Prataap Snacks Limited
Q4 & FY2021 Results Conference Call
June 1, 2021

Ashutosh Joytiraditya: Hello everyone and welcome to the Q4 and FY2021 earnings conference call of Prataap Snacks Limited. From the management team we have Mr. Amit Kumat, Managing Director & CEO; Mr. Sumit Sharma, Chief Financial Officer and Mr. Subhashis Basu, Chief Operating Officer. Before we begin this call, I would like to point out that some statements made in this call maybe forward looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would like to hand over the call to Mr. Amit Kumat for opening remarks. Thank you and over to you Sir!

Amit Kumat: Thank you. Good evening to all the participants and thank you for joining our Q4 & FY2021 Earnings Conference Call. I hope all of you, your colleagues and families are safe and well. I trust all of you have gone through our presentation which was shared with you earlier.

I am glad to share that our fourth quarter performance has recovered to last year levels despite continued disruptions due to COVID-19 pandemic. Revenue from operations stood at Rs. 3,095 million in Q4 with good contribution from our Yellow Diamond and Avadh portfolio. This performance is encouraging as we have driven a substantial recovery in topline despite continued impact on consumption from our core category of young children since schools remain closed. Further with travel activities remaining subdued nationally several points of sale are contributing passively at present.

With regard to profitability we continue to witness margin pressure in Q4 as the cyclicality in the price of key raw materials especially palm oil has impacted us adversely. We were able to largely offset the impact through continuous process re-engineering and cost optimization initiatives.

As you all are aware FY2021 has been a year of unprecedented turmoil, the impact on the economy has been hard hitting and unpredictable as restrictions of varying degrees have been announced at local state and national level in order to curb the spread of COVID-19. This has impacted sales volumes as outdoor and social activities were largely curtailed and continue to remain so. At the same time this year we have seen sustained inflation in input prices especially palm oil to extraordinary and exceptional levels. We have responded to this perfect storm by implementing both strategic and tactical initiatives.

Let me give you an update on the various initiatives we have taken during the year. The first initiative is compressing the distribution structure. We have a three-tier distribution structure comprising super stockists, distributors and retailers. This structure has evolved from the formative years of the company where our mother plant in Indore was located at the geographical center of the country and we leveraged on low freight cost through reverse logistics to serve the rest of the country. We implemented a hub-and-spoke model through intermediaries like super stockists and distributors. As a result, the super stockist structure was created to serve as first point of delivery from the plant, which would in turn cater to the next rung in the structure, which is the distributors.

With the evolution into a distributed manufacturing model, we can now serve many of the distributors directly thereby saving the trade margin paid to the super stockist and some overheads like secondary freight. We believe that savings could be to the extent of 200 to 300 basis points in EBITDA margin. This will be a permanent saving for the company resulting in structural enhancement in the EBITDA margin. At present over 95% of sales continue to take place through the traditional structure and the initial benefit from the shift into the new structure will be visible during the current financial year itself.

The second initiative is setting up of distributed manufacturing infrastructure. As you are aware we have setup five 3P facilities over the last three years. This has helped us to augment capacity through an asset light model then also placing production more proximately to key consumption centers. Contribution from 3P facilities for the year stood at 24% compared to 8% three years ago. In addition to selectively adding 3P facilities we are now focused on strategically setting up hubs at key locations across the country. These hubs will have the entire product range, which is an essential precursor to build direct distribution capabilities.

During the quarter we converted the 3P facility at Bengaluru into an owned facility which will now serve as a hub for the southern region. We plan to commission an owned facility at Kolkata in the second quarter of FY2022, this facility will manufacture extruded products and pellets to complement the existing facility in Kolkata for manufacturing of potato chips. Production of the entire Yellow Diamond product range in this location will lay the foundation for direct distribution activities in the eastern region. On similar lines we are planning to augment our 3P facility in Hissar to manufacture more products in the portfolio, which will set the platform for direct distribution in the northern region. Given the scale of our Indore facility, which has the entire range of products, we already have an established hub for the central region.

The third initiative is enhancing distribution network. Even as our distribution network steadily regains this momentum we are enhancing efforts to optimize its reach. We have undertaken initiatives like tele-calling, which are enabling us to deepen our distribution presence in micro markets and drive sales of a wider product range across existing outlets, thereby complementing reach of the existing distributors' universe. This initiative has been introduced in certain markets at present and will be extended across our network in a steady manner. This will help us to sweat our existing distribution network better by capturing more retail touch points within the vicinity and also relentlessly engaging with retailers to offer more categories and variants of our products. A pilot for this was conducted in 2019 and it has been elevated into a full scale initiative in some key regions. This will be extended across more points in the network in coming months and quarters.

The fourth initiative is on product portfolio. To further aid growth, we have recently made some additions to the product portfolio. The pandemic has exhibited that our products are largely consumed outdoors and we are working on a strategic product initiatives to add some products, which are readily suited to in-home consumption as well. We are also carefully evaluating our entire product portfolio to assess the impact of each on the basis of revenue contribution, popularity and profitability. With this evaluation we can then undertake bottom slicing to weed out those products that do not perform adequately on either or all criteria.

During the quarter we also launched the Avadh portfolio in some newer markets outside Gujarat, I am pleased to share we have received an encouraging initial response and we will build on it in a steady manner.

The fifth initiative is cost rationalization and increasing efficiencies. The adverse cyclicality in the prices of key raw materials especially palm oil has adversely impacted margins. We have partially mitigated these elevated costs through continuous operational and manufacturing process re-engineering and cost optimization initiatives in both owned and 3P facilities. In previous quarters we have also implemented initiatives to reduce per unit packaging material and also more efficient filling of corrugated boxes, which continue to provide benefits. Palm oil is a substantial cost item within our total expense. A 30% year-on-year rise in the average cost of palm oil would have had very severe impact on our margin performance but the combination of the above factors has enabled us to largely offset the pressure and contain the impact to about 60 bps.

In conclusion I would like to say that the performance of Q4 & FY2021 has to be viewed in light of the multiple headwinds being faced at present. However, we have tried to minimize disruption across operations. Further the initiatives undertaken will strengthen the business model and benefits will certainly accrue in the months and quarters ahead. We are confident of a sharp rebound upon unlocking of restrictions. Reopening of schools and markets along with resumption of travel through trains and highways will bring customers back to points of sale. We also believe that the cycle for input prices will eventually turn into a tailwind. These factors along with the structural improvement to our business model and permanent reduction in costs will return us to a trajectory of higher growth and accelerated value creation.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditya Kondawar from JSP Investments. Please go ahead.

Aditya Kondawar: The number one question that I had was are we exploring any product adjacencies or new product entries in the extruded snack segment or in the sweet segment. Number two just wanted some thoughts on the unorganized sector what is the kind of competition that we have faced in the past from them and in the past few quarters what has been the competition like because due to a lot of lockdowns we have been hearing news that a lot of unorganized shops have shut their shops so some flavor on that side please?

Subhashis Basu: As regards to new product adjacencies we are working on a few in fact we are working in extruded space also, in shaped extrusions. As we are talking somewhere in a month or two we will be launching one product called 'Sticks'. Apart from that we are also working on certain other products like 'Rusk', which would also be in new product adjacencies, which we are just marketing now and we are also working on some new sweet snacks at a different price points also to work on, which gives some innovation for the new thing for the market at the same time is complementary to our existing portfolio. In terms of unorganized sector of course there is some hit on the unorganized sector. However, unorganized sector is too big in India to died off it will remain. They are also facing the headwinds like we are facing and of course as a larger company we have a better wherewithal to handle this headwinds and that is how we have managed to bring back our sales to our original level almost in the last quarter. I hope that answers your question.

Aditya Kondawar: Yes. Thank you.

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

Tejas Shah: I hope that team is keeping safe and well. Sir, we have done a very good job of protecting or rather at least giving a good fight to gross margin pressure at EBITDA level by not conceding much of margins at EBITDA. So, if you can highlight some of the factors or some of the measures that helped us to do this and which of these measures you believe will stay with us when we go back to normalcy let us say next year, hopefully by next year?

Sumit Sharma: We have done lot of improvements especially in the operations side so far. Some of them includes resizing of our packets and change in dimension of our corrugated boxes and these have multiplier effect. The moment we change our packaging it also impacts the overall packaging cost including the cost of the corrugated boxes and it also gives some saving on the logistic cost. So, we have done a large exercise by resizing of all the packets wherever there was a possibility. In addition to this, we have also done some improvements in the operations side, to bring more efficiencies in the production. In addition to these things, there is some grammage reduction in some of the SKUs and apart from operations side we are also equally working on the channel side. So, we have reduced the trade margin whenever there was some possibility and now we are working on the restructuring of our distribution model which will give us another incremental saving and most of the changes are sustainable, these are permanent in nature irrespective of the commodity price.

Tejas Shah: Based on your discussion with raw material vendors especially refined palm oil. What sense you are getting for FY2022 are we seeing any chances of pricing coming down this year or they are still hardening of like all other raw materials are doing right now?

Amit Kumat: Basically the palm oil prices started from Rs.70 went up to Rs.140 just 15 days back. It has now come down to a level of around 125 and I think the peak has gone it should only come down from this place and should not go up, whether it will settle at Rs.100 or Rs.110 very difficult to predict anything in oil, but in all practicality if you see five or six year average the average for this year or next year should not be more than Rs. 100.

Tejas Shah: Last quarter average refined palm oil procurement price will be how much fourth quarter?

Sumit Sharma: The range was pretty wide, the range was from Rs.90 to Rs.93 to Rs.120, Rs.125. But on a blended basis the average would be roughly around Rs.110 to Rs.112.

Tejas Shah: Just wanted to understand, should we assume that the prices remain at this level what AmitJi just mentioned, then our gross margin based on our pricing power and other interventions on trade front that we have taken at worse, it will remain at this level and then perhaps it can improve if prices go down further is that the correct understanding?

Sumit Sharma: As an organization we intend to to improve the gross margin from here. However, considering the volatility in the oil price it is very difficult to predict for a short-term for example the oil price movement is very sharp like Q4 it went up to Rs. 120 but as AmitJi mentioned even in early May the oil price went up to Rs.140 per kg, which has come down to now Rs. 125-126 level. There is always some time lag between the improvements and the oil price increase. So, short-term there maybe some volatility because again it takes a little bit time to implement all the improvements, which we have discussed but yes on a long-term or for a medium-term to long-term period definitely we can see improvement in gross margin as well as in EBITDA margin.

Tejas Shah: If I recollect correctly we have a very decent impact on freight cost also in our total cost structure, so there is a decent inflation on that side also apart from at the gross margin level so any update on that side and then I believe all the factors that are going up freight cost and even demand or in general the traffic is also picking up so just wanted to understand over there are we seeing any relief or it is still hardening of the results?

Subhashis Basu: In terms of freight cost, we have already done lot of productivities in our logistic center end-to-end supply chain. So, to a large extent we have been able to manage the freight cost inflation. However, the edible oil inflation has a much high impact, so there are some immediate pressures because as AmitJi and Sumit shared the edible oil price is even higher today than that it was in Q4. So that will be a short-term pain but in terms of freight cost we have done a huge lot of productivities in our logistics supply chain which we have been able to absorb and manage it. Does that answer your question?

Tejas Shah: Just wanted to know A&P spend for the full year and then fourth quarter?

Sumit Sharma: Overall A&P spend for the full year is much lower than the last year, for FY2021 total A&P spend is roughly around Rs. 8 - 8.5 odd Crore for the full year. As you know we largely spend for our Rings, where there are regular advertisements run on kids channels since kids are not moving out so we have reduced the spend on advertisement for Rings.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain: I have a couple of questions. AmitJi number one is on the price point of the packaged snacks that your company is selling. Given the unprecedented cost inflation be it the palm oil which we explained or the freight or the flexible packaging items is there any discussion within the industry or within some of your large competitors, whether MNC companies or the domestic ones to move beyond this Rs.5 price point because there is a limit to which you can do this grammage change and the change in the packaging and saving through the corrugated box optimization and things like that or you are saying still the large players are in the same mentality or the mindset to increase the sales and the penetration and not to think about the profitability at this point in time. This is question number one. Question number two is how much of Prataap Snacks sales or the revenue are directly linked to the near schools and colleges sales, the retail touch point it is a difficult question to ask but you still would have some idea is it 15% or 20% given normal year, non-pandemic year how much this kind of thing because I guess my sense is that the package which have toy into it is a high margin product for us, so these are two questions for you.

Amit Kumat: The first question is Rs.5 MRP product, there is still large part of the sales for most of the manufacturers in the country comes from the Rs.5 segment, for us probably it would be close to 75%, 80% of our sales from the Rs.5 segment and there is still lot of cushion available for reduction of weight so

I do not think the Rs.5 category is going to vanish anytime. Though most of the players are thinking to reduce the dependence on Rs.5 and increase Rs.10 and Rs.20 sales we have also been thinking on the same line. Three years back our Rs. 5 sales were probably close at 90%, 95% now its around 80%. On the second question we do not have the exact number of the touch points near schools or colleges but I believe 20% to 25% of our sales used to come from the touchpoints nearby schools and colleges.

Nitesh Jain: If you can allow me to ask one last question, Sir I want to ask you the cost inflation be it the palm oil or the flexible packaging or the freight would you believe that the current A&P or the current prices of some of the commodities are already into say Q4 numbers Q3, Q4 numbers of Prataap Snacks or you think even going ahead in the coming quarters they are yet to reflect into the company's P&L in terms of the inflation the cost side is the worst is already there in the number or they are yet to come in because of some inventory or some other stuff?

Amit Kumat: I think probably Sumit will answer that question but on your second question. As far as the high prices of raw material as concerned the worst for the industry is over that is what I have believed but for us basically probably Sumit can answer the impact on us.

Sumit Sharma: In terms of inflation in the raw material price as AmitJi mentioned in his earlier answer that the oil price was around Rs.110 - Rs.112 per kg for the Q4 average, which has gone up to Rs.140 per kg and that has now come down to around Rs.125 per kg. So, in terms of raw material inflation again Q1 seems to be higher than Q4 in terms of oil pricing however, we still need to see how it goes in June month but it looks that the oil price is going to be higher in Q1. Again we are continuously working on various improvements and now it has become a continuous process, so rigorously we are working on the channel optimization including the direct distribution and other stuff. But again as I mentioned earlier there is a time lag between the price inflation and the benefit getting from these improvements. So, there maybe short-term volatility because of that but yes in a medium to long-term definitely we can get to a much higher gross margin and EBITDA margin.

Moderator: Thank you. The next question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S Narayanan: Firstly I wanted to understand are we planning to scale up our Avadh snacks business throughout the country or region specific, what is our revenue target for this Avadh snacks once we reach nationwide kind of distribution level?

Subhashis Basu: We will not be able to share the revenue target; however, we have successfully tested out Avadh in some of the states and we have got good response in Guwahati UP, parts of Rajasthan and in parts of Haryana and we want to take it forward to some other states also where we are having our third party plants, which can produce our products and market it at 250 kilometers radius to optimize the logistics cost. Avadh has already started growing at a double digit in Q4. If you take the coming year we see a healthy double digit growth in Avadh. So, Avadh now has become a growth driver also and the expansion both in terms of its portfolio and geography has helped us. Does that answer your question?

Deepan S Narayanan: More on that so Avadh snacks how is it in terms of gross margin and EBITDA margin as compared to company's overall gross and EBITDA margins?

Sumit Sharma: Avadh is slightly different business model where we offer more value as compared to Prataap so it is basically a super value model with the lean distribution so the distribution cost is pretty low as compared to Prataap. So our gross margin is relatively lower but if you look at the EBITDA level it is almost similar as Prataap in the normalcy level; however, in current scenario where oil prices are at its peak it has more negative impact in terms of Avadh because of higher quantity being offered, but yes in the steady state scenario Avadh is almost similar to Prataap's EBITDA margins.

Subhashis Basu: We are also working on the portfolio of Avadh so that we can increase the sales of those particular SKUs, which have better margin so therefore we foresee a much better bottomline for Avadh as we move forward.

Deepan S Narayanan: Currently Avadh EBITDA positive at current FY2021level?

Sumit Sharma: Yes, for FY2021 it is EBITDA positive.

Deepan S Narayanan: Lastly what kind of investments do we foresee in the next three years for increasing our 3P facilities across our country and where do we see this contribution of 3P increase from current 24%?

Sumit Sharma: We do not have significant capex plan because currently we are underutilized because of this COVID and now we are relying more and more on 3P operations, which is anyway going to be the asset light model so we do not have significant capex plans. However, if you ask me about next two to three years plan there could be investment of around Rs. 100 to 120 Crore at the most including maintenance capex and some addition for packaging and production line and that will get funded by the internal accruals.

Moderator: Thank you. The next question is from the line of Chirag Shah from ValueQuest. Please go ahead.

Chirag Shah: Due to COVID is there any change that would have come into the company say in terms of category, which started doing well or say new channel emerging where you started focusing, which was not just a focus area or any price points where we are seeing any meaningful pickup. So, is there any change which you would like to highlight in terms of category, channel, price point, etc., which would have happened because of COVID?

Subhashis Basu: In terms of one way of working in fact what we found that in some urban centers the telecalling during this period has really helped us. So, if we look into the telecalling in the four cities where we have already started last year the growth has come at a much higher rate as compared to other geographies during that period so that is why we want to focus on that and take it to the next level to at least 200,000 outlets this year. In fact we would have started earlier that plan in Q1; however, we are waiting for the lockdown to clear out and once it clears out we want to take it to the other cities and take it up. Apart from that we are also seeing the products, which are not that kids dependent for example our other extrusions apart from Rings or Chips or some of the new products which we have started comparatively have done much better and our foray into rural markets last year where we started focusing on more has given us results because rural economy was less affected last year than the urban economy and that has helped us to bounce back in Q4.

Chirag Shah: Secondly if we see Q4 we have recovered very well in Q4 but now with the second lockdown, etc., and the more impact we are seeing in smaller towns how has been business doing and if you can just help us understand short-term outlook there?

Subhashis Basu: In fact the impact of this lockdown is much severe than the last year lockdown because this year what we are seeing is that every person is getting affected either him or the known one. So, the fear of COVID is much higher this time than it was last time, but if I compare with last lockdown this time we are much better prepared both in terms of our operations and in terms of running our factories well in advance planning it, so whenever there is a lockdown easing out we are immediately well planned, machinery is also working much better so if I compare with last year same quarter we are doing much better than last year same quarter.

Chirag Shah: Lastly so whatever changes you would have done in the business process restructuring, etc., price increases you would have taken what kind of normalized margins one can expect say well 18 months down the line when overall RM situation also start to ease out so what can be one should look at sustainable margin say one, two years down the line?

Sumit Sharma: Once the commodity cycle is eased out and we are also done with our planned changes which is largely about the distribution restructuring, maybe in medium to long-term we can look for 9% to 10% kind of EBITDA on a sustainable basis because whatever changes we are making now these are more permanent and sustainable in long-term irrespective of the commodity pricing so on a long-term basis or mid to long-term basis we are aiming somewhere between 9% to 10% EBITDA.

Chirag Shah: That is quite heartening, and lastly what is the development on sweet snacks what kind of size we have achieved and how that part of the business is doing?

Subhashis Basu: Sweet snacks, the entire segment which we are dealing with again, as Rings, it is extensively kids dependent and a large portion of the sales is to happen it used to get incorporated in the tiffin box of the kids when they go to school. So, that category got affected because we are only dealing with Rs.5 products. Now we have started working on new products which can also come under Rs.10 bracket and that product development is on. Hopefully, next few months time we should be able to introduce Rs.10 product in sweet snacks also which can go as a take-home product. However, as similar to Rings as and when schools open up the sweet snacks sales also will start again flourishing back.

Chirag Shah: What would be the size we would have achieved now?

Sumit Sharma: It is in line with FY2020 so sweet again is approxmitely around 3% of our overall business.

Moderator: Thank you. The next question is from the line of Dhruv Shah from Ambica Fincap. Please go ahead.

Dhruv Shah: AmitJi I have one broad question, because of the lockdown our growth has been tapered in this current year but going forward how do you see our growth panning out. We have two big players which have the pockets and other competition also building up capacity in that scenario how do you see our growth seeing once the normalization comes and once school reopens?

Amit Kumat: I think for the manufacturing facility we have sufficient capacities available at different locations. In normal condition healthy double digit growth should not be a problem at all.

Dhruv Shah: Yes, but do not you see competition being very aggressive because what I understand that even regional players like Gopal is also getting aggressive in our space and being a listed company we need to focus on margins, does it not that hamper our growth?

Amit Kumat: No it really does not, we do fight with the unorganized players. But our clear focus is basically to get growth. We are also trying to improve margins by channel optimization and other processes. So double digit growth should not be a problem in normal conditions not at all.

Dhruv Shah: One question on your change in strategy and distribution. Does it cannibalize our existing distribution like the super stockist would not be selling our product so does not it cannibalize because you are going directly to distributors?

Subhashis Basu: What we are saying is that today we have intermediaries. So, I am selling to super stockist and super stockist he is acting as a hub, he is selling to the spoke - the distributor, distributor sales to retailer, retailer sales to the consumer. So it is still wherever possible where we are creating those hubs instead of going through this super stockist we will directly sell to distributor. In that situation what happens is I can save one level of intermediary margin which we have been offering to the super stockist.

Dhruv Shah: But you do not see any impact on our sales growth because of that?

Subhashis Basu: No, that is why it will be in a phased manner that is why it cannot happen overnight. So that is why we have taken, the entire plan which we have taken up, which will be happening in the next 10 to 15 months it will take around that period of time. We have already started some of the places have already been converted; however, the entire plan might take one to one-and-a-half years time and we should not see any drop or any issue with sales on that.

Dhruv Shah: SumitJi we have been focusing on 3P we have opened up three 3Ps but now we are focusing on opening up hubs does not it changes us from an asset light model to a capex heavy model?

Sumit Sharma: Tthe philosophy is still same we want to keep ourselves asset light so recently we took over the control of our Bengaluru 3P operation. So Bengaluru is the location which was an exception to our routine 3P model where we had invested in the plant and machinery. There is no fresh investment per se we just took over the control. Now we are running the operations on our own. Kolkata is a new location where we are planning to put up our own plant but again for setting up of our own plant there the philosophy behind is to make Kolkata location as a hub for eastern market so we can plan direct distribution as Subhashis has mentioned. Otherwise still the philosophy is same and for any new location the first difference is 3P.

Dhruv Shah: So SumitJi how much capex will be needed to build our own hub in Kolkata and Hisar as Amitji mentioned?

Sumit Sharma: As I mentioned earlier in my earlier answer Dhruv we do not need significant capex, we are planning roughly around Rs.100 to 120 Crore for next three years. Kolkata would not require a significant capex, part of the capex we have already done last year because we placed the orders and also made advances to various machine suppliers. The total capex for Kolkata plant is going to be roughly around Rs. 8 - 9 odd Crore where we will be producing extruded category because we already have a potato chips facility in Kolkata with the third party. So, we will have all the products available at single location help us to implement this direct distribution model in a faster way.

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

Shirish Pardeshi: I have larger question on your direct distribution, you said that you are bypassing the super stockist leg and directly supplying to the rural so what is the margin difference you save, I guess super stockist you would be giving about 3%-3.5%-4% so is that a substantial number saving which we will have?

Amit Kumat: Normal our channel margins to super stockist is around 3% and 3% is the onwards freight when the super stockist supplies to the distributor. So there is a 6% margin lying there. Suppose take an example of Delhi we have around 60 distributors in Delhi and we have one super stockist who is supplying to all the distributors, we have made mega distributors in Delhi and directly supplying to them. So, this all process we are directly supplying to these mega distributors rather than supplying to 60 distributors directly from the factory and in the process we see that we can save almost 3% margins.

Shirish Pardeshi: Having seen the operation in the ground we probably are looking for a truck load direct shipment I got that. The point what I am trying to understand is that how much such distributor who have this capacity to pick up the load so I am sure you would have done the maths and you have done the good logistics study and you are also guiding that there will be some saving which is coming, but I am more keen to understand in any pilot or any specific state if this has been exploited what kind of growth in the sales which has happened that is the first part and the followup is that to our overall sales what is the contribution of this new direct delivery contribution?

Amit Kumat: Firstly on the second question basically we are targeting 25% to 30% on the sales to switch over to direct including major markets like Delhi, Mumbai, Haryana and Madhya Pradesh and South Bengal. These are the five key markets we are targeting to go direct to the distributors. Second question basically the sales it has nothing to do with increase in sales the sales comes from the basic distributor route where we take the product into the market so how efficiently you can get that is more important. So, sales growth we are expecting by shifting all these mega distributor of telecalling so the telecaller can take order one day before and the next day we can deliver the stock. Just to give you a flavor if an extra growth into the market, he normally does around 40 calls out of which normally 30 calls are productive and if we can probably go through the telecalling we can cover 50%, 60% more outlets.

Shirish Pardeshi: I got that Amitji what I was saying is from the operational challenge for example if you are talking about Delhi distributor and he would be investing say about Rs. 5 lakhs in a stock and truck load which is going to come so if the investment will go up on the flip side his market credit will come down. So I think is it good for the distribution hygiene system from the distributor perspective because he will be spending in my truckload and probably there is a capacity constraint in terms of giving credit in the market or probably storage that has godown. So, I am more keen to look at the qualitative aspect is there any such hit backs, which is coming or is this going to be smooth ride for you?

Subhashis Basu: See when we are talking about this direct dispatch to distributor, if you recall AmitJi was talking about concept called mega distributor that means before as a prelude to direct dispatches you need to do a consolidation of distributors. Now where is the distributor can be consolidated where we are relatively strong in the market. Irrespective of forget about direct dispatch even in evolution of market demand and a company, as the company grows at the initial phase you will be not getting big distributors so you will appoint small bits and pieces marginal distributors, and there will be huge number of distributors however as you get to a certain stature, as you cross certain level of turnover in a particular market that is when one has to do a consolidation of the distributor. So instead of 100 small, small distributors you might now work with 25-30 large distributors equally doing the same coverage but with a much better pocket and much better financial and distribution capability. Now that is the first step, which happened. Now once that happens after that you start directly dispatching through those distributors from the hub and that is what is happening in Delhi. Delhi was one of our pilot markets, in Delhi we used to have 60 small distributors and one super stockist so instead of 60 small distributors now in Delhi we have around 16 mega distributors. So these 16 distributors are handling the same geography same coverage. Now to help them out what we are doing also we are telecalling, now telecalling I will just give you a math, a telecaller in a single day can call up to 120 plus outlets whereas physically when a salesman goes can call up to 40 outlets with a daily stock operations. Now that is the difference so that means with same type of manpower you can do three times the calls and the next day that mega distributor only has to just deliver the outlets who have ordered so this entire process is there are two, three steps so first we will do consolidation of distribution, appoint larger distributors in place of removing small distributors. Then we start telecalling and then we start directly supply to them instead of going for super stockist. Does that answer the question?

Shirish Pardeshi: Yes Mr. Basu I got it completely good handle on that. My second question is on the distribution front Mr. AmitJi has banked on the rural footprint could you please share what is the current footprint we enjoy in the rural markets and any meaningful target you could share over next 12 months as what is our internal target to expand our footprint?

Subhashis Basu: See exactly in terms of number of outlets is very difficult to share because in rural a large portion of the sales which we get in rural goes through the wholesales. But we believe in terms of consumption around 45% to 50% of the Yellow Diamond and other products which are consumed are consumed in rural markets. So as last year progress, the rural economy started bouncing back better and our focus on rural helped us to get back the sales. So that is why if you look to our entire topline strategy it is based on two main pillars one is the telecalling which will happen in the urban centers and what we are saying is a deep distribution by appointing distributors at every Taluka level. Now for example if we are looking to a market like South Bengal. South Bengal we have already completed entire Taluka level distributor now there we are looking at a block level distributor whereas in UP now the drive is going on at district level distributor and by the end of this year we will be able to do a Taluka level distributor. So depending on the level of evolution of each state we are actually going for a deeper penetration model because that will help us to reach better reducing our dependence as much as practicable from wholesale and that will give us better returns also in rural market. There are some headwinds in rural market because the second wave had more issues in rural; however, still be able to manage because the urban centers have started wherever we have started telecalling have also started performing better. So both these two put together will be I think both these steps will be complementary to each other one for the urban market one for the rural market should help us in terms of getting our topline right.

Shirish Pardeshi: Sir my last question on the wholesale. You did mention that wholesale is a key important channel would you be able to give a quantitative number of how many wholesalers we are covering in our markets the number and what is the total revenue contribution which we are getting from wholesale at this time?

Subhashis Basu: Number of wholesalers will be difficult but in terms of percentage of our business it also differs from state to state for example if you go to north east, in some states of north east even 60% of the sales might be coming from wholesale whereas if you come to Mumbai city hardly 10% of our sale is coming from wholesale.

Shirish Pardeshi: For a company how much is the wholesale contribution?

Subhashis Basu: See it will be difficult, approx will be around 25%, 30% at the most.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: I want to know the key consumer differentiation proposition that you have on your products versus mainly the larger competitors such as an ITC or Pepsi because your footprint and your aspirations are to be of that type of player. So how is this going to happen on the trade side rationalization as you had explained it very well but in terms of, from a consumer going to the trade side what is the proposition for the trade for them to accept some of these new terms that you are talking about, if you could address both of these things?

Subhashis Basu: In terms of acceptability in trade it is not that we are a new company going to the trade in fact especially in the C and D class outlets in the small town and rural we are more relevant than the names which you talked about. We are more relevant in those outlets as of today and it has been built over last 15 years so it is not that we are new to a particular outlet so in terms of acceptability. In terms of our position is at a much, much better value and at the same time best quality. So in some categories we will give a much higher value than some of the competition, in some categories we will be same to them but over a period of time Yellow Diamond has created its own brand pool, especially amongst the kids of 4 to 12 year old SEC C & D. For example in some particular category we may not be giving any higher value than the number one brand but still our sales happened because there are particular segments of consumers who are looking for Yellow Diamond chips. For example let me be specific for example if I take a Lays chip or ITC chip since you named those two companies in certain categories I will be giving higher value to the consumer, in certain categories I will be equal value to the consumer but in those category also we are growing because our brand is registered in our core audience which is our target audience is SEC C,D kids 4 to 12 years.

Ayaz Motiwala: On the consumer point that you talked about in the internal sort of analysis and if you can share some high level talk on that if you look at what these two competitors when some of the other players make where the regional or a single state player Balaji also comes in from Gujarat which and some of the others as you do benchmark studies these margins that Amit Ji talked about and the direction of the margins, are you already in line with the competition or are you substantially better than them or how should we understand that aspect as the current status hits and we are indeed going towards improving your status by the distribution rationalization points that we have already made?

Amit Kumat: Yes if you talk about Frito-Lay or ITC we do not get the numbers, but we believe we are in line with them; however, in terms of regional players there will be some regional players who might be having some regional benefits for example since they do not have to have the freight across India, they do not have a national presence so they might have a better position. However, for example if I do a P&L of my Madhya Pradesh business then it will be best for me. However since we believe that for long-term our national presence is extremely beneficial for us for a long-term growth therefore there will be some hit in the margins because we are national, we have spread ourselves and if I talk about the company as you talked about for example Frito-Lay and ITC I think we are quite in line with them. However, there will be some regional players who might be having better margins since they are regional in nature and it also depends from product-to-product portfolio. For example some categories have higher margins comparatively some categories have lower margins. I think we are one of the few companies, which has the entire gamut, entire spectrum of salty snacks. So, from that perspective I think we are better placed for future growth also, for example since you talked about ITC they will not not have extruded shaped extrusion business or take Frito-Lay they will also not have a lot of shaped extrusion or namkeen business. So, whereas we are there in all segments of salty snacks. So I think strategically we believe and we said that our presence in the entire gamut of salty snacks portfolio will help us to stand in better state for longer keeping future in mind and that is how we are moving ahead.

Ayaz Motiwala: Sir if I may just quickly ask you as a point that you made out a lot of points in terms of the margins sort of expectation and what you just mentioned. Your gross margins today are 26% you spent a small sum of Rs. 8 odd Crore in terms of one can understand some of it is points of operating leverage typically in a consumer company and this trade rationalization that is going on and you talk about the breadth of your portfolio which we appreciate but it should also financially rewarding on a blended basis let us say. So what are the points or the levers at a high level we can describe other than that AmitJi has described 2 to 3 points of margin gain potentially over a medium-term and I am just saying a timeframe, you have not spelt that or call it in three years and maybe long, but maybe 10% EBITDA margin number. In this journey Sir how do we better appreciate what are the levers on the mix side to get you improving gross margins on the product and the portfolio that you talked about and then the other side of the cost that we are rationalizing beyond distributor how are we benchmarking to see what is the other room for improvement?

Subhashis Basu: Let me answer and then you can tell if I got your question right. There are two, three parts. One the product portfolio of course makes a difference for example rings and sweet snacks are two products which gives us highest gross margin. Now in a particular year or in a particular phase where these two categories are challenged, there will be challenge in the overall margin pressure so that is number one. So that is why we are working on different categories which can match the gross margin of these two categories. Number two, the oil price pressure is unprecedented now, to give you an example of our dependence on oil and that is for most of the salty snacks companies Rs.5 difference per kg of oil is almost like 1% EBITDA. So that is the type, if you see in the past two years from Rs.50, Rs.60 oil now it is at Rs.125 to Rs.140 so we have taken huge gross margin improvement and productivity measures to be able to absorb this. If I have taken a normal a 5%-10% inflation of oil we would have been already at 9%-10% EBITDA. With the type of corrections we made in our portfolio mix, in productivity, in freight cost, in channel but that almost benefits got stuck into because of this unprecedented oil price increase so as we get start getting tailwinds when the commodity prices cycle also is cyclical in nature so we will get this benefit at the same time what we are saying is we are not waiting for that we will keep on working on these productivity measures so therefore we will work on that, now we will work on the channel rationalization as AmitJi was talking about, we will further work on on our portfolio mix rationalization and at the same time we will also work on our distribution optimization where we are talking about telecalling in urban, deeper distributor network at its Taluka level for the rural and that should help us to get to the optimum bottomline level as Sumit has shared does that answer your question?

Ayaz Motiwala: Yes, sir so this is very helpful and we welcome this kind of sort of color and I really appreciate I wish you and the team and Amitji and others all the very best. these are very trying times and we will really appreciate the business in the light of these tough times but it is also a quest to sort of run the business in a better light so it has been for three years that it has been listed or maybe four and it has been facing some of these headwinds along with the new product introductions that we have gone through, the sweet snacks that we talked about. so thank you for that and all the very best.

Moderator: Thank you. The next question is from the line of Kalpesh Sontakke an Individual Investor. Please go ahead.

Kalpesh Sontakke: I had a couple of questions, so my first question was Q4 FY2021 sales almost touched the Q4FY2020 sales and can you throw some light on how you achieve these numbers on the measure which you have adopted given the schools and colleges were closed and also the travel has been subdued in the last quarter?

Subhashis Basu: Yes, see we shared that earlier we have got headwinds in terms of schools closed and the kids not going out and the travel channel getting affected. So at the same time what we did was that we started focusing on telecalling in some of the urban centers and what helped us mainly this last year was that we started deeper rural penetration by appointing distributors at Taluka level because the first wave of COVID rural was less impacted than urban and our focus was to augment our distribution capacity in the rural to make it up for whatever shortfall we were getting in urban and because of this travel channel and schools that has helped us to bounce back in Q4.

Kalpesh Sontakke: My second question is do you see any impact from the entry of Cornetto's brand in economical sub-segment. They are now expanding their operations on e-commerce side as well?

Subhashis Basu: See our major focus is general trade and that is our strength. Our dependence on e-commerce is hardly there. In fact because our 75% of our sales, 80% of our sales comes from Rs.5 pack. However, we have increased our contribution of larger packs which was around 5%-10% three years back now to 20%-25% but still our major sales we are dependent on Rs.5 and general trade and that is where our focus will also lay and we do not think Cornetto's coming in the other segments will affect us it will be same like any other company who is launching. India is a very, very big market where many companies can come in.

Kalpesh Sontakke: Last question from my side is can you share the revenue contribution from the sales contribution in Q4 as well as FY2021?

Sumit Sharma: For the whole year Avadh had contributed almost Rs. 170 odd Crore and that is almost similar to FY2020. There is a slight decline over FY2020 that is primarily on account of closure of operation in Q1 but if you see the Q4 there is a positive growth in Avadh, it was healthy double digit growth.

Moderator: Thank you. I would now like to hand the conference over to Mr. Ashutosh from Systematix Institutional Equities for closing comments.

Ashutosh Joytiraditya: On behalf of Systematix Institutional Equities I would like to thank the management for taking out time for the call. We are also thankful to the participants for making the call a success.

Amit Kumat: Thank you.

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