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

Dear Sir / Madam,

In continuation of our letter dated March 30th, 2024 for Analyst / Investor Earnings 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 Earnings Conference Call with the Investors and Analysts held on Thursday, April 4th, 2024 12.00 PM (IST) to discuss Un-Audited Standalone Financial Results for the quarter and nine months ended on December 31, 2023.

The transcript of the Earnings 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: 2024.04.08 18:14:40 +05'30'

CS Mayur Gangani
Company Secretary and Compliance officer
Membership No. F9980

Encls: a/a

"Gopal Snacks Limited

Q3 & 9M FY24 Earnings Conference Call"

April 04, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to the Gopal Snacks Limited Q3 and 9 months FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 a touchtone phone. Please note that this conference is being recorded. We have with us today the senior management team of Gopal Snacks Limited, Mr. Raj Hadvani, Chief Executive Officer, and Mr. Mukesh Kumar Shah, Chief Financial Officer, who will represent the company on the call today.

The management will be sharing the key operating and financial highlights for the quarter and nine months ended December 31, 2023, followed by a question and answer session. Please note that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Gopal Snacks Limited will not be in any way responsible for any actions taken based on such statements and undertakes no obligations to publicly update these forward-looking statements.

Documents relating to the company's financial performance are available on the website of the stock exchange and the company's investor section. Trust you have been able to go through the same. I now hand the conference over to Mr. Raj Hadvani. Thank you and over to you, sir.

Raj Hadvani: My name is Raj Hadvani. Thank you for joining us on the very first call after the listing. We hope you all got a chance to go through our investor presentation uploaded on the stock exchange.

We will be sharing key operating and financial highlights for the quarter and nine months ended December 31, 2023. But before we begin with the quarterly updates, since this is our maiden call, some of you might be looking at the company for the first time. We would like to take this opportunity to brief you all about our business model.

Gopal Snacks is a prominent snacks manufacturer based out of Rajkot, Gujarat, and one of the leading brands in the Indian savoury snacks market. With presence across three key segments such as ethnic snacks, western snacks, and other products, which include papad, besan, spices, etc. While Mukesh will delve further into each of the segments in a bit, I would like to share that over the years, Gopal Snacks has attained leadership positions in some of the sub-segments.

And today we are household names when it comes to Gathiya, Snack Pellets, Ethnic Namkeen, Ethnic Savories, and Papad. Mainly in Gujarat and many other parts of India as well. From a humble beginning to small-scale manufacturing and trading of Namkeen products in the year of 1994, we have established a fully integrated business operations having in all manufacturing capacity of 4,04,729 metric per annum Across six facilities includes three ancillary units that manufactures the raw material or ingredients like besan, spices, raw pellets, etc.

Next to primary facilities to ensure seamless movement of products and enhance operational efficiency. A well-diversified product portfolio of 85 products and 320 SKUs. A large in-house cold storage unit having capacity of 40,000 metric tons.

Owned fleet of 266 logistic vehicles and two depots for easy transportation of goods. And a vast well-established pan-India distribution network of 638 distributors spread across 12 states and one union territory. Which is digitally powered through installation of DMS, Distribution Management System, which improves efficiency.

As a step forward green energy, we have installed a total 1.2 MW of solar power at our facility in Gujarat. And additionally commissioned 2 MW wind power in Gujarat. Having built this kind of vertically integrated business operation has helped us to achieve better quality, supply and cost control.

Thereby leading to one of the industry best profit margins. Further our in-house capabilities for manufacturing and fabrication of machinery required for snacks and namkeen helps in reducing overall capex per unit. Consequently our fixed asset turnover ratio is almost 6.27X for 2023 is amongst the highest in the industry. And this is despite capacity utilization of below 40%. Our other key strength has been the success of INR5 SKU which is sweet spot for the company. As it is easy to sell due to value for money proposition it offers.

And we are able to sell profitably due to our backward integration. And it gives us upper hand in understanding regional preferences and changing customer demand. Especially while entering a new market or a new segment. Of our total revenue 9 month financial year 2024 almost 70% comes from INR5 SKU. With this key success factor in place we are confident of continuing our growth momentum on the back of increased depth and focus on larger pack. Enhance focus on western category particularly potato wafers and other new products.

Accelerate expansion in focus market such as Maharashtra, Rajasthan, Madhya Pradesh, Uttar Pradesh and other market such as Jharkhand, Chhattisgarh, Bihar, Telangana and Karnataka. Currently contributing almost 24% of total revenue. The support infrastructure is already in place with strategically located manufacturing units in proximity of this market.

And having 298 distributors in focus markets. Having ample scope of growth. Continued focus on enhancing brand awareness and technology upgradation. I will now request Mr. Mukesh Kumar sir to provide his thoughts on quarter as well as provide some update on financials. Thank you.

Mukesh Shah: Thanks Raj Bhai. Good afternoon everyone. Now I will begin with sharing key financial numbers and operational highlights for the quarter and 9 months that ended on December 31, 2023.

So first let me begin with highlighting the performance of Q3 FY24 and year on year comparison of same with previous with Q3 of FY23. So in FY24 in Q3 of FY24 we had reported a revenue from operations at INR368 crores. Which is at a gross profit of INR 96 crores and our EBITDA stand at INR 35 crores at EBITDA margin of 10%.

If you compare the same numbers in Q3 of FY23 we witnessed a revenue drop of 1% and EBITDA margin lower from 16% to 10%. The reason for lower EBITDA versus Q3 of FY23 being a couple of reasons. In Q2 of FY24 we had increased the retailer margin on our INR5 SKUs on Namkeen and Gathiya products from INR 50 paisa to INR 75 paisa.

This has impacted our EBITDA to close to INR13 crores for the quarter 3 of FY24. We had overhead cost had inflationary impact of INR10 crores and which also include increase in headcount of employee and higher spend on marketing and sales cost. Overall INR10 crores higher overhead cost.

During Q3 of FY24 we have witnessed a reduction in palm oil prices to the extent of 23% versus Q3 of previous year. And increase in chana prices almost 24% versus Q3 of previous year. The net benefit is positive which we have passed on to the customer by way of grammage increase from 20 grammage to 25 grammage in couple of our SKUs.

Overall there has been a reduction of 9.47 crores in our raw material prices in Q3 of FY24 versus Q3 of previous year. And we have passed on this benefit to our customers. Now I will highlight our 9 month performance and again the comparison with previous year 9 month performance.

Revenue from operations for 9 month we reported at INR 1,044 crores at a gross profit margin of 29% and EBITDA margin of 12%, which is at INR 300 crores gross profit and EBITDA of INR 130 crores respectively. Compared to 9 months of previous year there was a drop in revenue by 2% and EBITDA margin dropped from 14% to 12%.

However gross profit margin remained at a similar level of 29%. Again the reason for lower EBITDA in 9 month is due to following factors. There was an increase in overhead cost of INR 23 crores in 9 month which are results of inflationary impact, increase in employee headcount and higher advertisement and marketing spend.

Further during 9 months of FY24 we had witnessed a reduction in palm oil price of 27% versus 9 month of previous year, and increase in chana prices of 14% versus 9 month of previous year. The benefit of net reduction in overall raw material prices was passed on to the customers again in this FY24 by way of grammage increase from 20 grammage to 25 grammage in couple of our SKUs and further increase in retailer margin from INR 50 paisa to INR 75 paisa. So whatever benefit we got in terms of reduction in raw material prices was passed on to the customer as well as our dealer in 9 months in FY24. Now I will further deep dive into our state performance.

We have identified core state as our Gujarat and focus state includes Maharashtra, MP, Rajasthan and UP. Comparison of performance in core and focus state versus previous quarters as below. Our revenue contribution from core state in Q3 of FY24 was at 75% as against 80% of Q3 of previous year.

We witnessed a growth of 13% in revenue year on year from focus state in Q3 and 9% for 9 months from previous year. Core state had slightly lower sale versus previous year in both the periods. Now I will get into segment wise comparison.

As Raj bhai mentioned we have close to 84 products which is more than 300 SKUs. Our major revenue comes from ethnic snacks which is our backbone to our business and ethnic snacks include Gathiya and Namkeen. Overall revenue contribution from ethnic products is 54% in Q3 FY24 and 55% in 9 months FY24.

Gathiya being our key participants of ethnic snacks contributes 27% in Q3 FY24 and balance revenue comes from other ethnic snacks. We are the largest player in Indian Gathiya market and we believe that this is just the beginning as Gathiya accounts for 3% of the total organized Indian savoury snacks market and is gaining popularity in other states as well. As we have started focusing on other states like UP, MP, Rajasthan and Maharashtra we see lot of traction coming of our Gathiya products from these states.

Now let me get further into our next category, which is western snacks. Western snacks distinctively identified potato wafers as a key growth driver bolstering a growth in terms of number of pouches sold also at 34.7%. So there has been a growth in number of pouches we have sold in Q3 FY'24 versus Q3 FY'23 of approximately 35% and in nine months we have witnessed a growth in number of pouches to the extent of 28%. And as well in the focused market.

Wafers is doing great which is a vote of confidence for us and we can satisfy the market's taste buds. The third segment which is the other segment which includes other products like papad, besan, spices, etcetera, we are witnessing and seeing a lot of growth in this product as well and these are because of our constant effort of all our team.

Now getting into SKU wise comparison, we have products into INR5 SKU, INR10 SKU and bigger packs. INR5 SKU contributes 69% of our revenue which was 75% in Q3 of last year. We have witnessed a growth in INR10 SKU at least by 43% in Q3 of FY'24 versus Q3 of FY'23 and similar growth we have witnessed in nine months performance as well. And the major growth in INR10 SKU has come from wafers, besan and other products as well.

In addition to our monthly performance we just wanted to highlight couple of key points which we have witnessed in Q3 of this FY'24. The one reason being our raw materials. Raw materials are commodity products. They are highly prone to seasonality and irregularity in crop cycles which often result into higher cost. In Q3 of FY'24 when we compare it with Q2 of FY'24, we have witnessed Chana prices have increased by 11% and Urad price has increased by 14% versus Q2, which has been one of the major factor affecting gross profit margin of the company in Q3 of FY'24.

We believe in financial discipline and the company has judicially utilized cash towards lowering debt from INR 107 crores in March '23 to INR 26 crores as of September '23 and generated cash flow from operation of INR122 crores in FY'23 which allow us to reinvest this in new market and products. So overall, we have repaid close to INR75 crores of our borrowing in six months of the operation in FY'24. Our capacity utilization from all the plants put together is below 40% and we have already invested in future capex and there is a potential to grow revenue by 2x without any major capex.

We have a healthy and the best in the industry returns ratios. Our ROC stands at 43%, our ROE stands at 39% and asset turnover stands at 6.27x despite future capex already invested in the business. To this note, now I conclude our presentation. We thank you a lot for listening to us affirmatively and now we open the session for questions and answers to all of you. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Sunil Kumar Pant from Planify Capital. Please go ahead.

Sunil Kumar Pant: Hello, good afternoon, sir. Am I audible?

Moderator: Yes, sir. Please go ahead.

Sunil Kumar Pant: Okay. Thank you so much, sir, for giving this opportunity and taking up my question. So my question was on the margins front, like why the margins declined year-on-year and the operating profit margins as well as the profit margins. That's it, sir. Thank you.

Mukesh Shah: So I'll take this question. So if you compare the performance of Q3 of FY'24 versus Q3 of FY'23, the margin has declined. As I said, the overall, if I have to give you the number, EBITDA has come down by, let's say, from EBITDA in Q3 of FY'23, we registered EBITDA of INR58 crores, whereas in Q3 of this year, we registered -- we reported EBITDA of INR35 crores.

The major reason of reduction in EBITDA, as I said, there is an increase in overhead cost close to INR9 crores, which is primarily coming from increase in employee cost, which has headcount increase as well as increment, annual increment. And there has been an increase in the retailer margin from INR 50 to INR 75 paisa on a couple of our INR5 SKU, which we have done in Q2 of FY'24, which has an impact in EBITDA to the close of INR13 crores.

In addition, we got a benefit of price reduction in raw material prices in our palm oil products and increase in Chana price. The net benefit is positive, which was close to INR10 crores, which we have passed on to the customer by way of a grammage increase from 20 grams to 25 grams. So the overall net EBITDA has come down by INR23 crores, which is because of the following reasons, which I explained.

Sunil Kumar Pant: Okay. All right, sir. Sir, just wanted to know, like you mentioned that the impact on the margin was due to the increase in the employee cost. So going forward, would we see any kind of jump in the revenue because of the costs incurred in this quarter?

Management: Yes, yes, definitely. So during FY24, we have built our sales team. We have hired a sales professional from FMCG companies, which includes RSM, ASM, National Sales Head, where the cost has come in FY24.

Benefit of the cost what we have incurred will definitely be there in coming years.

Sunil Kumar Pant: Right. So, one last follow-up question on this. Would you like to give any guidance on that, the margins and the revenue growth?

Mukesh Shah: So revenue growth, we don't give a forward-looking statement, but the only guidance what we can give is that industry, as per the industry report, the industry is going to grow at 10% to 11%. And based on our internal efforts and estimations, we are targeting better growth than the industry.

Sunil Kumar Pant: Right, sir. Thank you so much, sir.

Moderator: Thank you. A reminder to all participants, you may press star and one to ask a question. The next question is from the line of Krish Jamnani from Krish Investments. Please go ahead.

Krish Jamnani: Good afternoon, sir. My question is whether we are in the business of corn based snacks like Kurkure or like that? If yes, then how much is the percentage in revenue?

Raj Hadvani: Yes, we are in that business, but the Extruded Kurkure type, right?

Krish Jamnani: Yes, Yes.

Raj Hadvani: Kurkure type we have, but very small numbers.

Mukesh Shah: So it is a very negligible number. It is part of our Western Snacks kitty. Our quarterly sales is close to four to five crores.

Krish Jamnani: Okay. Are you planning to increase that share?

Mukesh Shah: Yes, Yes. We'll have a growth in this segment also.

Krish Jamnani: Okay. Thank you, sir.

Moderator: Thank you. Before we take the next question, a reminder to all participants, you may press star and one to ask a question. The next question is from the line of Pradip Dubaria from Yellow Water Securities. Please go ahead.

Pradip Dubaria: So Yes, my question is regarding the export of products. So is the company looking forward to export the products to the countries where Indians are more like UK or Canada?

Raj Hadvani: So as of now, we are exporting our products and revenue is small as we haven't focused yet. So in upcoming years, yes, we will be focusing on exports as well and we'll build a team as well for exports. As of now, we have exports around one percent, less than one percent of our contribution.

Pradip Dubaria: Okay, fine. Thank you.

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

Rahil Shah: Yes, hi. I'm audible.

Moderator: Sir, may I request you to use your handset, sir? Your voice is slightly muffled, sir.

Rahil Shah: Just a moment. Is it better now?

Moderator: Yes, sir. Thank you very much.

Rahil Shah: Yes, hi. So firstly, to the management, if you could highlight a few key steps and strategies that you are undertaking as of now for FY25 for the kind of growth you are mentioning that you want to grow better than industry. So what are the key steps and strategies that you are now undertaking to meet that kind of growth?

Mukesh Shah: So thanks for the question. So we have divided our market into three segments, into three markets, I'll say. Core state, focus state, and other markets. So core state being our Gujarat, we have a different strategy. Focus state is Maharashtra, MP, Rajasthan, and UP, where we have a different strategy. In other markets, we will be entering into those markets.

So for core market Gujarat, where currently 70% of our revenue comes from Gujarat, we have identified and did an internal survey where we see 20 to 25% areas still not penetrated, where we have identified locations and we are in the process of appointing dealers.
We'll focus more on depth of the market. We have close to three plus lakhs retail touchpoint where we are serving in Gujarat, and there are still 15% to 20% retail touchpoint vacant where we will place our products.

As you know, we have a product range close to 84 products. So we are working on how we make our product penetrated in each and every retail outlet so that the revenue from the existing retailer increases by 20% to 25%. So that's the strategy on core market.

Focus market is something where we are 10% to 15% penetrated. There are a lot of vacant area where we will work on appointment of new distribution, the entire network of channels, etcetera. Plus, since we have a product portfolio, a wide range of product portfolio, and we have a couple of hero products which allow us to get entry into any market, we will explore those products and make entry into those markets.

So that's the approach we are following for our sales increase. And in addition, we have also appointed an agency, Scarecrow, who's a creative agency, national level agency. They will help us in designing our company's strategy in terms of communications to customers and wide market. So we are also focusing on making our regional brand a national brand by branding, etcetera. Raj bhai, you want to add anything on this?

Raj Hadvani: Yes, so we are also participating in lots of exhibitions for B2B segments, and which help us to develop into newer states. So there are a few exhibitions held in Ahmedabad, Mumbai, and Delhi. We get requirements like all the distributors who want to do distribution in newer products, which help us to build new distribution channels. So these are a few things we are working on.

Rahil Shah: So this marketing via the exhibitions to improve the distribution channel, is it ongoing, or you have completed and will see effects in this year, or will you be doing it now and costs will be added?

Raj Hadvani: No, in last year we have participated in few, and this year also we will participate in few, and it is ongoing process. It's not like one time thing, it's branding and getting new distributor activity.

Rahil Shah: Secondly, coming back to EBITDA margins, you mentioned the reasons why they dropped this quarter, but now since you are expecting to grow better than industry in the next coming year, and you have taken steps about focusing in areas where there is a lot of room to grow, can we expect margins to come back as well? Will we see gradual improvement in margins, or how will it happen?

Mukesh Shah: So if you see, as I said, we have already invested in future capex, and we have invested in overheads also, and our capacity to utilize is less than 40%. So definitely with the increase in sales, we will optimize on overhead costs which we have already incurred. But a good chunk of amount we will be investing into our sales and marketing costs.

So we cannot assure you that we will be maintaining an EBITDA margin of 13%, but there will be some additional costs coming on account of branding and sales costs in the coming year. And 70% of our cost is raw material cost, which is a commodity driven cost, which we do not have control on those costs. So with the increase or decrease in the raw material prices, definitely there will be an impact in the margin as well.

Rahil Shah: But that is near term, right? So let's say over the longer term, like by the end of the year, do you expect to reach those good mid-teen margins again, or you're uncertain about that as well?

Mukesh Shah: No, so margin plus minus 2% will be the range of our reporting.

Rahil Shah: Okay, I'll get back to you. Thank you so much.

Mukesh Shah: Yes, thanks.

Moderator: Thank you. The next question is from the line of Riddhi Baid from O3 Capital. Please go ahead.

Riddhi Baid: Hi everyone. My question to the management is, can you give a guidance on the advertisement cost going forward? Because I believe in the industry, the advertisement cost has been on the lower range. So what is the management guidance on the advertisement expenses going forward?

Raj Hadvani: We are not in a position to give any numbers, but for sure we will be doing a lot more compared to previous year in terms of advertising, branding, sales promotion activities and all.

Riddhi Baid: Okay, thank you.

Moderator: Thank you. Our next question is from the line of Tanay Shah from Stellar AMC. Please go ahead.

Tanay Shah: Hello, sir. Thank you for the opportunity. So my question was regarding ethnic products. So for nine months, FY'24, our sale in ethnic products have shown a degrowth of 9%, while our competitors have grown by 15%. And I think being our main product contributing more than 55% of the revenue. So why are we not growing in that segment?

Mukesh Shah: So if you, I'll just step backward. So ethnic product comprises 54% of our revenue, which used to be 60% in last nine months performance. Major revenue comes from Gujarat, which is close to 70%-75%.

In a year back, we had this family split, where the Bipin Bhai promoter acquired the stake of his brother. And for that reason, we did the IPO also for repayment of loss. Because of the family split, and there was some internal disturbance, and we had higher attrition in terms of our employees.

And even the distributors has left us because the brother who moved from us has also started the similar product company. Over a period of one year, we have recovered in terms of the damage what has caused to us. And we are growing quarter on quarter, every quarter. This is the reason why the ethnic product has not grown in Gujarat. But if you see the other area like in focus market, we have witnessed a growth in our ethnic product as well as Western product.

Tanay Shah: Okay, so thank you. And so adding up to that, do we have growth for ethnic products in a core market like has a market share that reached maximum potential? And there is no major scope of growth of ethnic products in our core market?

Mukesh Shah: No, no, Raj bhai will add to this.

Raj Hadvani: It's not like that. There was an issue with our distributors. So we are rectifying those distributors and that issue and we believe that surely we will get back those numbers and we will be on track.

Mukesh Shah: And the market share as per the industry report, ethnic market is going to grow at a 10% year on year. So definitely there is a growth for Gathiya and Namkeen also in Gujarat.

Raj Hadvani: And I mentioned that we still have 20% room in terms of retail touchpoint and which will drive us to increase in our sales of ethnic snacks as well.

Tanay Shah: Okay, sir thank you very much.

Moderator: Thank you. The next question is from the line of Prateek from Subh Labh Research. Please go ahead.

Prateek: Hi, sir. Congratulations on successful listing. Sir, my question is on HORECA side. In current sales, how much contribution is on HORECA sales side?

Moderator: Mr. Prateek, your line is not clear. May I request you to use your handset, please?

Prateek: Sir, is it clear now?

Moderator: Slightly, sir. You can go ahead.

Prateek: Yes, thank you. Sir, I just wanted to understand the HORECA mix in the current sale. How much percentage of our sales is from Horeca?

Raj Hadvani: So, HORECA, As of now, we don't have any specific data because that's our distributor's view to sell where our products. But in upcoming years, we'll equip with software which will give us proper data from segments like HORECA and other segments. So, As of now, we don't have any concrete data about the Horeca segment.

Prateek: So, the sales is happening to the segment, but it's just that we don't have precise data around it.

Raj Hadvani: Yes. True.

Prateek: Okay. So, second, I wanted to understand, given Gujarat being such a strong foothold for us and, having such a big brand in Gujarat, the raw material inflation, we were still unable to pass it on. I mean, it has impacted our margins significantly.

So, some color on that, why we were not able to pass on the RM inflation. And secondly, on a longer, mid to longer term basis, what should be the margins as an investor we should anticipate in the business? Or should we consider it as a function of raw material prices?

Mukesh Shah: So, I'll take this question. So, definitely, how this industry works is that this INR5 or INR10 SKU, we don't increase the price of the product. INR5 doesn't go to INR6 or INR10, increases to INR11, INR12. Whatever adjustment happen, it happens in grammage. The price adjustment happens in grammage. If you see our FY23 performance, crude price went up very significantly in FY22 during COVID time.

And we were offering 25, 30 grammage and 25 grammage at INR5 SKU. And then with the increase in raw material prices, we brought down the grammage from 25 grammage to 20 grammage in last year FY23. This year, the prices of palm oil prices came down significantly and now it is in the range of INR83, INR84, which used to be 110, 115 in FY23.

So, we increased the grammage from 20 grammage to 25 grammage. Only in Q3, we have seen a significant increase in chana prices because of crop season ending and new crop coming in, which used to be 40 in the range of INR49, INR50 our purchase price till H1 of FY24 significantly, went up to INR57, INR58, INR59, in Q3.

So, what happened in this industry, we don't increase the grammage or change the grammage with one product moving up and down. It is the industry call and the changes in the grammage happened in case there is a significant movement in the price. Hence, Q3 performance is impacted because of two raw material prices going up.

One is Chana and another is Urad, which has gone up by 14% to 15% versus Q2 of this year. So, in case the raw material prices increase remains at a higher end, then as an industry, these calls are being taken to adjust the grammage.

Raj Hadvani: Secondly, there is a point of competitor as well. We have to see in what grammage our industry is working. So, if the industry is giving X grammage, we have to match the X grammage. And it's an industry call when everyone take a call to reduce grammage or the difference in the retail margin. So, it's an overall industry call more or less, which helps us to drive this.

Prateek: Understood sir. Secondly, on a longer term basis, what margin as an investor should anticipate? I mean, at a corporate level, is there any target to achieve 13% or 12% or 15%? What over it maybe?

Raj Hadvani: At corporate level, we target our sales growth, not margin growth, because margin is something which drives from sales. So, we believe strongly on the sales growth. Margin will eventually follow the sales.

That's what we follow. And because of the changes in margin affects from multiple reasons, not any single reason. And many of the reasons are not in our control. So, we cannot mark their words, but yes, we'll try to maintain these numbers or the amount, maybe. But we believe that we'll do strong on sales numbers.

Prateek: So, one last question from my side. In the focus market, you know the different states which we are targeting, Ex Gujarat, are we entering these states with these similar products or is there a change in the mix of the products which we are selling in these states?

Raj Hadvani: So, basically, we have different products in our portfolio. Some of our Gujarati products, some of our Western products. So, in our category, we can enter by the same product. For an example, chips is accepted by each and every area. So, we can enter by chips in some area where some products are highly accepted of Gathiya and other Namkeen products by which we enter into the market. And we are coming with a few regional products as well.

And we do have regional products in our portfolio as well. For an example, Punjabi Tadka, Ratlami Sev, Aloo Bhujia. So, those are regional products out of the Gujarat. So, we do have that kind of product as well in our portfolio. And we do have snack pellets in which we are a leader and which help us to go into the newer market. Like we have Ponga Cup which help us to enter into the newer market and newer retailers.

Prateek: Understood, sir. Thank you. That's it from my side, sir. Big congratulations for the successful listing. Thanks a lot, sir. Thanks a lot for your answers.

Moderator: Thank you. The next question is from the line of Mehul Mehta from Nuvama PCG. Please go ahead.

Mehul Mehta: Hello.

Moderator: Yes, Mr. Mehta. Please go ahead.

Mehul Mehta: Hi, Team. Good afternoon. Thanks for the opportunity. And pardon my ignorance, but in case of FY23 revenue being flat, profitability has been substantially increased during over FY22. So, is there any specific reason for this?

Mukesh Shah: Yes. So, as I highlighted this reason in the previous question. So, if you see, this is again the factor of raw material prices. So, in our product, we have INR5 SKU and INR10 SKU. With the change in the price of raw material, we adjust the price of raw material in form of grammage. We have to go back in the history in FY '21 where we were offering higher grammage compared to other players.

So, it was always that, for example, in INR5 SKU, our offering was 30 grammage, whereas other player offering was 25 grammage. And in the past, always we were offering higher than the player in terms of grammage. In FY '22, we matched the grammage similar to other player. In our industry, the cost of raw material for 5 gram is equal to INR50 lakhs a day, which translates to annual amount to INR150 crores a year.

So, what we have done is, we have matched the grammage in FY '22, which has resulted into a profitability into the business. Further, there was a reduction in the retailer margin also. From INR 75 paise on INR5 SKU, we brought down that INR 75 paise to INR 50 paise, which also has given a benefit in terms of EBITDA. So, FY '22 versus FY '23, there were two reasons driving the profitability. One is reduction in retailer margin close to INR35 crores and grammage impact, reduction in the grammage close to INR68, INR69 crores, which is equivalent to INR100 crores. And if you see our EBITDA was INR200 crores in FY '23 versus INR100 crores in FY '21.

Mehul Mehta: So, this is sustainable, it seems like what you would share is...

Mukesh Shah: And in FY '24, with the reduction in the raw material prices of palm oil, we have further – we have again restored the grammage from 20 grammage to 25 grammage and still holding the margin at 12%.

Mehul Mehta: And this seems to be sustainable, my according to you?

Mukesh Shah: Yes, this seems to be sustainable in terms of raw material prices, etcetera.

Mehul Mehta: And in terms of say revenue break-up wise, if we look at ethnic, we have both put together, it would be about 56% of revenue. And western snacks, particularly wafers is about, I think it's near about 20%. Is that correct of revenue?

Mukesh Shah: Ethnic is correct. Western all put together is 31%, which includes snacks pellets, wafers and corn products. If you have to just see wafers as a contribution, it is close to 9% to 10% of our revenue.

Mehul Mehta: Okay. So, in that wafers, when I am seeing your strategy, you are saying that there you want to increase from 8% market share currently, which is there, and your focus is increasing that strategy to increase profitability or take growth. So, what really is drawing you to that and driving you to that is connecting sound?

Raj Hadvani: So, in industry, there is a terminology called basket. So, in our basket, few years back, there was no wafer and other competitor in our region was driving with wafers and they were dominating in wafer and because of that, they were also penetrating in other segment as well. So, then we have decided to move into the wafer.

This is few years back, not in current position and there was a good profitability in wafer and we have good edge of making more profits in wafer compared to any competitor in India. So, those are multiple factors. Third is that in namkeen and gathiya and snack pellets, we have our own manufacturing facility in which we have our own designed machines.

Where in wafer products, the machines are same across the whole competitors. So, there is a role of cost in which we can able to manufacture wafers lower compared to any competitor in the market and which help us to higher margin and we can penetrate in the market with good quality and higher margin.

Mehul Mehta: So, in that, when you say profitability, is there which you can share in terms of ethnic snacks and western snacks, what would be kind of profitability at a broad level like a maybe gross margin level? Is it similar or something different?

Mukesh Shah: Gross margin, we have higher profitability in western snacks, particularly in wafers compared to ethnic. The range will be in the range of 2% to 3% higher versus ethnic product.

Mehul Mehta: Next question is in terms of capacity utilization, currently we are at 40%. So, in this, is it that we can reach, I mean optimum utilization would be about, it should kind of peak out at 80% or it goes up to 100%? How does it go?

Raj Hadvani: No. It doesn't go up to 100% because there are few products which contributes good sales. There are few products which contributes less sales. So, we cannot, it's like a car, you cannot run a car at 200 km per hour.

You have to maintain some average and we have to do future capex before going to 80% or 85% utilization. It's 80%, 85% and rest we have to keep our utility for any breakage maintenance or any major issues.

Mehul Mehta: So, at FY '24, if we are working at 40%, when do you think it will peak out at 80%, 85% and we need capex going forward? Maybe 2, 3 years down the line?

Raj Hadvani: 2 to 3 years as well.

Mehul Mehta: Okay. So, till that you have capex won't be required?

Raj Hadvani: Minor capex here and there definitely it will be required but not the major one. So, basically we require any capex for backward integration, not for the manufacturing of our plant. For an example, we -- in Nagpur we may install a Besan unit which will help us to reduce in cost for the namkeen manufacturing in Nagpur or other peanut products. We are looking for some peanut products which will again reduce cost of our nuts products and other products. So, which will allow us to reduce in cost, not in the sales or not in the direct for the primary facility.

Mehul Mehta: Got it. Now, when I am looking at capacity utilization, at Nagpur have we started off late or kind of like because there it is at only 13, 13% whereas other areas it is about Gujarat and all. It's about 35%-38% capacity utilization. So, why is it so like Nagpur such a low-capacity utilization?

Raj Hadvani: Nagpur is 13% there are multiple factors. Nagpur is a big unit compared to Modasa and Modasa is only chips and chips unit only. So, chips from Modasa, we don't run facility other than Modasa for chips. In Rajkot we don't have chips unit. So, from Modasa our chips moves to Rajkot and from Rajkot it goes to the distributor. And in Nagpur, we have all the machines. For an example, nuts machine, sev murmura machine, gathiya machine, we have different, different machines for the different, different products. And we have small chips machine as well in Nagpur.

So, because of the higher, we have different products in Nagpur where all product is not moving at that pace. So, in upcoming years, we will not require any single penny to increase our sales in Nagpur unit as well and compared to Rajkot we have installed more capacity in 2021 in Nagpur.

Moderator: Thank you. Sorry to interrupt Mr. Mehta. May we request that you return to the question queue for follow up questions as there are several participants waiting for their turn.

Mehul Mehta: Alright. Thank you.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to one or two per participant. Should you have a follow up question, we would request you to rejoin the queue. Our next question is from the line of Devang Mehta from Bay Capital. Please go ahead.

Devang Mehta: Hi Mr. Mukeshji. I just wanted to understand, western snacks you mentioned there was strong growth in package increase of more than 30% but volume wise it's almost flat. So, was there a grammage reduction in the western snacks?

Mukesh Shah: No, no. So, volume wise if you see, wafers has grown up significantly in terms of volume in Q3 versus Q3 of previous year, almost 53% increase in the volume and for 9 month if you see almost 60% increase in volume. The other segment which is snack pellet has not grown in last 3 months which is because of the Gujarat factor. Otherwise, wafers has grown up significantly in volume as well as in revenue.

Devang Mehta: Understood. Because in the opening remarks you mentioned some 30, more than 30% growth in western snacks pouches growth. So, I was just wondering if there is an increase...

Mukesh Shah: It is primarily driven by wafers.

Devang Mehta: Okay. Understood. Thank you.

Moderator: Thank you. The next question is from the line of Nirag Shah from Exemplar Investment. Please go ahead.

Nirag Shah: Thanks for the opportunity. There seems to be a general slowdown in consumer demand in Q3 as far as our snack segment is concerned. So, how was the demand shaped up in Q4? Is it looking much better than Q3 or on similar lines?

Raj Hadvani: Q4 will be similar but much better than last year Q4. Overall, if you look at the industry, I think Q4 normally in the snack industry is the oxygen market particularly in the month of Feb and March. Otherwise, if we are yet to close our Q4 books, overall performance versus previous is definitely better.

Nirag Shah: Okay. And what is the distribution structure we are following? Is it super stockists, distributors, wholesalers and retailers? And what kind of margins we offer for each channel?

Mukesh Shah: So, we focus more on exclusive distributors. If you see our distribution, we have close to 638 distributors as of December of which 280 plus distributors come from our core state Gujarat. And these are all exclusive distributors and they do business only for Gopal. We have other balances from focus states. Currently, we don't have any super stockists for CIF in our channel, distribution network. Distributors directly supply to retailers. So, there is from retailer to company, there is only one key in between.

Nirag Shah: Okay. And on similar lines, what has been our total retail outlet reach?

Mukesh Shah: So, total retail outlet reach has been close to 5 lakhs as of December closing.

Nirag Shah: Okay. Thank you. Thanks.

Moderator: Thank you.

Nirag Shah: All the best.

Moderator: Our next question is from the line of Yogesh Bathia from Sequent Investments. Please go ahead.

Yogesh Bathia: Hi. Good afternoon, gentlemen. Sir, I wanted to know, our capacity utilizations are very low. What is the thing that is stopping us from increasing the capacity utilization? Is it that we need to go to more, have more distributor network or have more products in the market or, we need to do more backward integration?

Raj Hadvani: No, it's not stopping anything. Basically, we have installed this capacity in last two years. For an example, whole Modasa units have started last in two years back. Where Nagpur unit, we have increased our capacity a lot in last couple of years in Nagpur unit. So, it's not stopping anything, but sales come slowly and gradually. It doesn't come like we install a unit.

Yogesh Bathia: Okay. So, to get the sales push, we will have to enter new states and have more distributors, right?

Raj Hadvani: Yes. Enter new states, penetrate it into existing distributors and in Gujarat, penetrate it into existing retailers.

Yogesh Bathia: Okay. Okay. Thank you, sir.

Moderator: Thank you. The next question is from the line of Chinmay from Prescient Capital. Please go ahead.

Chinmay: Hi, sir. Thank you for taking my question. You have talked about the growth levers in the immediate future in the one year, but could you talk about your business plan for a somewhat longer term, maybe three to five years? Where do you intend to be and what are your larger plans, some broader sense?

Raj Hadvani: Around in broader sense, I would like to add that in five years, we will cover around 80% of our nation and in export terms, we will grow much faster in upcoming five years. And maybe we will increase the capacity of Nagpur in next five years. Probably based on the requirements from other states, we will maybe install a unit where our sales is much more in upcoming five years.

Chinmay: Got it. Secondly, if I compare from 2020 in the last four years, the inventory days have gone up from 25 days, 27 days to 40 days. So what is the reason behind that? And what should be the generalized level that one should look at?

Mukesh Shah: So again, our finished goods inventory, if I have to classify, finished goods inventory is less than one or two days. So we don't have any inventory for finished goods. Whatever inventory we carry, it is only for raw material.

And even in raw material, we have stock for our potato and chana and even for other products. So what we do is during crop season, since we have our cold storage already installed at Modasa, we procure potato at the time the crop comes, which is close to eight to nine months of our consumption, we store it in the month of Feb, March. So whenever you see inventory at March end and you'll see higher inventory at that point of time, since the crop season for potato is in month of March, similarly chana also a lot of yield come in Q4 of the year.

And depending on the price, etc., we procure chana at Q4 of the financial year. So last year we have procured chana. We had stock of potato. We have stock of spices, etc. It was for taking the price benefit. So normal average inventory period will be in the range of 45 to 60 days.

As the year pass, month pass, the inventory days comes down and average holding period comes down. So that's the range. Start of the year, it will be in the range of higher inventory and gradually it will come down.

Chinmay: Got it. And lastly, you talked about reducing the debt and I'm assuming that is where the cash was spent. That's where the cash has also come down. Going ahead, do you intend to fund the growth from accruals or do you intend to stay net cash or are you comfortable taking on debt in the future? Any thoughts about that?

Mukesh Shah: So we are cash generating unit. Last year we generated cash close to INR122 crores. This year also we will be generating cash more than INR100 crores. So it depends on the requirement how we invest our cash or we take borrowing for our future investment. It all depends on our strategy in coming years.

Chinmay: Goi it. That's all from my side.

Moderator: Thank you. The next question is from the line of Nikunj Mehta from Magma Ventures. Please go ahead.

Nikunj Mehta: Hi, Thanks for the opportunity…

Moderator: Sorry to interrupt sir, May I request you to use your handset please you are not clearly audible sir?

Nikunj Mehta: Is this fine?

Moderator: Yes, sir. It's better, sir. Thank you. Mr. Mehta, we are unable to hear you. May I request you to unmute your line, please?

Nikunj Mehta: Okay. Is this fine now?

Moderator: Yes, sir. Please go ahead.

Nikunj Mehta: Okay, perfect. So three questions from my side. First is on the margins front. So you mentioned over the last two years, your margins kind of improved because you kind of reduced the grammage. And second, you also reduced the margins to the retailer. And now in Q3, you mentioned that you have again passed on some benefits with the grammage increase and at the same time, you have further increased the retailer margin back to INR 75 paise from INR 50 paise. So is it fair to assume that the margins which we kind of made in FY'23 is something which is difficult to attain on a sustainable basis from here on?

Mukesh Shah: So again, something which is not in our hand is the commodity prices. And if there is a significant increase in the raw material prices, we tend to adjust the grammage. Currently, our grammage offering is close to 25 grammage for INR5 SKU and 50 grammage for INR10 SKU. In the past, we have reduced the grammage from 25 to 20 grammage also when the price of raw material was significantly high.

And this is an industry call. So if the price remains high and further increase in the raw material happens, then as an industry, we will definitely take a call to reduce the grammage which will allow us to maintain the sustainable EBITDA margin.

Nikunj Mehta: Okay, understood. The second question which I had was that you mentioned that there was a distribution rejig which kind of happened because of the split at the family's end. So is it fair to say that the distribution realignment which was supposed to happen has happened and now from here on, we are sitting on a base where you don't see further disruption on the distributor side from here?

Raj Hadvani: Yes, it's already done and you will see very good numbers in the next quarters. We have recovered the first two quarters damage in the first quarter as well.

Nikunj Mehta: Okay. And last question regarding because INR5 SKU is something which is very significant in terms of our overall mix and you had mentioned that because of the backward integration which we have in terms of manufacturing, that is our competitive advantage and we make a good amount of profits even in the INR5 SKU segment. I just wanted to understand in your core market which is Gujarat and in the ethnic segment which is one of the focus segments for us, how is the competition in INR5 SKU for us?

Raj Hadvani: So it's not increased or decreased anything in terms of any rupees segment. It's all in our total brand or total category segment and we have shifted from INR5 SKU to INR10 SKU. We have around 40% we have increased our INR10 sales compared to last quarter I said.

So we are also focusing more on bigger packs as well and you will see good shift in that in the coming quarters as well.

Nikunj Mehta: Okay. And last question on the ethnic side in Gujarat because we are the market leaders on the organized side, who will be the second largest and what will be their size in terms of top line?

Raj Hadvani: Ethnic?

Nikunj Mehta: On ethnic side, yes.

Raj Hadvani: So there are, we see there are few other brands which link in ethnic. We don't have any numbers but there are Balaji and Real Namkeen which are working on the same sort of category.

Nikunj Mehta: Okay, but we are the market leaders in Gujarat. Is it a fair little question?

Raj Hadvani : We are the market leader in Gathiya.

Nikunj Mehta: In Gathiya. Okay. Got it. Thanks sir and all the best.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Prateek from Subh Labh Research. Please go ahead.

Prateek: Sir, just to follow up, what was the revenue loss due to the distribution, distributors leaving us last year sir?

Mukesh Shah: No specific. So we have couple of distributors close to 15 to 20 distributors in Q4 and Q1 of last year, Q1 of this year. They left us and many of them has come back also.

I will not have any specific number in terms of revenue loss but definitely we quickly hired new distributor wherever was required because in Gujarat we have lot of demand and people wanted to take dealership of Gopal. So that way there is no calculation in terms of revenue loss but whatever the distributor who left us, some have come back and we have already filled up the places where the distributors has left us.

Prateek: Understood sir. So actually there was some amount of confidence shown by you when you said that the distributors have come back. So on increased revenue. So I just thought the revenue loss might be significant but you are saying it was insignificant. Correct sir?

Mukesh Shah: Yes. Not because of loss of distributors.

Prateek: Understood sir. Thank you sir. That's it from me sir.

Moderator: Thank you. Ladies and gentlemen that brings us to the end of the question and answer session. If there are no further questions I would now like to hand the conference over to the management for closing comments.

Mukesh Shah: Yes. Thank you everyone for taking out time to attend the earning call and it has been indeed a great pleasure for us to connect with you all. We hope that we have delivered a satisfactory response on all your queries and questions. In case still there are questions you can reach out to me or my team one on one and we are happy to address your queries. Thank you once again for joining us.

Raj Hadvani: Thank you everyone for the support and questionnaires. Thank you.

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