ADF FOODS LTD.
Feeding the world..

6th February, 2024

National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051. **Symbol: ADFFOODS**	BSE Limited, Department of Corporate Services, Phiroze Jeejeebhoy Towers , Dalal Street, Mumbai - 400 001. **Scrip Code: 519183**

Dear Sir/Madam,

Subject: Transcript of Q3 & 9M FY24 Earnings Conference Call.

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we attach herewith a copy of the transcript of Earnings Conference Call held on Wednesday, 31st January, 2024 The same is also available on the website of the Company at www.adf-foods.com.

This is for your information and record.

Thanking You,

Yours faithfully,
For **ADF Foods Limited**

SHALAKA SWAPNIL OVALEKAR
Digitally signed by SHALAKA SWAPNIL OVALEKAR
Date: 2024.02.06 10:39:11 +05'30'

Shalaka Ovalekar
Company Secretary

Encl: *As Above*

"ADF Foods Limited

Q3 FY'24 Earnings Conference Call"

January 31, 2024

MANAGEMENT: **MR. SUMER THAKKAR – GENERAL MANAGER, SALES AND STRATEGY – ADF FOODS LIMITED**
MR. SHARDUL DOSHI – CHIEF FINANCIAL OFFICER – ADF FOODS LIMITED

MODERATOR: **MR. RAVI UDESHI – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY'24 Earnings Conference Call for ADF Foods Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Udeshi from EY. Thank you, and over to you, sir.

Ravi Udeshi: Thank you, Manav, and good evening, everyone. We welcome you to the Q3 and Nine Months FY'24 Earnings Conference Call of ADF Foods Limited. To take us through the results and to answer your questions, we have with us the top management from ADF Foods represented by Mr. Sumer Thakkar, General Manager, Sales and Strategy, who is part of the promoter family; and Mr. Shardul Doshi, the Chief Financial Officer.

We will start the call with an overview of the business and current business update by Mr. Sumer Thakkar, and then Mr. Shardul Doshi will give his comments on the financials. As usual, the standard Safe Harbor clause applies as we start the call.

With that said, I now hand over the call to Sumer. Over to you, Sumer.

Sumer Thakkar: Good afternoon, everyone. Let me first give you an overview of the company followed by a business update. ADF Foods is a leading consumer-focused company and a leader in prepared ethnic food. We manufacture, distribute and market South Asian food, both in India as well as globally in over 55 countries. We have eight distinctive brands in our portfolio, each catering to a certain demographic and have a strong consumer following.

These brands cater to the South Asian diaspora, global mainstream as well as domestic consumers. Our flagship brand, Ashoka, is growing at a CAGR of upwards of 30%. Our products and manufacturers both at our Nadiad and Nasik plants, which have a combined capacity of 28,000 metric tons.

We also have a branded foods agency business for distribution of select FMCG products. These are renowned brands, including Lipton, Brooke Bond Red Label, Taj Mahal and Knorr Soup. This substantially broadens our offering and enhances our store presence in overseas countries.

This combination of our own brands as well as our agency-backed business backed by our manufacturing strength has contributed to healthy EBITDA margins in the range of 20% powered by a debt-free balance sheet. We continue to make investments in our brand and our manufacturing capabilities for long-term growth.

Coming to the business update. We had a satisfactory growth as well as healthy margins over the past nine months as we focused on brand building and investing in profitable products. We saw stable demand for both our processed foods as well as the agency distribution business. Our Q3 revenue growth could have been better. However, the Red Sea crisis impacted sales shipments towards the end of the quarter.

We initiated several new plans to accelerate our long-term growth. The Board approval for investment in Telluric Foods will enable us to accelerate our India business growth. Further, the merger of our subsidiaries, ADF Foods and Telluric Foods will enable us to achieve substantial synergies, including efficient capital utilization, flexibility in business operations and cost rationalization.

We continue to witness healthy demand for our products. And in order to support the same, we launched several new products under our flagship brand, Ashoka. These were across various categories, including frozen desserts, canned sweets and Indo-Chinese sauces. Overall, we expect all of the above initiatives to enhance our growth and increase our profitability as well over the long term.

I now hand over to our CFO, Shardul Doshi, for his comments on the financials.

Shardul Doshi: Thank you, Sumer. Good evening, everyone. I'll first share the standalone performance. For the nine months that ended on December 31, 2023, we recorded revenues from operations worth INR 285.2 crores, an 11.8% increase from the same period last year. Our EBITDA was INR 70.2 crores, a 44.6% increase Y-o-Y.

We managed to expand the EBITDA margin by 560 basis points, reaching 24.6%. We see this as a tangible outcome of our continuous focus on investing in our brands and innovating in our product portfolio. Our PAT was INR 54.3 crores, a 36.8% increase from the previous year, with a PAT margin of 19.1%, an improvement of 350 basis points from the last year.

Now let us look at the quarterly figures. In Q3 of financial year 2024, we saw revenues from operations side to INR 103.2 crores. This marked a 3.5% Y-on-Y growth and a 6% Q-on-Q increase. Our EBITDA for this quarter was INR 26.4 crores, a Y-on-Y increase of 2.7% and Q-on-Q increase of 16.6%, while our EBITDA margin was 25.6%.

As Sumer mentioned, our Q3 revenues could have been better. However, as sales shipments were somewhat impacted by the crisis in the Red Sea towards end of the quarter. This led to a marginal impact on the revenues as well as our EBITDA and both grew at a slower pace on a Y-on-Y basis. PAT for the quarter was INR 20.3 crores, a 5.4% increase Y-on-Y, 14.4% increase Q-on-Q. Our PAT margin for this quarter stood at 19.6%, an improvement of 30 basis points on the previous year.

Moving on to console performance. For the nine months ended 31st December 2023, revenue from operations was INR 366.7 crores, a 12.1% increase Y-on-Y. EBITDA was INR 70.6 crores, an increase of 30.4% Y-on-Y. EBITDA margin stood at 19.3%, expanding by 270 basis points Y-on-Y. Profit after tax was INR 48.8 crores, up 22.6% Y-on-Y with a PAT margin of 13.3%, an increase of 110 basis points on a yearly basis.

Coming to the quarterly performance, our revenue from operations for Q3 FY'24 was INR 129.7 crores, an increase of 5.2% Y-on-Y and 4% increase from the last quarter. Our EBITDA for Q3 FY'24 was INR 27 crores, recording a small decrease of 0.4% Y-on-Y with an increase of 23.8% from the previous quarter. Our EBITDA margin stood at 20.8%.

Our PAT for the quarter was INR 19.1 crores, marking a Y-on-Y increase of 3% and quarter-on-quarter increase of 27.9%. For Q3 FY'24, the PAT margin stood at 14.7%. Our capex for nine months period ended December '23 was INR 3.5 crores in debottlenecking and another INR 3.5 crores in cold storage project. Our balance sheet continues to remain debt-free as of date.

The Board has approved INR 13 crores in optionally convertible redeemable preference shares investment in our subsidiary, Telluric Foods India Limited. This will downstream to Telluric Foods Limited, TFL, a step-down wholly-owned subsidiary of the company by TFIL. The paid monies will be used to support the brand building and working capital requirement of TFL.

Also, the Board approved transfer of ADF's entire equity investment in its wholly-owned subsidiary, ADF Foods India Limited, to its step-down wholly-owned subsidiary, which is Telluric Foods Limited at fair market value to be determined.

Post this, a merger is proposed between the company's subsidiaries, ADF Foods India Limited, which is a transferor company and Telluric Foods Limited, the transferee company. This proposed merger is already approved in principle by the Board. As highlighted by Sumer, the merger is expected to generate substantial cost synergies as well as greater financial strength and flexibility.

Overall, we continue to judiciously invest in our manufacturing capabilities as well as our brand-building exercise in order to focus on increasing our margin profile as well as deliver greater returns in the long term.

With this, I now request Ravi to open the floor for the Q&A.

Moderator: We have our first question from the line of Faisal Hawa, an individual investor.

Faisal Hawa: So sir, there is not much progress on the distribution business that we have because I think that Unilever sold some their…

Shardul Doshi: Can you try again?

Faisal Hawa: Hello?

Shardul Doshi: Go ahead.

Faisal Hawa: So Unilever sold off their business to another company and even Patanjali, we are not doing well. So are we giving up on this? Or are we in talks with more companies to really expand this because this is almost like an additional business, which goes directly almost to the bottom line for us.

Shardul Doshi: So the distribution business, in fact, as we had pointed out in the last quarter, there were certain issues which we faced on the supply chain issues. When the handover happened from Unilever to Lipton, which is where the business has moved, the entire business tea business has moved. However, saying this, a lot of these issues have been resolved in this quarter. There are still some issues which we are still facing in terms of supplying it to us.

But our growth, there is a good growth which has happened over Q2 numbers in Q3 when you look at the distribution business. We are also looking at some additional, we have talked to a couple of companies, and we will share some details as and when any transactions happen, and we will start selling those products.

Faisal Hawa: So second question is that how are we doing on our tie-ups with Costco and Walmart, which we are pursuing for a very long time?

Sumer Thakkar: So on the supermarket business, it's still a work in progress. So for Costco and Walmart, that's under Truly Indian, which we plan on launching next fiscal year. But supermarkets as a whole, we made some progress. In fact, yesterday, we got listed in 700 outlets in the U.K. with one of the largest supermarket in the U.K.

Faisal Hawa: So is it Tesco?

Sumer Thakkar: Yes, that's correct.

Faisal Hawa: Okay. So 700 supermarkets at one go we will be now getting access to?

Sumer Thakkar: Yes, but it's just a few SKUs. It's only 3 SKUs.

Faisal Hawa: But we'll be having access to all the 700 stores of Tesco?

Sumer Thakkar: That's correct. Yes.

Faisal Hawa: Okay. So that itself could lead to a lot of quarter-on-quarter growth from here on?

Sumer Thakkar: Yes. So we're hoping at least $1 million in the upcoming financial year.

Faisal Hawa: Okay. And sir, can you give some light on what has led to this huge EBITDA margin increase for us?

Shardul Doshi: The main EBITDA growth which has happened, of course, the margin profile is better when you look at the product mix which we have. Our frozen share is increasing overall sale. Second, when you look at the Y-on-Y EBITDA growth in nine months, there was higher freight cost, which we are seeing in the last financial year and that was substantially impacting our bottom line. However, in the current year, first nine months, the freight cost was lower. Towards end of, of course, Q3, the freight cost have also started going up. And we will see now how that will shape up in Q4.

Faisal Hawa: Thanks a lot for answering my questions. I appreciate it.

Moderator: Thank you, sir. We have our next question from the line of Rishi Maheshwari from AKSA Capital. Please go ahead.

Rishi Maheshwari: Hi. Thanks for taking my question. Hi, Shardul. Hi, Sumer. This is to understand, you had earlier projected to grow between 15% to 20%. And at that point in time, this looked comfortable, given the kind of market size that we have, the penetration that we have, the product that we have and the expansion on the geographical side that we were approaching at. While I look at the nine months numbers, today, they're at about 12%, 13% kind of growth. I believe that we may fall short of our target. What is your view on this in terms of revenue?

Shardul Doshi: So towards the end of the last quarter, we faced that freight issue. So the container availability where that wasn't really, that became a question, and we lost some significant sales in last 15 days of December. However, now that those issues have been resolved, the freight cost could have gone up, but containers are available and those orders have actually come into the fourth quarter. So hopefully, we will still be able to meet our targets, which we have mentioned.

In terms of expected numbers, I think we still stand committed to the higher growth in our top line. We have done everything which is required to do that. Our manufacturing capacity, we have increased. We have installed our freezer in US, that's in the warehouse. There is investment in people which have happened. There is investment in our Indian business also, which we have done. So everything is in place now. And there is, of course, good order book also for the fourth quarter. So for the year as well as going forward, we expect to meet our numbers, which we have been seeing in the past.

Rishi Maheshwari: Sure. Will you be able to let me know what is the contribution of Ashoka within the third quarter numbers?

Shardul Doshi: Ashoka will be in the range of 55% to 60% of our standalone business.

Rishi Maheshwari: Sure, 55% to 60%. Sure. The other part was to understand Nates and PJ's. Is there any update over there?

Sumer Thakkar: No. So nothing as yet. We did identify a facility last quarter but it didn't meet our quality requirement. And we still continue to leverage that relationship. Nates and PJ's, as you know, was mainly sold to supermarkets. So we hope to leverage that relationship and now introduce Truly Indian within those same supermarkets where the manufacturing is actually in our control.

Rishi Maheshwari: I see. Sure. So as of now, are there any expenses with relation to Nates and PJ's that we were incurring earlier?

Shardul Doshi: We are still incurring, the company is still in existence, and there is a legal case which is going on. Other fixed cost has significantly reduced. So last year, we had almost INR5 crores of losses from that entity. That's down to half of what we have in the current year.

Rishi Maheshwari: So while we will not have any revenue from there, will we continue to have these expenses on board in the next year as well?

Shardul Doshi: No. I think significant fixed cost is already reduced. It's just the legal cost, which is still we are incurring. And hopefully, we will get results, I think we will finish with our legal case and that will also stop in the next financial year.

Rishi Maheshwari: Your movement, your transition in U.K. supermarket, Tesco, I think is very appreciable. Congratulations on that. Is this 3 SKUs just a pilot product? And therefore, should we assume that gradually, we will have a lot of our SKUs if this pilot happens to be successful?

Sumer Thakkar: It's actually a permanent listing. In pilots, they roll out to fewer stores. But because this is across the board, we're hoping it's a permanent listing and then, of course, they'll decide based on secondary sales.

Rishi Maheshwari: And what is the potential that you see? I understand you're looking at $1 million perhaps next year. But what is the potential going in the next three, four years from, say, Tesco? This is a virgin contract, is that right?

Sumer Thakkar: Sorry, what was that?

Rishi Maheshwari: This is a first time contract with Tesco, is that right?

Sumer Thakkar: We used to sell in Tesco many years ago. But yes, we just got back in. And in terms of potential, it's hard to say, but we are estimating at least $1 million in the first year. I mean if you remember, a couple of quarters back, we got listed in Morrisons and B&M. And that next financial year should again move up with the full $1 million, but it's hard to say until we actually see secondary sales.

Rishi Maheshwari: Sure. What is the expected capex for this year?

Shardul Doshi: So there is on the cold storage, we have another commitment of INR 11 crores. So we will finish that project by April of the current year and the freezer, cold storage will be up and running. So that's total INR 15 crores spending we would have done by then. And in terms of normal capex, there is nothing significant now till March. And the next financial year, again, I think will incur another INR 3 – 4 crores for the normal capex.

Rishi Maheshwari: INR 3 crores, INR4 crores more than your normal capex.

Shardul Doshi: No. INR 3 crores, INR 4 crores of normal capex in the next financial year.

Rishi Maheshwari: In FY'25?

Shardul Doshi: Yes.

Rishi Maheshwari: So in FY'25, normal capex will only be about INR4 crores.

Shardul Doshi: I'm not talking about the greenfield. I'm just talking about our existing plants here.

Rishi Maheshwari: And any greenfield capex that you've already envisaged?

Shardul Doshi: So greenfield will be around INR 60 crores to be spent over 15 months, starting from April. Yes.

Rishi Maheshwari: All right. Thank you so much. All the best.

Moderator: We have our next question from the line of Devanshu Sampat from Avendus Wealth. Please go ahead.

Devanshu Sampat: Hello, sir. Good afternoon.

Sumer Thakkar: Hi, Dev.

Devanshu Sampat: So a few questions. Can you tell me what was the freight cost this year this quarter, sorry, as a percentage of sales?

Shardul Doshi: It's around 7%.

Devanshu Sampat: 7%. Okay. And sir, you also mentioned that you're seeing these rates go up now. So I mean, in terms of your expectation, do you see this as a percentage of sales going up to a double-digit figure anytime soon?

Shardul Doshi: No. So what's going to happen, I think after last increase in the freight cost, which we had seen, a lot of contracts we have moved to the FOB. And what's going to happen is it will still impact us maybe and our profit impact can be around 200 bps. But when we look at the overall sales increase, which we are expecting with the fixed cost apportionment overall, I think we should be in a position to maintain our EBITDA margin.

Devanshu Sampat: Okay. And just to clarify, you're saying this percentage of sales is on a standalone, right, or console number, that 7%?

Shardul Doshi: Standalone.

Devanshu Sampat: And so when it comes to Ashoka, do you think are we on track or as per expectation, do you think you can maintain this 30% run rate this year and next year as well? So I mean that would essentially translate to INR 350 crores plus kind of a number for FY'25. So are we on track to do that?

Shardul Doshi: Hopefully, we should be in a position to maintain. Our Ashoka revenue this year is expected to be around INR 260 crores to INR 270 crores.

Devanshu Sampat: But it will still be a 30% growth expected this year.

Shardul Doshi: Around 25%, yes.

Moderator: Thank you. We have our next question from the line of Tushar Khurana, an individual investor. As we are unable to connect with Mr. Tushar, we will go on to the next question. We have our next question from the line of Saurbh Trivedi, an individual investor. Please go ahead.

Saurbh Trivedi: Good Afternoon Sir. Saurbh Trivedi here. I have been with the company since last four to five years. Sir, I have a question regarding our freight charges. The sea issue is going on since last more or less 24 months. So what are we planning about that big cost?

Sumer Thakkar: So, like Shardul said, we're trying to mitigate the freight impact as much as we can by moving all our contracts from CNF to FOB assuming the freight will be to the customer's account.

Saurbh Trivedi: Thank you. Okay. And sir, how are we planning with India market because we have very big plans for India, I suppose, because we are not any which way working on that thing. So what can we expect as an investor and as a customer of Soul brand?

Sumer Thakkar: So in India, we are hoping to achieve a revenue of about INR 100 crores in the next three years. So it's been about eight months since we launched. We're just in the process of building our team. We just appointed an India head. Right now, our product portfolio is mainly pickles and chutneys.

And in terms of market, we only sell on e-commerce. So our own website as well as Amazon, Flipkart, BigBasket, and we just got listed on quick commerce through Swiggy. And in the next three years, we hope to roll out modern trade and general trade both, but in a very phased manner and quarter-on-quarter expand our product portfolio.

Saurbh Trivedi: Sir, what are our target audience for Soul brand? Are we targeting to the upper class, middle class or which type of audience?

Sumer Thakkar: So urban India, so I would say more upper middle class.

Saurbh Trivedi: Upper middle class. Okay. And sir, what are our future plans, which are product listings for Soul brand because as an India-specific, this is my personal study, that people - a whole country, I'm speaking about, the whole country, are going for higher quality and higher piece of product, right? So we are moving towards premium products. So what are we looking up to?

Sumer Thakkar: Right. So we hope to be in that premium space. In terms of product portfolio, I mean Ashoka and ADF has a wide extensive range of around 600 – 700 products, which we have access to because all the manufacturing is made in-house. So depending on the Indian market and depending on what's doing well and where we see not too much competition, we'll plan it out accordingly. Yes, we hope to be in the premium space.

Saurbh Trivedi: All right. Understood, sir. Thank you so much.

Moderator: Thank you. We have our next question from the line of Tushar Khurana, an individual investor. Please go ahead.

Tushar Khurana: Okay. So sir, I have a question on ADF Soul again. So may I know what is the current turnover for ADF Soul right now? And how much cash are we burning?

Sumer Thakkar: So right now, the revenue run rate is at about INR 40 lakh – INR 45 lakh a month, approximately INR 5 crores annually. And in terms of burn of the cash flow.

Shardul Doshi: So this year, as you are aware, we have committed INR 5 crores for brand building exercise, which we're doing. Also just on the number, monthly, we are almost doing at around 15-odd percent in last 2 months. And that's how we are confident that the run rate going forward will keep increasing for our products and we will be launching some of the new product changes also in the next financial year. So that's something which we have planned for the Soul.

Tushar Khurana: Okay. And sir, if I come to your other Soul offerings that we have right now with Ching's of Capital Foods, could there be a like-to-like comparison in terms of the offering that Ching's has been offering and what we are foraying into? Am I getting it correctly?

Sumer Thakkar: So as it stands, the product range is only pickles and chutneys, which I believe Ching's doesn't do. But moving forward, I mean, Ashoka, we do have a wide range of Indo-Chinese sauces and we're also launching noodle, which is somewhat similar to Ching's product range. And I mean, depending on the market size, we will pick our categories accordingly.

Tushar Khurana: Okay. And then sir, on the branding side of ADF Soul, what are the steps that we're taking?

Sumer Thakkar: So right now, I mean, our presence is only on e-commerce. So we do a lot of social media, a lot of performance marketing. But because it's mainly online, that's pretty much all we do in terms of marketing.

Moderator: Thank you. We have our next question from the line of Faisal Hawa, an individual investor. Please go ahead.

Faisal Hawa: Sir, what is the capacity utilization of all our plants at this point of time? And if we increase the capacity utilization by at least 10 percentage points, what would be the kind of effect that it could have on our EBITDA and also on our ROC and ROE? That's one.

And second is, can you give an example of like one or two very key pivots that you have made in the last 9 to 10 months when you have adopted one strategy and having seen it not work, you have pivoted to some other strategies, if at all that has happened?

Shardul Doshi: Can you just repeat your last question?

Faisal Hawa: Can you give an example of one or two pivots that we have made on strategy once we have seen that one strategy has not worked?

Shardul Doshi: One strategy which has not worked?

Sumer Thakkar: Nothing in the last 9 to 10 months.

Shardul Doshi: So our capacity is 28,000 metric tons. And this is an overall capacity at Nasik and Nadiad, both put together. Depending on product lines, the capacities are utilized from 60% to 80%. And of course, wherever required now, we have done the debottlenecking. What we clearly see that for the next 1.5 years, our existing plant will take care of our expanded capacity requirements. And by then, our greenfield also will be operational.

So in terms of the additional capex, I just mentioned, we have done INR 3.5 crores in the current year on a debottlenecking, and we have spent another INR 3.5 crores from the cold storage project, which we have at Nadiad, another INR 11 crores are committed for it. So this will all get over by April of the current year. And in the next financial year, we'll have a greenfield spending, which is almost INR 60 crores.

And in terms of strategy, which is didn't work actually - I think there is nothing as such. I think we are all currently working on our strategy where we are increasing capacity on both production as well as on the distribution side. We have invested in our people. So now there is a brand team, which is for Ashoka, Truly Indian and Soul that's been created and they're all working on their product lines to expand the market share. I think maybe this question, we can look at it after 2, 3 quarters from now.

Moderator: Thank you. We have a follow-up question from Devanshu Sampat from Avendus Wealth. Please go ahead.

Devanshu Sampat: Yes, sir. So two more queries. One is this update on Ekaterra supply chain, right? You said most of it is done, but you think at least in your discussions, do you think by 4Q, where all of the issues can be resolved and we can go back to INR 100 crores distribution business for FY '25? Or can it possibly be more if you are getting more products from them?

Sumer Thakkar: So what initially happened is the lead time for production went up from the 8 to 10 weeks that we were used to when Unilever was in charge to about 4 - 4.5 months. So entire forecasting and planning, a little disruptive. We're still facing some issues, but we are confident next financial year it should be streamlined.

Devanshu Sampat: Okay. So the INR 100 crores number, which was what we have seen in FY '23, can we get a sense? Can you benchmark that and give me a sense on how it will be next year?

Shardul Doshi: Yes. I think once supply chain issues are behind us and also a couple of more principles we sign up, I think we should be in a position to achieve it.

Devanshu Sampat: Okay. So that we'll be required to add more principles. Okay. And second query I just had was on your Truly Indian listings. In the sense, I think earlier you had mentioned that we're looking at something possibly next fiscal, so I would assume after the current quarter. So are we on track? Can you give a sense on what are the discussions? And if so, when can these be contributing to revenue?

Sumer Thakkar: Yes. So we're still on track for next financial year. I mean these things take a very long period of time. Tesco, for example, we were in discussions with for 8 to 10 months. But hopefully, we'll have something by next financial year. The discussions are still going on.

Moderator: Thank you. We have our next question from the line of Richa from Equitymaster. Please go ahead.

Richa: My question is, again, on margin, I think you shared something about the freight rates impact and the product mix, but still it's a substantial improvement both sequentially and year-on-year. So my question was like assuming that freight rates don't go up and normalize, do we expect this 17%, 27% kind of margins to be maintained in future?

Shardul Doshi: Yes. On the stand-alone, we should be in a position to maintain, actually even on the consol, whatever you are seeing, it should be in a position to maintain.

Moderator: We have our next question from the line of Kuber Chauhan from Anand Rathi. Please go ahead.

Kuber Chauhan: Am I audible?

Moderator: Yes, sir, please go ahead.

Kuber Chauhan: Just wanted to know that you said the capex for INR 11 crores, right, for FY '25?

Shardul Doshi: No. I said INR 11 crores capex is always committed on cold storage which that cold storage will become live by April of the current year. So this is actually in next four months, we will incur.

Kuber Chauhan: Okay. So okay. And you said the greenfield plant for Soul, it will cost around INR 16 crores, right?

Shardul Doshi: INR 60 crores.

Kuber Chauhan: Okay. And I just wanted to clarify that, will it be in the phased manner? Or will it be in the one short also?

Shardul Doshi: Actually, INR60 crores is for the Phase 1 only. So that can become as big as Nadiad for us, and there will be further phases which will come post that.

Kuber Chauhan: Okay. And any incremental debt we are planning for this?

Shardul Doshi: Not really. We are sitting on cash of INR 140 crores. For greenfield, we will take some loan because there is a grant which is available from the central government, which we have to run it through the lender. So we will borrow some money for it. But otherwise, there is no debt requirement assets particularly.

Kuber Chauhan: And how is the demand looking for next financial year as the Red Sea issue crisis which is going on? And apart from that as well, how do you see the export market and also the Indian markets? That would be my last question.

Sumer Thakkar: So demand continues to be robust. The Red Sea issue is more a supply issue than a demand issue. But no, we're seeing good traction in all our new launches as well as our existing products.

Moderator: Thank you. We have our next question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: Yes. So as I was saying, I'm new to the company, so I just wanted to understand some basic stuff. Ashoka brand has grown by 30% CAGR over the last 2 years as just shown in the deck. But if you look at the overall business on the processed foods segment side, the growth is much lower. So what is the reason that the rest of the brands are not growing as much as Ashoka is growing? Is it just because they are not well established? If you can just give some color around that, that would be helpful.

Shardul Doshi: Okay. As part of processed food, we used to have almost 30% to 35% share from B2B and private label. Now all our businesses are actually in terms of value, they have grown over the previous year. However, when we look at the percentage growth over -- in each of this, Ashoka has grown faster than everything else. While B2B and private label, in absolute or in percentage terms to the total turnover, they have reduced. So that share which used to be 30% plus is now down to around 20% to 22% for that. So that is something that's the explanation to your question.

V.P. Rajesh: Understood. And then in terms of our business that is coming from the U.S., what is the percentage of the processed food segment?

Shardul Doshi: So we don't give the country-wise breakup, but U.S. is at the top-most market in terms of the market share. Large part of our sales of processed food come from the U.S. business. And in fact, most of the distribution business is in the U.S.

V.P. Rajesh: So in terms of your ethnic products market in the U.S., what would you say is your market share roughly?

Sumer Thakkar: So we don't actually have any data to market share. But I'd say in the U.S., we'd be in the top 3 ethnic food brand, Indian food brand.

V.P. Rajesh: Okay. And what is the purpose of having this distribution business in the U.S.? How does this add value to your processed segment? Because given the margins, I would think you would want to focus more on the brand. So if you can just give some color as to why we had this business as well.

Sumer Thakkar: So I'll start with so one is cost synergies in terms of actually last mile delivery. And two, it gives us more influence with the retailer as we have a wider product offering. In fact, since we signed on with Unilever, Ashoka brand also grew in tandem. So we found that partnering with a good company with complementary products actually helps grow our own brand as well.

Moderator: Thank you. We have our next question from the line of Rusmik Oza from 9 Rays EquiResearch. Please go ahead.

Rusmik Oza: Sir, 9 months EBITDA margins have moved up from last year, 16.6% to this year, 19.3%. Just wanted to know, is there any buildup of PLI scheme benefits that is reflected in the EBITDA margins? Or if you can indirectly give us what kind of amount we could receive this year in terms of PLI benefits?

Shardul Doshi: No, no, PLI is not a contributor to the EBITDA margin increase, which in fact we have seen. That's primarily because of the cost reduction, which has happened and a better sales mix.

Rusmik Oza: Okay. And if you can give us some guidance or understanding what kind of PLI benefits we're getting in FY '24, '25, '26, spread across the next 3 years?

Shardul Doshi: So we will get PLI up to FY'27, total sanctioned towards is INR 62 crores. So that is an amount which will get spread over the five years from FY '23 to FY '27.

Rusmik Oza: Okay. '23 to '27. And between '23 and '24, how much we could have realized booked so that we can know the balance for the next 3 years?

Shardul Doshi: But until now, we would have booked last financial year and the current 9 months, we would have booked around INR 10.5 crores to INR 11 crores of PLI income.

Rusmik Oza: Okay. And any guidance how much out of the balance, how much will be coming next year in FY '25?

Shardul Doshi: Around INR 9 -odd-crores.

Moderator: Thank you. We have our next question from the line of Kanv Garg from Garg Advisors. Please go ahead.

Kanv Garg: Hi, sir. Good evening. Sir, two questions. One question is that like do we maintain any safety stock, let's say, in export geographies? I mean I think you mentioned that on the key reasons where we lost some growth was because of the shipments not happening. So since we have warehouses, so doesn't that help us in meeting the customer demand? That is my first question.

Shardul Doshi: So warehouse, in fact, this is one reason why we have now built our warehousing capabilities in our largest market in the U.S. The freezer capacity wasn't really available. It's been commissioned from the month of November, December, in fact. Going forward, in fact, there'll be stocks, which we will maintain in our warehouse. But however, what happens is, again, this is one region in U.S. where we can stock. I think the rest of the U.S. if it's through the distributors, we have to do it.

Kanv Garg: So for distributors, for those distributors, can we stock at that warehouse that we will be delivering? Or is it too expensive?

Sumer Thakkar: So we do that as well for the entire East Coast, but to bring it from the East Coast to the West Coast or even the center of the U.S., it becomes too expensive. I mean sea freight is cheaper than your inland cost.

Kanv Garg: Okay. Makes sense. So secondly, I think you just said that we are on track of that 17%, 18% guidance that you have given. So let's say, in 9 months, we have done INR 300 crores in processed food segment. I think last year, it was INR 362 crores. But are we saying that we will be able to do like INR 120-odd crores in the processed food segment for Q4?

Shardul Doshi: Yes. That's what we meant actually.

Kanv Garg: Okay. And sir, the last question is on e-commerce. I think you just said that for India, we are focusing on e-commerce channel. I mean what I understand is on e-commerce channels, I mean if it's quite costly to get the shelf space and to maintain the inventory I mean, depending on the model that you are working with, let's say, Amazon or Flipkart or whatever e-commerce channel they are using. What is the cost that we incur there? And what is, I just want to understand the strategy there in e-commerce. How are we entering into the e-commerce segment? And how are we planning to grow our business in that channel?

Sumer Thakkar: You're right, it is expensive, but it's still fairly less expensive as compared to modern trade and general trade. And the another advantage of e-commerce is we get firsthand feedback both on secondary sales, demographic, what's working, what's not working. And in terms of expense which performance marketing, which is your digital ads and warehousing cost, which is still, again, cheaper on e-commerce as compared to modern trade and general trade.

Kanv Garg: Okay. So let's say, if you are in connection with Flipkart, I mean you're selling with Flipkart, so Flipkart might comment that this particular pickle is not selling or this is, I mean, this is the type of pickle which actually sells in the market. So basically, you take that feedback and try to produce a pickle which actually sells in the market. I mean is my understanding correct, that's why you're using the feedback loop there?

Sumer Thakkar: Yes, those make sense, yes.

Kanv Garg: Great. Great. So sir, like the scale-up that you are saying, I mean, it is 40 lakhs. I mean what we have seen is that in case of e-commerce, the scale-ups have been like massive, like if you want to scale up in 2, 3 years, you can tactically go like 50, 70, 80 if you had a small base of, let's say, INR 1 crores. I mean are we giving conservative targets? Or like what's the difference there because it doesn't make sense? I mean the scale-up seems to be slow when there will be some strategies, I'm trying to understand that.

Sumer Thakkar: So if you look at our past 3 to 4 months, we've been growing at about 15% month-on-month, which is a fairly fast ramp-up in our opinion. And in terms of targets, we're looking at INR 100 crores in 3 years. There's a lot of brands haven't been able to do, especially in a complex landscape like India.

Kanv Garg: Okay. That makes sense. I mean that's something I wanted to understand because e-commerce grows very fast, right? I think the INR 500 crores is something we can grow very fast. And then beyond that, it becomes a bit problematic.

Moderator: We have our next question from the line of Rusmik Oza from 9 Rays EquiResearch. Please go ahead.

Rusmik Oza: I had a follow-on question on the same PLI scheme. So you clarified that you would be booking INR11 crores between '23, '24, INR9 crores in '25, that takes to INR20 crores. That means out of the balance INR62 crores, does it mean that we're going to book almost INR42 crores of PLI between '26 and '27 in that 2 fiscal years? That's my first question.

And second is what are the conditions, I believe it is based on creating brand globally. So are we meeting the required norms for getting this PLI benefit?

Shardul Doshi: So what we do is I think we are not booking the entire PLI eligibility in accounts unless and until the money is received. So hence, that's a number which you asked me about the accounting, how much we will be accounting. But in terms of ramp-up, PLI, the way it works is year-on-year, it will keep going up. So in the last financial year because it's also depending on the sales growth, which the company will be achieving. The conditions for PLI for us is we get the reimbursement of the marketing spend, which we are doing in the overseas market, 3% of the top or 50% of the spend, whichever is less is what we get it back from the government.

Rusmik Oza: Okay. So maybe what could be the run rate which could come in FY '26 and then FY '27, just to get a ballpark figure?

Shardul Doshi: Run rate in terms of?

Rusmik Oza: The PLI benefit, like you mentioned would maybe book around INR 9 crores in FY '25.

Shardul Doshi: Yes, it will go in the range of INR15 crores, INR16 crores and then to INR20 crores, right? And I think that's how it is.

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

Shardul Doshi: Yes. Thank you all of you to attend our con call and hear our thoughts on this. Thank you.

Sumer Thakkar: Thank you.

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