiative is aligned with our long-term growth objectives.

In Q2 we successfully launched our products on a quick commerce platform and have already observed positive initial sales. We are currently in discussion with additional quick commerce platforms to further expand our reach within the high growth channel. We recognize that premiumization, new product categories and leveraging channels like quick commerce and exports are closely interlinked together. Together these strategies will allow us to enhance our revenue mix and increase both the average pack size and price point resulting in improved margins.

Coming to profitability, there were steep inflationary pressures on key input costs including potatoes, wheat and gram. As a result, EBITDA has reduced from Rs. 38 crore in Q2 last year to 19.2 crore this quarter. The EBITDA margin has compressed to 4.3% this quarter from 8.8% in Q2 last year. To mitigate these challenges, we have implemented measures such as grammage reduction and trade margin adjustments. The decline in EBITDA has also impacted our PBT and PAT. Q2 FY25 our profit after tax stood at Rs. 6.2 crore compared to the PAT of Rs. 16.5 crore in Q2 '24.

Trends in input prices are indicating further firming up in Q3, especially with regard to price of palm oil. We are working on further cost reduction and process optimization initiatives to offset the impact and evaluate further reduction of grammages if necessary.

On the operational front we have made slight rationalization of facilities. We closed our 3P operations in Bangalore, integrated the manufacturing lines into our own facility to ensure seamless service to key markets while reducing overhead costs. Additionally, we established operations at a new facility in Jharkhand to strengthen our production capabilities and to serve nearby markets.

Lastly, I want to highlight that in September 2024 our private equity partner Peak XV Partners formerly Sequoia Capital exited their 47% stake in Prataap Snacks achieving a manifold return on investments. We deeply appreciate their support and the significant role they played in scaling our business, enhancing corporate practices and shaping our company culture over the last 13 years since their entry in 2011. The stake has now been acquired by Authum Group and Ms. Mahi Madhusudan Kela who have also initiated an open offer as per regulatory requirements.

We look forward to collaboratively working with the new shareholders to further enhance the strategic direction of the company and elevate value creation for all stakeholders.

With that I conclude my remarks, and we can now take questions. Thank you.

Moderator: Thank you very much. We will start with the question-and-answer session. The first question is from the line of Trisha Seksaria from Rare Enterprises.

Trisha Seksaria: I wanted to understand a little bit more about the 'Better For You' segment, if you could share some colour on that.

Amit Kumat: These are basically the healthy segment. Mainly the protein concept is catching on throughout the world right now. So, we have used pea protein to make protein puff and launched one peanut butter variety. So, I think people can eat that without guilt. We are further working on a few more products in this category.

Trisha Seksaria: I was just wondering if you could share how, you might see this segment growing in the future and if you could share some colour on the kind of new products you might introduce.

Amrit Chaudhary: So, hi this is Amrit, and I'll take this question. So, we have seen recent trends towards moving in the guilt-free snacking space wherein people want to savor the traditional taste or do not want to compromise on the taste. At the same time want to kind of reduce their guilt quotient. So, basis our understanding of that market, we have now developed a product which we believe is suitable for the discerning consumer of ours and will also help us drive our premiumization portfolio. We see that in next 18 to 24 months, this category should start contributing a significant number for us, specifically in the premium channels wherein we have just started dialing up our effort in. So going forward this has been a growth plan. This is a strategy that we will be adopting to kind of preimmunize our portfolio by enhancing and introducing the healthy range across.

Moderator: The next question is from the line of Shrinjana Mittal from Ratnatraya.

Shrinjana Mittal: I have two questions. One is on the seasonality part, like if we see for last 2 years, the September quarter has been a little bit on the higher side compared to the rest of the year. So firstly, is that true that if the Q2 is bigger for us and if yes, can you explain the reason for the same?

Amit Kumat: During the summer season the snack food consumption reduces to some extent. So that's why Q2 has always been very good for us. And lastly in the Q3 season when the potato availability reduces, so sales goes on little bit. As the raw material cycle for potato, it is very difficult to source potato in the month of November. This has been the trend for the last many years. That's why Q2 is always bigger for us.

Shrinjana Mittal: So, Q2 is bigger for us, there is seasonality. And just one more question, on the gross margin impact you mentioned that it's because of higher potato prices and also other input prices. Can you quantify that for us? Like what the net-net impact that we see in the gross margin that would be about 2% from the last quarter. So entirely is it attributable to rise in potato prices? Can you help give some more colour on that?

Sumit Sharma: Hi Shrinjana, this is Sumit. Primarily that is because of potato prizes. I would say out of this 2% about 70%-75% is because of potato. So, potato we have seen historic high price this year. Potato prices are higher by about 60%-65% over the previous year and there is some kind of exceptional inflation. We have not seen this kind of inflation, especially in potato earlier.

Moderator: The next question is from the line of Yash Tawani from Aamara Capital.

Yash Tawani: I have two questions, first is regarding, I was looking at our numbers over the years and the question first I have is regarding the freight cost. So last couple of years we have been seeing the freight cost has been in control and has been going down but currently also stands at 6.5% of our top line and compared to our competitor it's been about 200 to 250 basis point higher. So, is there any specific reason or till how much can we get it down? That is one. And second is regarding our current maintenance CAPEX that we have that's been going on. So, these two other things.

Sumit Sharma: I'll take the freight question first. You rightly mentioned that over the period the freight cost has reduced, there is a decreasing trend in spite of having some spike in the fuel prices and that is primarily because of our distributed manufacturing footprint. A few years back we used to supply from 3-4 manufacturing locations and over the period we have decentralized our manufacturing facilities and that is really helping us to optimize our freight cost. However, if you compare it with some of the competitors, so every competitor has a different dynamic. So, for example the freight cost depends on the size of the packet. Even in our case, if I split my freight cost between Namkeen segment and other than Namkeen segment, my Namkeen freight cost would be about 4% and for rest of the product categories the blended cost would be about say 8%. That is primarily because of the size of the packet. My Rs. 5 Namkeen pack size is pretty smaller than Rs. 5 Potato Chips or Rs. 5 Pellet pack size. So that's the primary reason.

Another reason is the average distance. If your large amount of supply is in close radius then certainly the freight cost goes down. In our case since we are a national player and catering to pan India, that's another reason to have slightly higher freight cost. So, these are two primary reasons. Still, we see some saving potential in our freight cost, and we are working for that because after having these multiple locations, now as a next step we are mapping the target market with the respective production facility and with this correct mapping we'll be able to save somewhere between 0.5% to 1% kind of freight cost.

Yash Tawani: So, you're saying that for the further on expansion, any of the manufacturing that we do on outsource basis in our targeted market belt. If you do that then we can get it down. But if you don't do that then just because we have Extruded Snacks getting taking around 8% of the freight so that will remain the same, there is no possibility of getting it down from here on, is that?

Sumit Sharma: No, there is a possibility. There is a possibility by mapping the right source of supply to the right market. Still there is some overlapping because of some products are not available at a respective manufacturing facility. So, we are in the process of fixing those things. I think once that is fixed, we may see another saving of say 0.5% to 1%, so that scope is still available for which we are working but structurally namkeen would have lower freight cost and other products having slightly larger size of packets will have slightly higher freight costs.

Yash Tawani: About our current maintenance CAPEX what is the rate that we are running at?

Sumit Sharma: So, as you have seen last year, we commissioned two new facilities, one is in Rajkot, second is in Jammu. I think with these two CAPEX, we are largely done with the CAPEX requirements. We don't foresee any significant CAPEX in the near term. The current utilization level would be about 60%, so it's only the maintenance CAPEX required and some addition in our fleet because we have our own fleet of about 200 vehicles.

The overall maintenance CAPEX including some new CAPEX for vehicles and some CAPEX to match the production capacity vis-à-vis packing capacity, the overall CAPEX would be somewhere in the range of say Rs. 20-25 crore. This year we are investing for a solar plant for which we are investing about Rs. 8 to 9 crore that is in process. I think by March, the solar plant will get commissioned, that will give us operational saving for power cost but barring that there is no significant CAPEX we are planning.

Yash Tawani: So, in the last couple of years were quite aggressive on our A&P. We used to do around 3% to 4% around these numbers but in the last couple of years we have reduced and now we are making a saving just because cutting down one channel in our distribution. So, any kind of strategy of how we are looking at this thing that how to go about the A&P as we are making some sort of saving, once the inflation which is just because of the food which just got in will come down in some couple of quarters. So how do we see this, how we are looking at this thing in terms of A&P to go about?

Amit Kumat: We have never spent around 3% to 4% on A&P in last many years. We did little bit more probably 2% when we hired Salman Khan as a brand ambassador in 2017. Unfortunately, after that we couldn't do much about advertisement because of a lot of many reasons including inflationary prices and Covid but definitely if the cycle cools down next year, we are definitely looking to increase our expenses in A&P.

Moderator: The next question is from the line of Gaurang Kakkad from Haitong Securities.

Gaurang Kakkad: I have a couple of questions. Firstly, regarding growth for this quarter, can you indicate what will be the industry growth? Because largely if you look at our growth, it looks a bit modest versus a couple of listed players who have come out with their Q2 numbers. So, is there any specific pressure in terms of any categories that we are seeing or any geography that is seeing some pressure and some indication on market share if you can give?

Amrit Chaudhary: With respect to the industry growth we have seen that the inflationary pressures have hit the Rs. 5 segment little higher wherein our major play lies. So therefore, our growth so to say has been a little modest than couple of competitors that we have been kind of talking about. In addition to that would also kind of want to know that we have seen a sort of differential growth in western salty space as compared to the traditional namkeen side. And therefore, while overall pressure was being felt, it was largely felt a little higher on the Rs. 5 segment. But as our CEO has already mentioned that even in that segment, we have done relatively well vis-à-vis competitors. So, industry in the western salty space over the last quarter have been largely in that tune of 5% odd and Rs. 5 should be Neilson numbers are yet to be kind of closely reported. But on the market share side, we would be holding in the price pack segment, we would be holding our market share and if the movement had been there, it would be in the range of 0.1% kind of a thing.

Gaurang Kakkad: And even in the Rs. 5 price point are there any category specific trends that we are seeing that some categories are outpacing growth where some of them are laggards? If you can give some colour on that.

Amrit Chaudhary: For us Rings as a product as a category has seen a declining trend on this, Potato Chips have been largely flat. It was being driven by our ability to innovate on the flavours and if you will see we have been able to kind of hold on to our Potato Chips share and numbers despite the core flavours not doing well. Our ability to innovate on the new flavours point has helped us kind of hold on to our numbers, Pellet has been growing significantly now in our portfolio. So, at an overall level within Rs. 5 portfolio, we have seen certain category movements across these three categories.

Gaurang Kakkad: Secondly you mentioned gross margin pressure largely because of potato prices in Q2. And I think that palm oil duty also would largely now start hitting us from Q3 onwards. So largely how are we looking to mitigate this impact in terms of further inflation that would hit us in Q3? And any margin guidance that you would want to share largely for the year or the medium term that would be helpful?

Sumit Sharma: Hi Gaurang, this is Sumit. You rightly mentioned, Q3 will have some negative impact of palm oil because of increase in duty somewhere in the month of September and there is a significant inflation in palm oil. We are just trying to mitigate most of its negative impact by rationalizing the grammages, by reducing the trade margin, by increasing the price to retailer what we call PTR. These kinds of initiatives we are taking.

In addition to this we are also working on multiple initiatives to optimize our operational cost, to improve the efficiency. I think all these things will certainly help us to mitigate some of the impact of these price inflation particularly for oil. But again, oil being highly volatile in the last month, so there was some impact of custom duty increase and even thereafter there was some increasing trend in the palm oil. Considering this volatility it's a bit difficult to give some guidance on Quarter 3 or FY25. But yes, we are trying multiple initiatives to offset or negate the negative impact of this inflation.

Gaurang Kakkad: And potato price inflation will continue into Q3 as well, so when is the fresh crop pricing expected for potatoes?

Sumit Sharma: So, potato fresh crop comes, starts somewhere by mid of December. So, we are hoping the price to cool off by mid of December. Till then I think there will be similar kind of pressure will remain for potato.

Gaurang Kakkad: And apart from potato and palm oil, there are no other pockets of inflation. So, most of the other commodities largely are range bound.

Sumit Sharma: Unfortunately, no I think this is the exceptional time where we are experiencing inflation in most of the commodities. See we are pretty hedged in terms of diversity in our raw material, like potatoes required only for Potato Chips, pulses are required only for Namkeen, corn is required only for Extruded and wheat is required only for Pellet. So, in that sense we are pretty hedged because there is no significant dependency on any of the single raw material, barring palm oil which is a common raw material for every product. But unfortunately, this time we are experiencing severe inflation in most of the commodities including wheat, corn, pulses, the gram flour etc. So yes, inflation is there even for other commodities as well.

Gaurang Kakkad: I meant inflation from Q2 to Q3 like Q2 to Q3 also there will be inflation for most of the commodities, is it? Or is this YoY?

Sumit Sharma: This is YOY but yes, Q2 versus Q3 should largely remain same except the palm oil.

Gaurang Kakkad: And just one thing finally Sumit you mentioned quick commerce as a focus area. So, some numbers if you can share in terms of the contribution of quick commerce business for us and largely what will be the terms for this business? So, is it that the margins will be inferior to company margins or similar? If some colour, you can give on this that would be from my end.

Amrit Chaudhary: So Gaurang, the contribution at this point while it's a focus area and we have had the first listing of our products for our customers one of the quick commerce platforms. It's too early to kind of comment on the kind of numbers that the channel will start delivering for us because it's only been a month or so and the growth opportunity here is definitely significant. At this point of time there are five large players and the discussions are on, final discussions are on with a couple of them to kind of get us onboarded. We want not only to improve sales but also to kind of establish ourselves as a very firm player in larger pack points, high margin products. We are also in the process of kind of discussing certain exclusive product development for this channel. Going forward we are hoping that this channel will become a significant contributor for our revenues as well as for our bottom-line contribution. So, if that answers your question.

Gaurang Kakkad: And margins will be similar to general trade or inferior to start with?

Amrit Chaudhary: To begin with it will have some because they will have to kind of invest a little more in terms of on platform marketing initiatives etc. But going forward we think this will be margin accretive only because we want to dial up our large pack and high margin portfolio in this segment.

Moderator: The next question is from the line of Abhishek Mathur from Systematix.

Abhishek Mathur: Just wanted to check with you, what is our current contribution of large packs? I think it was high rated about 12% to 13% a couple of quarters back. So, has that increased in the recent past and where do you see it going in the medium term? Also, in terms of Namkeen penetration, I think this was at about 25% the last we heard. Has that also improved over the near term? If you can answer those questions.

Sumit Sharma: Hi Abhishek, this is Sumit. So, there is no significant movement over the last couple of quarters. On an average for the entire company 18% to 20% is the number for large pack, large I mean Rs. 10 and above. However, that's very different for different product categories. When we talk about Potato Chips, so Rs. 5 contribution for Chips is about 70% and 30% is Rs. 10 and more. For Chulbule which is a subcategory of Extruded, again the Rs. 5 contribution is about 72% and 28% is 10 and above. In case of Extruded, the large amount of market lies with Rs. 5, so 10 and above the market itself is pretty small. Like for Pellet It's a largely Rs. 5 product category, for Rings it's largely Rs. 5 product category. So, in those categories our contribution of Rs. 5 is also pretty high which is almost 97%-98%. For Namkeen our contribution for Rs. 5 is about 85%. So, 10 and above is 15%. Here we see a significant opportunity to up the ladder for this bigger pack which we are driving. And certainly, these premium products what Amit ji has also mentioned, will help us to drive bigger price points. Because these products have been launched in Rs. 30 price points for quick commerce going forward we will have Rs. 20, Rs. 10 kinds of version for general trade as well. And export is also going to help us to drive sale of this higher price points where we are now pretty aggressive. As Amit ji has mentioned in his opening remark that the team has participated in multiple food expos, and we have received a very encouraging response. We have started dispatching to some of the newer countries in Quarter 3.

Abhishek Mathur: Also wanted to check with you. You mentioned that you had rationalized trade margins as well as cut grammage. So just wanted to check, have competitors also followed these moves in terms of trade margin rationalization and if not is there a concern in terms of us maintaining competitiveness in the channel?

Amrit Chaudhary: So, to answer this question we also need to kind of consider where were we and as with respect to trade margin that we had offered to our trade partners. As you rightly mentioned we didn't want it to have any adverse effect on the overall earning capability of our trade partners. Also, they being a very important lever through which we kind of serve all of our consumers. So, we have been very, I would say we have sharp shooted our trade margin optimization wherever we have seen that we were sort of overpaying than our competitors. And so, we have kind of gone ahead and kind of rationalized our trade margins, specifically in those areas. So, it has been a very surgical kind of a thing, not wide spectrum every one size fits all kind of an approach. We have taken very close consideration that we should not very highly adversely impact any sort of ROI for our trade partners. We have been cognizant of their wellbeing also. So, to answer your question, no we do not see any impact as such of reduced trade margins, negative impact as such of the reduced trade margins so far as our ability to serve our customer is concerned.

Abhishek Mathur: And just one final one from me. So, we had commissioned our Jammu and Rajkot facilities sometime back, if I'm not sure. I think you mentioned on the 4Q call that they've been commissioned. And I think the indicative sales from the nearby markets of Punjab, HP and J&K were about Rs. 10 to 11 odd crore. Any increase that we are seeing from those markets because of the commissioning of the Jammu plant and supplies from there increasing?

Amrit Chaudhary: After commissioning of any plant, it takes some time for a plant operation to kind of settle and so we have taken this duration to kind of settle our operations. We have had certain disruption in the initial few months so far as optimal run of the plant was being concerned. At this point of time as we speak the things have now settled. And we have started seeing much more better utility of the plant capacity as well as dispatches commencing from our Jammu plant. So going forward we see that in a quarter or two, we'll see our Jammu plant contributing significantly to kind of improve our market standing in those regions which has been so far underserved. So, we think that we will be able to fully start utilizing the potential of the plant and buy market shares in those regions or any kind of savings that should accrue to us in a quarter or two from here on.

Moderator: The next question is from the line of Deepali Kumari from Arihant Capital Markets.

Deepali Kumari: So, like with your current capacity utilization at only 55% to 60%, so what are your plans to increase this? Are you looking at expanding production or focusing on better utilization of existing facilities?

Amrit Chaudhary: So, Deepali I'll take this question. So, there is no very straightforward answer to this question. If you listen to the commentary so far that has been made by our CFO, our freight cost or even your fellow analysts who have been kind enough to ask certain questions, we see that different markets have got different preference for customers. When we commissioned a few plants, some assumptions were being made in terms of the demand that will get nearby those plants. So probably that in few of the cases we have not seen those assumptions coming to fructify. But having said that we will have to go both ways. In a few of our existing plants we'll have to kind of improve our production capacity or production volume so that we start better utilizing by the same time since freight cost is very high. If the market demands that we need to kind of commission or another line in one of the plants existing plants etc. So, the new CAPEX may also be required. At this point of time, we see we are adequately covered so far as expansion plans are concerned. And therefore, it will be a mix of both, more utilization of our capacity in the existing plant because different plants, different products are at a different life cycle stage in different markets so far as our brands are concerned. And therefore, it will be a mix of a bit of both, better utilization of existing capacity as well as if the need so arises to kind of go ahead and deploy newer plants.

Deepali Kumari: I also have one more question. Like I noticed you moved away from the traditional distribution model to the direct one. How has this change helped in reducing cost and getting products to market faster? Has this been a game changer for your profitability?

Sumit Sharma: So certainly, that has helped us to reduce the overall distribution cost. Earlier were following a three-tier distribution model and the overall channel cost, excluding retailer, was about 14%. Now with this direct distribution, the overall distribution cost has come down to about 10%. So that kind of savings we have accrued over the period. So that has really helped.

In certain markets there was some disruption because of the direct distribution, considering the size of distributor. The markets where the distributors were smaller in size, there was some consolidation in those markets but by and large it went well. There was no significant disruption in the market. And that has also helped us to reduce the overall time to reach to the retailer point or to the consumer point.

Moderator: The next question is from the line of Resha Mehta from Green Edge Wealth.

Resha Mehta: I have a couple of questions. So, the first one is on the Rs. 10 SKU. So can you just help me with the EBITDA margins of a Rs. 10 SKU versus a Rs. 5 SKU on a like to like basis. So, let's say if we're talking about Rs. 10 wafer versus Rs. 5 wafer. The reason I'm asking this is because while certainly there will be savings on the logistics cost for the Rs. 10 SKU but I think the gross margins are lower on the Rs. 10 SKU and also the margins that we offer to our channel partners are slightly higher here. So just wanted to understand at an EBITDA level how does Rs. 5 SKU versus a Rs. 10 SKU compare for the same category?

Sumit Sharma: So, you rightly mentioned that in case of Rs. 10 you need to higher slightly more value to the consumer and also slightly higher margin to the retailer. But again, it varies at a different lifecycle of the products. For example, in our case we are very strong in Rs. 5. As I mentioned more than 80%-85% is contributed by Rs. 5. So, Rs. 10 is relatively very small for us. So, in our case certainly we need to offer a slightly higher margin to our retailer because it's more push as of now. But over the period once we grow in that particular price segment, then we can command price in even Rs. 10 price point and eventually 10 becomes more profitable than 5 because there is a significant reduction in the primary packaging cost, laminate I mean, and that's a very significant cost for the overall product. Also, the logistic cost, which is another significant cost is pretty low in case of Rs. 10 as compared to Rs. 5. Even the overall operational cost, the factory overhead etc., the cost for Rs. 10 is pretty low as compared to Rs. 5. So, these are the reasons finally we ended up having a better margin in case of Rs. 10 as compared to Rs. 5 but again at a slightly higher volume of Rs. 10. Not in the initial stage, initially one needs to invest to build that category of 10 and above.

Resha Mehta: And second one is, we announced a couple of measures to kind of contain the margin compression. So over here one is on the grammage reduction. So, I believe even in our Q1 commentary spoke about grammage reduction. So, have we taken further grammage reduction in Q2?

Sumit Sharma: Yes, in certain SKUs in certain product categories, there were further reductions. So even in Q1, the reduction was in certain categories, not in the entire portfolio. So, we again revisited for rest of the product categories where we didn't change grammage in the Quarter 1. So, we made some changes in some of the SKUs and product categories.

Resha Mehta: And we've been talking about recalibrating trade margins. So, would you say that, that has also kind of impacted our revenue growth in the regions that we would have reduced the trade margins?

Amrit Chaudhary: So overall no. But as Sumit ji recently mentioned a little while ago that in certain geographies wherein the size of our distributors was really small so we have had some negative impact in those regions. But in most of the regions we have been able to kind of grow our business despite the fact that we moved from a three-tier system of a very high trade margin to a two-tier system of direct distribution model, so to say. To answer your question in very selected few where our salience of the brand was not very high, we have seen some impact. But at an overall level where salience of the brand was significant, we have not seen any adverse impact because of this reason.

Resha Mehta: And we had hired a consultant. So, any specific findings, recommendations that you would like to share at this point?

Sumit Sharma: So, they just started working in last quarter, so I think it's a bit early. But yes, there is a clear defined agenda of what we want to achieve with their help and both from a sales side and from operational side, I think in next one or two quarters we'll be able to see the positive results both in sales and operation side.

Resha Mehta: And on this SFA implementation which has benefited in terms of range selling. So, can you just maybe quantitatively or if quantitative is not possible then qualitatively kind of talk about in some regions where you have implemented SFA, how has it actually led to increased range selling or just a few examples that would help?

Amrit Chaudhary: So, I'll kind of see without the help of SFA, my frontline salesforce, they had to kind of remember or write down everything in a piece of paper to kind of to know what exactly is happening even to kind of analyze and to kind of sharp shoot their sales effort. It wasn't available. So, as we speak the SFA has now been implemented across most of our geography. And so, we have taken an incremental approach in we have been in the business for a decade plus, but our sales team was not used to kind of use those kind of IT infrastructure. It was a bit of a behavior change also that we had to drive in ground. But now since they have started seeing the importance of and the utility of certain data which will help them take more informed decisions, it has started kind of helping us drive identify which all of the outlets which is kind of dropping off and not kind of repeating. And even the supervisory cadre is now able to ask relevant questions and visit and sharp shoot or solve the problems of any of the retailers that may be having to answer, just at the very surface level if I need to kind of answer about this. We have started as Sumit ji was kind of telling we have got consultants now on board. So, a lot more meaningful analysis are now being done and shared with the sales force for them to kind of align their actions with that of what the data is suggesting rather than going and executing only on the basis of hunch or the remembrance that they were carrying. Probably a similar question two quarters down the line we will be in a much better position to kind of tell you with exact numbers that how our efficiency parameters or for that matter effectiveness parameters at the trade level has improved. This is an implementation which we have been a little late to implement with respect to the FMCG industry overall. But we have started now leveraging this IT tool that we have to drive and better direct our effort while executing in the market. So, if you can ask this question once again or you can ask this question once again after two to three quarters, we will be in a much better position to kind of tell you what exactly has been the benefit of such wide scale adoption of the IT tool.

Resha Mehta: And lastly even DMS I think was rolled out on a pilot basis in FY24. So even now has that been implemented pan India or we are still in a gradual expansion stage there?

Amrit Chaudhary: So, it is back to the drawing board as we speak. DMS, as you have rightly mentioned we rolled out in a couple of territories. We had some learnings and because of certain feedback that has come we had to kind of go back to the drawing board once again so far as our overall structure of the DMS and the rollout plan was concerned. Further update will be given to you as we kind of go ahead and implement the DMS.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: My first question is on margins. We've been mentioning that raw material prices, especially in Q3 will also be hit because of the duty on palm oil. So that can continue to act as a drag to margins and as we continue to invest in growing our quick commerce, e-commerce segment and large packs also as we introduce them will probably have to invest a little bit by shedding trade margins. So, in the near term will margins continue to stay under pressure?

Sumit Sharma: The investment in quick commerce and large pack is not going to be significant, considering the scale of our company. However, there will be pressure because of the inflation in the commodity pricing, especially the palm oil. I think it's prudent to invest in quick commerce and big packet from a long-term vision perspective. There may be some pressure, some stress in the short term, maybe in a quarter or so. That should not derail the overall long-term objective of the company. And that's the philosophy we are following, and we are just trying to invest in this new channel to drive the sales and especially the higher price point sales and the premium product sales.

Alisha Mahawla: And with the change in distribution network that we had initiated almost 2 years ago, have the benefits of that now all come in?

Sumit Sharma: The benefit in terms of better realization, I think that is already accrued and that even that was reflected in our previous year financials. The whole saving from the direct distribution was roughly about 3%-3.25% odd. So that has completely accrued.

Alisha Mahawla: So, our aspiration of double-digit margins, where does that stand now? Because again we're investing in growing new segments for our business.

Sumit Sharma: That is intact Alisha. Still, we are going in that direction though there is some commodity pressure, and we don't see this kind of pressure as a permanent because again the agro commodity has a cycle. As I mentioned in my earlier comment, the potato fresh crop generally comes by mid of December, so in most likelihood the prices will come down because that's a cycle. In one year, the price goes up and the following year generally the price gets corrected.

All said and done, we are not dependent on the commodity pricing. We are making lot of other initiatives to structurally improve the margin and to name a few on a sales side, we mentioned earlier that we are in process of optimizing the trade margins and we have reduced in certain geographies. Earlier when we were following a three-tier distribution model as I mentioned in my previous answer that the trade margin was about 14% which has now come down to 10%-10.25% and when we were following a three-tier distribution model, we were giving 8% margin to the distributor. So compared to that 8% the overall offered margin is about 10%, so the clear-cut scope of 2% is available. However, we are not in hurry, and we will pull down that margin after doing a thorough study, what Amrit ji also mentioned considering the ROI and net profit of what the distributor is making on his overall business. So thoughtfully we will get that margin. But yes, that clear cut scope of about 2% lies in the distribution channel barring from price to retailer where also there is some scope.

On the operation side as I mentioned earlier, there is a saving potential of about 0.5% to 1% in our logistic cost since we have multiple geography, multiple manufacturing locations and after having a right mapping from a source of supply to the destination, there would be a potential saving of 0.5% to 1%. We are also taking advantage of technology which we have not been using especially in the logistic function because that's a bit complex. So, we see saving potential in logistics.

Apart from logistics and sales, there are few line items in the overhead, cost of production, especially the stores and consumables, the manpower cost which is a significant cost. In our case the overall manpower cost is about 9.5%, so there is a saving potential about 1%-1.5%, especially in the manpower cost and 1% kind of saving potential we are foreseeing in the rest of the overhead line items. So, on an overall basis there is a saving potential of about 4% to 5% for which we are also taking external help. We have hired a consultant, and they are helping us to drive all these initiatives to improve the efficiencies, to reduce the cost for various line items. And that gives us comfort that structurally we can improve our margin from here by 4% to 5% in 1-1.5 years' timeframe. That will allow us to reach somewhere around (+10%) EBITDA margin level.

Alisha Mahawla: So how long do we think it will take for us now to implement or initiate some of these initiatives that we're talking about?

Sumit Sharma: I think most of it we should be able to get in the next 1-1.5 years' time because we've already initiated most of the things. I think it will take some time to accrue the results. So, the results will start accruing in a phased manner. Like maybe in a quarter or so we will start getting some advantage, some benefit from certain line items, some will take slightly longer time, some will take slightly shorter time. But in the next 1-1.5 years' time I think most of this we should be able to get.

Alisha Mahawla: So maybe by FY26 we can hit the aspiration of double digit?

Sumit Sharma: Yes. It will start reflecting in the bottom line.

Alisha Mahawla: In the current quarter we reported about 4.3% margins. And you are saying 2% is because of RM inflation. After that also it seems significantly lower than where we were historically, say same time last year or even in the previous quarter. So, what else has led to the sharp decline in margin?

Sumit Sharma: I think that was the primary reason and there is some incremental cost on account of hiring the consultant. So that has also been part of the overhead. So, there is some impact of that. Barring that it's a product mix change because again every product has a different margin profile. So, with a change in the product mix there is some impact on the bottom line. But nothing significant. These are some line items with a small-small percentage accumulating to this number. But a large part of it was the material price which is about 2 point something percentage.

Alisha Mahawla: So just one bookkeeping question. What is the amount that for the consultant you said which is leading to bump up in other expenses? Can you quantify it?

Sumit Sharma: So, it is in the combination of fixed and variable fees, some amount of their fees is fixed which is accrued every month and some amount of fee is linked to the success with certain milestones. Fixed fees accrued on a monthly basis, variable will accrue up once they achieve, they hit the milestones.

Moderator: The next question is from the line of Shubh Shah from RatnaTraya Capital.

Shubh Shah: Does the other income this quarter also reflect the incentives from J&K and if not by when will this start coming in?

Sumit Sharma: J&K incentive is not yet accrued. As a policy we accrue incentives generally at the end of the financial year, if the benefit is linked to the sales threshold or something like this. So, on a quarterly basis we are not accruing any income on account of this J&K incentive. So that is not there in the financials what we reported for Quarter 2.

Shubh Shah: By when would this start coming in?

Sumit Sharma: So, it starts from the first sales invoice, as per the policy whatever GST is being charged in the invoice that will be refunded by the government as a part of incentive, so those conditions are being complied. Once those conditions are fulfilled, we will start accruing this incentive income in the other operating income. Hopefully by March, we should be able to comply with the rest of the conditions.

Moderator: The next question is from the line of Yash Tawani from Amara Capital.

Yash Tawani: My question is regarding the ethnic segment, in our ethnic snack for the namkeen, so what is the growth or how much percentage on YOY basis we are looking out for this thing or let's say and the second is how we are looking to take this to what percentage of top line in let's say the coming year 2-3 years, what is the target for the Namkeen as we are focusing on Namkeen pretty much so how we are looking at it?

Amrit Chaudhary: So yes, you are right that Namkeen has been one of the mainstays. It is not as significant as a western salty space but owing to the nature of the industry and the structure of the industry today, we need to be kind of a significant player in the Namkeen sub segment of the overall Salty space. As we speak, it is less than one fifth of our overall contribution. As we speak, we are in the process of kind of identifying and kind of nurturing a few killer products in that space.

If you see even Namkeen is sub segmented into lot many other, segmented into the further sub segments of it to be it mixture, nuts, Punjabi Tadkas of the world. So, we have got a significant play or a reasonable amount of play in terms of product offering that we offer in Punjabi Tadkas, in the peanut space or in Bhujia savoring thing. But we are still kind of in the process of customizing our mixture offerings etc., which forms a significant portion of overall traditional Namkeen portfolio.

So, to answer your question what is it in terms of percentage contribution that we are targeting in 3 years' time in the overall traditional namkeen space. It will be a little difficult to kind of say but it's certainly would increase because the industry is heading towards that and with addition of new products which contribute significantly to the sub segment, we believe that the journey from here on or an overall sales contribution level will be northwards only for Traditional Namkeen.

Yash Tawani: For this FY25 year closing, are we looking at any kind of growth in it or is it on a let's say somewhat flattish number for the Namkeen what we did in the FY24? How we are looking at for this for the remaining H2 to close within namkeen?

Amrit Chaudhary: So far Namkeen FY25 we are growing and the growth trajectory will continue and further accelerate with introduction of new products and price points that we have mentioned. It's already in the path of growth from FY24.

Moderator: Thank you. As this was the last question for today, I now hand the conference over to the management for closing comments.

Sumit Sharma: Thank you everyone for joining us on this call today. We look forward to interacting with you again. Thank you.

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