"Foods & Inns Limited Q4 FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Foods & Inns Limited Q4 FY24 Earnings Conference Call.

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I now hand the conference over to Mr. Milan Dalal – the Managing Director. Thank you, and over to you, sir.

Milan Dalal: Thank you. Greetings to my fellow shareholders, analysts, well-wishers and prospective shareholders. My team led by Moloy Saha, our CEO, and Mr. Anand Krishan, our CFO, are on the call and will elaborate further on the performance.

What I would like to specifically mention is a significant event since the last call. One of my co-directors on the Board, Mr. Raymond Simkins, who has also been a shareholder holding over about 11% shares for almost over a decade or more, had a desire to join me as a co-promoter since the reclassification of the ex-promoter happened. I believe it to be a good move and in the interest of the Company and its future, especially because of the wide experience that Mr. Raymond Simkins has and with his connects internationally, we thought it would be a very good move and that I have signed up a shareholders agreement which, as a consequence of that, has triggered an open offer and the same is currently underway and we should be able to know its results in the near future. Having said that Mr. Raymond Simkins has already vigorously started his efforts by giving us the right introduction and connects internationally and one of our products in the tomato pulp range, we shall be launching in our own brand sometime end of this quarter or early next quarter in Hong Kong. This is a test case scenario and we expect to replicate the same in many other regions where we operate.

With this, I will now open up the call for questions for my team and me as required to be answered. Thank you.

Moderator: Thank you. We will now begin the question and answer session. We have the first question from the line of Ravi Agarwal from Agarwal Investments. Please go ahead.

Ravi Agarwal: Sir, my question is regarding the Pectin project, I asked in Quarter 2, you said the project will be started on 22nd of November. So, what type of hurdles we see in that project that you will start this in FY25?

Moloy Saha: You are correct. I think we have communicated that in the month of November, the Pectin project is likely to start. However, we could not complete the entire operation by November. We have the entire operation completed by March. And now, since it is a seasonal product in nature, because it will be Pectin to be produced from the mango peel. So, its commercial production, though it started in the month of March, but now it's likely to be fully operational from this month end or early June, because we need to have the mangoes to run the facility.

Ravi Agarwal: Sir, what type of our tomato processing business has been done with DPIIT?

Moloy Saha: DP?

Ravi Agarwal: IIT. That's the name of the government organization.

Moloy Saha: We are not doing anything with DPIIT.

Ravi Agarwal: Any tomato processing business that you have started?

Moloy Saha: We have our own facility tomato and we are selling in the open market. We have no tie-up with any government or anything.

Ravi Agarwal: And, sir, as you told there is some active type of big brand B2B and leave the revenue in January co-packing with the assets we have?

Moloy Saha: There's some disturbance. We can't hear you properly. Can you repeat, please?

Ravi Agarwal: Yes, sir. In Quarter 2, you told that you have some active conversation with some big brands for B2B business and believe to be big revenue in co-packing on their behalf.

Moloy Saha: Yes, there are 2 things – Spray Drying & Tetra Recart. The big brands which you are talking about, is for the Spray Drying plant present plant as well as from the new facility both. New plant, finally, after the audit, we are able to start the co-packing with the big brands. In quarter 4, we are able to do around 50 metric tons of co-packing for some brands, 2 brands basically, and further order received for this financial year. For the Tetra Recart, our talks are on with a couple of brands. Though we are not able to close any deal as of now with these 2 brands because a lot of R&D work is going on, on the recipe side and a lot of sampling process is going on. Whatever we have anticipated that we can close, I think the timeline is taking more than what we targeted. That is the reason, but we hope very soon we will be likely to close this co-branding with a couple of brands. However, in the Tetra Recart, we are launching our own brand product, which is one of the mango products which was launched last year. We got a good response and then we have further changed some recipe on this mango product and from July onwards, our new products will be in the market.

Anand Krishnan: So, Mr. Ravi Agarwal, w.r.t DPIIT tomato processing line, we signed an agreement with DPIIT to put a tomato processing line. There is no incentives that we are actually getting under this. The project is already underway and we have almost finished the CAPEX for this particular line in Gonde facility of Nashik. So, MS, I think that was the question that he was actually referring to with DPIIT.

Moloy Saha: That's the one, okay.

Ravi Agarwal: Sir, one last question. I have seen in your presentation that we received Rs. 25.4 crore as a PLI income sent to you this financial year.

Moloy Saha: Yes.

Ravi Agarwal: And sir, what type of products actually will be launched in Hong Kong market and does it have any PLI incentives?

Anand Krishnan: Generally there are 2 categories in which we are actually getting PLI incentives. The incentives that we get under the PLI is basically under 2 categories, that is Category-1 and Category-3. Category-1 refers to the CAPEX that we have done and the sales growth that we need to achieve over a period of 6 years so that we can actually get around Rs. 145 crores of incentives. Another Rs. 2.7 crores of incentives is under Category-3, which is for export of branded goods outside India. So, whatever we are doing in Hong Kong, we might be able to get something based on the export, but apart from that, there are no other incentives for exporting to Hong Kong to get additional incentives.

Ravi Agarwal: Thank you from my side and all the best for the future, sir.

Moderator: We have the next question from the line of Shalini Gupta from East India Securities. Please go ahead.

Shalini Gupta: I have 2 questions. First is that in the last conference call, you were very bullish about the business. You were talking about big numbers and now this quarter, we see those numbers have not come through. So, my question is, what has changed? Is it that the overall demand has been very poor? If you could comment on this.

Moloy Saha: Anand, will you take it over?

Anand Krishnan: I couldn't hear the question. Can you please repeat?

Moloy Saha: Okay, I'll take it over. Anand, you can also talk. What she's trying to say is that last time when we spoke, we have talked about a good quarter end, Q4 should be good I think which is correct. But she's telling that our quarter 4 is not so good, whatever we have anticipated or informed. I think we have a good volume growth of 20% plus. Anand, correct?

Anand Krishnan: Correct. So, Shalini, the 20% volume growth has actually come in. So, if you actually see our investor presentation and the con calls that we have had, we have actually told you that at the beginning of the season, we had contracted and booked orders 40% more than what we actually did in FY23. So, we had produced accordingly and the call-offs actually happen over a period of 15 to 16 months.

Shalini Gupta: I am sorry, I couldn't catch that. Can you please repeat?

Anand Krishnan: I am saying if you actually have referred to our previous investor conference calls and the investor presentations that we have put up, we mentioned that we had almost a 40% order book growth over the previous year, that of FY23. And with respect to that, we had produced accordingly. The sales call-off in the first Q1, Q2, and Q3 was lower than what we actually expected. Q4 actually saw a Y-on-Y jump of 20%. And as we speak in Q1 FY25, the volume growth is much higher than 20%. So, we are in line with whatever commitments that we had given and if you have any further questions, happy to answer.

Shalini Gupta: Yes. I mean, when do we see that in the profit and loss and top-line sales revenue figure? Because you're saying the volume has been very good, but then obviously the realization has been very poor. So, I mean, if you could just talk about when, as investors, we see it in the profit and loss account.

Anand Krishnan: Shalini, so one more thing that we have repeatedly told in all of our conference calls is that our top-line is a function of the raw material price pass on. So the topline has to come up or down irrespective of how much the volume growth is. Obviously, at some point of time, if the volume growth is higher, then the sales top-line has to grow, but then it's a pass-on that we actually have, which is a risk-free model that we have. So, the gross margin per kg is what we actually try and improve over a period of time on a year-on-year basis and that's something that we have actually done. So, I am surprised that you have put up this question.

Shalini Gupta: No. So, basically, you're saying that realizations have come down during the quarter. Is that what you're saying?

Anand Krishnan: The realization comes down when the raw material price comes down. So, in 2023, the raw material price came down because of which the sales price comes down. But the sales price does not have any function with respect to the gross margin per kg.

Shalini Gupta: So, that much I understand. But in the fourth quarter of financial year '24, did the sales price come down that we have seen such poor top-line growth?

Anand Krishnan: So, Q4 of FY23, the raw material price was very high.

Shalini Gupta: Sir, FY24.

Anand Krishnan: So, Q4 of FY24, the raw material price was low because the inventory season '23, the raw material price has come down.

Shalini Gupta: So, when do you expect the raw material price to move up?

Moloy Saha: Madam, we are dealing in agricultural product. It's not in our hands. It's not in our control. It basically depends on how's the crop situation. If it's a surplus crop, automatically, the raw material price will go down. If there's a stress in the availability of the crop, the raw material price will go up. So, being an agricultural commodity, these are the uncertainties always there in our raw material price. Accordingly, what is our model is that cost-plus model. So, to reduce the risk on the raw material volatility, it's a cost-plus model industry works where we can pass on the entire volatility of the raw material to our client. And we work on the fixed margin to help or to improve our gross margin, what Anand just now communicated to you.

Shalini Gupta: No, but you would have an estimate because you were in the market for so long. So, do you estimate that prices will go up or the prices remain low?

Milan Dalal: Yes. Madam, Shalini, all that I can say , but currently, this year, the prices are showing higher. But what are the reasons? The heat wave is tremendous. What will happen? The chances of not getting enough raw materials can be there. What can happen is that it can rain and expected to rain. Again, the prices can stabilize. But overall, a guidance that can be given is that against the previous year's raw material cost, this year, we are seeing a higher raw material cost.

Shalini Gupta: But we are seeing a higher raw material cost, but lesser realization in the profit and loss account. Is that correct?

Moloy Saha: No. If the raw material, the realization will be high.

Shalini Gupta: I'll take this question offline. And my second question is, when does the open offer end?

Milan Dalal: I think the offer dates, we are just awaiting the SEBI approval. But it's expected to open up in the first week of June and by the third week of June, it should end. So, it's there as for the public announcement. Those dates are there, but we're just waiting for the SEBI approval to come through.

Shalini Gupta: Okay. But, sir, I just wanted to understand on what basis you gave an open offer price of Rs. 147 because at the time you announced the open offer, price was ruling much higher at around Rs. 170 odd. So, on what basis did you arrive at this open offer price?

Milan Dalal: Forgetting me or this Company, no individual has got his right at his whims and fancies to come up with a price. It's a steady regulated price and the merchant banker verifies. And it's slightly incorrect, the date was announced, just prior to that the prices were lower. And it's only after the announcement that it came up, but the SEBI formula rate came to Rs. 146 and some odd amount. And it's always advisable to do a round figure. So, in fact, we are slightly higher than the SEBI formula. So, it is on that basis that the pricing is announced.

Moderator: Thank you. We have the next question on the line of Anuj Jain, from an individual investor. Please go ahead.

Anuj Jain: I had a couple of questions. So, my first question is, what is the quantity and value of outsourced inventory as of March 24? And what is the targeted production of in-house and outsource?

Anand Krishnan: So, we don't like to give this breakup in a public conference call because these are certain things that are private to the Company and is sensitive with respect to what we share as data to the competition. So, given that statement, I would just like to tell you that every season we keep on adding processors outside and we have also added capacities inside, I mean, in-house. So, we wouldn't be able to give you the exact mix of the same.

Anuj Jain: And is there a ballpark number of how much quantity is committed by major customers?

Anand Krishnan: So, the order book for FY25 has just started building and by end of July is when we would actually get a better idea where we exactly stand for this particular season.

Moloy Saha: I would just like to add one point. We as a Company, for any type of crop, whatever we are processing, with all the years we process from day 1 till the end, the objective is to cover maximum volume. And once we have coverage, then we go to the market. There are some fixed contracts. Fixed contracts in the sense that customer profiles are fixed, who are taking from us since 3 decades. So, first we allocate such customers and then whatever additional stocks, if at all available, then we go to the open market based on the demand-supply. So, for us, order book is not a challenge. Challenge is procurement and not processing. Because being agricultural commodities, there is lots of ifs and buts on the crop availability and price. So, that's the only challenge we face. So, customer profile, order book is the least problem for us.

Moderator: We have the next question on the line of Manish Sehgal, an individual investor. Please go ahead.

Manish Sehgal: Just a couple of questions. One, of course, you mentioned that you've processed 40% more volume, whereas we have sold broadly same as last year, which means that that extra 40% volume will come through this financial year?

Anand Krishnan: Yes, that's right.

Moloy Saha: Likely so, because whatever we produce, we produce against the confirmed order. And since the Indian beverage industry has not performed what they have anticipated, though there's a growth. So, hence, there's a carry forward of the stocks. So, these stocks is likely to move in this quarter, when the maximum is in this quarter and followed by next quarter. You are correct, that whatever stocks we are holding, it will be sold in this year only.

Manish Sehgal: Secondly, given this, we are holding the stocks, so, we have had finance costs related to that, which is doubled over the previous year, same quarter, which means that this cost will also be paid by the customer eventually, which will also show when this thing is sold, right?

Moloy Saha: Yes. We have a cost-plus model and during the price finalization, we consider what is called the average holding period. If the average holding period varies, then definitely we are entitled to claim holding period cost from the customer. So, if it's a significant variance, yes, customers will generally get, but if it's within the control level, then we may not get it. For this year, we are expecting that there will be an additional upward price revision for the holding period cost.

Manish Sehgal: So, looking at these two parameters, at least for Q1 and Q2, we can say that our performance will be much, much better than first half of last year?

Moloy Saha: As of now, yes, I think whatever we had targeted, it's moving accordingly, but Q2 is too early to comment at this stage, because it depends on many other factors. Q2, generally, whatever production we'll be doing now, part of the quantities also go in Q2. So, it depends everything on how we produce for this year, which is okay.

Anand Krishnan: Having said that, that 40% extra itself will add a lot in the first half, right?

Moloy Saha: Yes. So, first quarter, what we anticipated, as of now, it is moving in that direction.

Anand Krishnan: So, Manish, I mean, in previous question, I had just highlighted that in Q1 of FY25, as we speak, the volume growth is much higher than 20% that we had actually seen in Q4 of FY24. So, that would be an indication of what we are doing in Q1.

Manish Sehgal: But of course, I mean, if we are saying that we made for 40% higher last year and sold only same of previous year, which means 40% carried over from last year and perhaps this year, which even if it is equal to last year, will be much higher than the FY22.

Moderator: We have the next question from the line of Shyam Garg, an individual investor. Please go ahead.

Shyam Garg: Sir, my first question is with respect to the consignment of canned tomatoes that we send to Hong Kong, what is the approx. value of that consignment and what are the realizations that you are expecting from it and in how much period?

Moloy Saha: We are launching our own product in Hong Kong and canned category, I mean, canned tomato category, which you rightly said. It may not be the right time to indicate what will be the likely volume, but there is no period. It is endless, means if it is a good success, I am sure volume is likely to grow every year, every quarter. But so far, we have given, I mean, already dispatched around 20 metric tons of product, which will value around $35,000. And I believe that next month to be followed with one more similar load. So, like that, it is likely to increase. As you know, this is the first launch. So, it will take time to understand the product, market to absorb the product. We have done a thorough market study, so we are quite confident and we are associated with a very established distributor Company, which is basically Mr. Raymond Simkins, who is joining us as a co-promoter. His group Getz Corporation, they are a big distributor in Hong Kong since more than 40 years, I believe. So, we are in a good hand and we are in a good position. We are quite bullish that we will be able to introduce a few more products in that market.

Milan Dalal: And let me add that we stood to the competition of Chinese products and Hong Kong has its own proximity to China, but we have kind of passed the parameters of the quality, color, taste, everything. So, it's a matter of time to really see the success of the thing.

Moloy Saha: In fact, I would like to add one more. We as Indians are very proud. The reason is that, as Mr. Milan told that Hong Kong market tomato product is 99% from Chinese origin. So, we were targeting to enter this market more than 1 year or maybe I think 18 months and finally we succeed to overcome all the challenges on the taste profile, on price, on many other factors. So, we are very happy. I mean, Indian tomato will be now available in Hong Kong. That's what I would like to highlight.

Anand Krishnan: Also, Mr. Shyam, this is one of the synergistic benefits that the newly onboarded promoter actually gets on board, basically because he has his distribution network already present in Hong Kong, which is actually helping us pass through those markets.

Shyam Garg: That's helpful, sir. And my next question is with respect to what are the steps you are taking to tap the market of MDH and Everest since we have been banned for a while? Are there any aggressive steps to cater to that market?

Moloy Saha: Anand, could you follow? I could not follow.

Anand Krishnan: Yes, I could hear the question. So, he's actually asking about how we are actually taking steps to get into the market that were vacated by MDH and Everest because of the controversy which was there just recently. So, just to make matters clear, we have our spices which actually does not have the ETO treatment which Everest and MDH do because of which those cancer-producing elements are not there in our spices. And I mean, it's a God-given opportunity for us wherein even in the local markets, there has been some space which has been vacated by them, which has been occupied by us in a few stores. We are not as large as an Everest or an MDH with respect to the distribution that we have, but then we have taken our small steps that are required to get into those markets.

Shyam Garg: So, my question is with respect to what kind of growth in spices we are seeing this year since there is a vacant space in the market. Is it 10%, 20% of growth or do you see a substantial growth? If you could quantify.

Anand Krishnan: We would see a substantial growth. In FY24, we actually grew from say Rs. 18 odd crores to Rs. 23 crores in Kusum and in the next 3 years, the first step is to actually get to Rs. 100 crores.

Shyam Garg: So, we can expect around Rs. 35 crores, Rs. 40 crores this year?

Anand Krishnan: Please don't ask me for numbers because that's like forward guidance and I wouldn't like to give any forward guidance on that.

Shyam Garg: What is the revenue guidance for FY25 and operating margins? Can we expect Rs. 1,400 crores or Rs. 1,500 odd crores of revenue top line? And if you can give some specification about the bottom line as well.

Anand Krishnan: So, Shyam, our top line is always a function of the raw material price. But having said that, our endeavor is to actually increase the volume that we have actually sold on a year-on-year basis and also to increase the absolute gross margin per kg. So, I mean, with respect to exact numbers, with respect to the top line, I can obviously not give you because the raw material price, the procurement is still going on in this particular season. So, it's impossible for me to give you a forward guidance on that.

Shyam Garg: Sir, any range if you can provide?

Anand Krishnan: Forward guidance, definitely not, boss.

Shyam Garg: I will join back in the queue. I have few more questions.

Moderator: We have the next question from the line Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, on the business side, the previous call and interaction we had mentioned and the CAPEX which we have completed till date, the capacity buildup at peak utilization can result in about Rs. 1,700 crores to Rs. 1,800 crores of top line in the next 3 years. So, when we talk about Rs. 1,700 crores, Rs. 1800 crores, 3 years hence, the breakup between various segments, how will it look like? Like, I think Kusum, we are targeting somewhere around Rs. 100 crores. So, apart from Kusum, what kind of other segments will contribute at Rs. 1700 crores, Rs. 1800 crores?

Anand Krishnan: The pulp will contribute. We are doing a lot of other fruits and vegetables under the pulp segment. That's number one. As we told you that we have also added a capacity for tomato processing. As we speak, the plant is expected to go on stream. I think by Q2, FY25, is it right, MS?

Moloy Saha: Yes.

Anand Krishnan: Yes. So, by Q2 of FY25, we would have this additional tomato processing line in place. So, in FY24 itself, we had a large order which we could not take for tomato processing, which could have been to the tune of say Rs. 150 odd crores, which we could have done, but we didn't have the capacity for that. Mango as a product is also having its own growth that we actually see in the market. Apart from this, we have actually diversified into a few other fruits and vegetables, which will also give us growth. Spray drying as a product is also growing basically because of the shift in demand happening from European nations, Asian nations, because of the energy crisis in Europe. So, all these things put together along with Tetra Recart and the branded products that we have will help us achieve Rs. 1,800 crores easily.

Rahul Jain: So, Tetra Recart could be around Rs. 100 crores out of that Rs. 1,800 crores?

Anand Krishnan: With the current capacity, yes, Rs. 100 crores. But as I told you in the previous calls, the infrastructure is built wherein there is only one line which has been put up in the entire infrastructure space that's been created. There could be 5 more lines which can be added in the same space without much of CAPEX, except for the machinery.

Rahul Jain: And just today's Spray Dried and Frozen Food would be contributing what kind of sales?

Anand Krishnan: Spray Dried as of last year would have been around Rs. 22 odd crores of sales. And Frozen would have been Rs. 46 crores of sales.

Rahul Jain: So, the Frozen can be in the bracket of around Rs. 100 crores in 3-4 years. Is that correct?

Anand Krishnan: It's going really well and with the new capacity that we have added in Vankal in Gujarat, the facility is doing really well and we expect something around Rs. 150 crores going forward.

Rahul Jain: And sir, you just mentioned about this tomato order, which was Rs. 150 crores because of capacity constraints, you couldn't. So, are we talking about an order of Rs. 150 crores, which if the capacity existed, we would have executed it in 1 year? Is that understanding right?

Anand Krishnan: That is right. But last year, there was another challenge as well. As in in FY24, the tomatoes which were actually available in the regions that we were present in were not of great quality, which we couldn't process more. So, assuming there is enough decent raw material availability and the capacity comes on stream, we can definitely get to Rs. 150 odd crores.

Rahul Jain: And for margins in Spray Dried, Frozen Foods, Kusum Spices, Tetra, are these margins in this segment higher than the Company level margins?

Anand Krishnan: Yes.

Rahul Jain: So, the increase in contribution could lead to an increase in the margins coming because of this product mix change or the segmental change?

Anand Krishnan: Correct. But I would always urge you to look at my Company as an absolute EBITDA growth that we actually do rather than a margin percentage, because as I have explained time and again on this call and in the previous calls, that our EBITDA margins, our gross margin percentage is always a function of the raw material price because we play very safe with respect to passing on the prices in our B2B business.

Rahul Jain: Sir, last 3 years, we have done very well. I would put it 5 years also, from March '20 onwards till '24. I would put that from March '14 till almost March '20, we were in the bracket of Rs. 25 crores, Rs. 30 crores. But in last 3, 4 years now, we are coming to around Rs. 120 crores of EBITDA. And what I, based on the numbers of volumes, the EBITDA per ton is somewhere around Rs. 12,000 and the gross margin per ton is roughly around Rs. 30,000. And we have always mentioned that we should be looking at our Company more in terms of gross margin or EBITDA per kg rather than a percentage basis. So, my question is, first of all, am I somewhere near the numbers which are there, which exist? And going forward, what is the scope or what could drive this per kg EBITDA or gross margins to move up?

Anand Krishnan: Rahul, this is a good question. But what we have also explained in our previous call is that, generally the EBITDA for us is based on the product mix. So, when you are actually seeing only the tonnage, which is actually given in the investor presentation, it's the tonnage of all the products that we are actually putting up, whether it is mango. Inside mango, there are different varieties of mangoes, say Alphonso, Totapuri, Kesar, Neelam and all those things. So, the prices and the realization will depend upon the kind of mango that we sell. Say Alphonso has a higher realization than Totapuri and Neelam has a slightly lesser realization than Totapuri as well. So, it depends upon the blend as well. So, for you to actually see it on that basis, which is actually put up on the investor presentation is not the right way.

Rahul Jain: No, no, I do understand. But frankly speaking on an overall basis, our EBITDA per ton has moved up from around Rs. 6,000 to Rs. 12,000 in 4-5 years. Your gross has moved up from about Rs. 25,000 to Rs. 30,000. It has moved up. So, probably it is due to the product mix change. So, typically, when we look ahead for the next 3-4 years, what is the scope for this to go up further and will that be driven by only product mix change or something else?

Anand Krishnan: Say example Totapuri gross margin per kg last year was Rs. 7, next year would be at least Rs. 7.2 or Rs. 7.3 is what we actually do. So, product mix and the per kg realization that we actually fix with our customers on a year-on-year basis based on the raw material prices will actually contribute to this.

Rahul Jain: Sir, with regards to the taxation, you have mentioned in your presentation about the taxation. But if you could explain this more in detail because I am not able to comprehend this properly. And also going ahead, is this just a one-off tax which has come in and in future what will be the tax bracket?

Anand Krishnan: Sure. So, the tax bracket for us has now actually shifted from 25% to 30% plus the other charges which are there. So, we fall at 34 point some odd percent as we speak. The reason for that is that we have actually increased our turnover from Rs. 400 odd crores as of FY22. So, because of that, we have actually moved on to the higher tax bracket. That has been one contributor to the higher tax that we have actually paid. Second contributor to the tax is basically because we had actually given some ICDs to our associate Company, which was called as Tri Global Foods Limited. They had their own brand and we were actually giving them some monetary support as well as some materials to further the consumer division of theirs as such. Unfortunately, during COVID, they did not do well. And as of now, we have actually taken a stance that we might not be able to recover what we had actually given them. So, we had written off around Rs. 2.7 crores of ICDs over and above whatever provisions that we had previously made. Now there are no more provisions that need to be made for this particular Company and we have written off the entire thing. In view of that, there is a particular section called Section 194R of TDS wherein, if you have to claim benefit under that, you will have to actually pay TDS to that particular Company and then the Company will get benefit and then you get a write-off. So, rather than doing all those things, we just said that, okay, we are not going to claim any tax benefit as of now. As and when the clarity evolves around Section 194R, we will come back to claim this benefit. So, both these things have actually contributed to the optical illusion of the tax rate being higher. The other part with respect to the tax rate actually being higher from moving from 25% to 30% has happened for the Company because of our turnover.

Rahul Jain: So, going ahead, the normal tax bracket would be 35%, 34.94%.

Anand Krishnan: Correct. That's right.

Rahul Jain: So, that will be our normal tax bracket. And with regards to this one-off, that is completely done away with.

Anand Krishnan: That is completely done away with. No one-off expected with respect to the TGFL, that's Tri Global Foods Limited. Everything has been written off.

Rahul Jain: And one last bit, sir. You mentioned in one of the previous participants that growing our business is, from a customer point of view, demand is there. So, it is only procurement of the fruits which basically determines what kind of business you do or what kind of sales you generate in a year?

Anand Krishnan: There are two things. one, we have a customer stickiness because of which these customers come back to us on a year-on-year basis since we have been operating with them since more than 30, 40 years as such. The second part of it is with respect to the stickiness that we actually have from our vendors wherein a lot of our competitors have actually not been in great shape because of their personal problems in the other parts of their business as such, because of which there is a lot of third-generation and fourth-generation farmers who still supply to us. And they give us a lot of credit. So, this is where the moat in our business is. And going forward, what we are trying to do is basically build a lot on sustainability wherein we are trying to inculcate all the sustainable practices in the business and the circular economy requirements of the large brands. With the BRSR requirements which are becoming very stringent and which is required for the top brands globally, participants like us who actually give raw materials to these large brands become more important in their value chain system. So, this is where the moat for us is actually developing in the business.

Rahul Jain: Sir, Coke and Pepsi have been our large customers and practically they take more than 50% of our tonnages. And these are customers which have been there with you for a long, long time.

And in the previous interaction, management, you people had hinted that some of the large corporates also are planning to come into the business, which is why these existing customers currently are trying for annual contracts. So, any kind of communication from any new large customer, sorry, prospective customer which has come to you whereby you need to prepare yourself, because I am sure the business will flow in maybe a year ahead afterward, but somewhere those communication would start much earlier.

Anand Krishnan: There are 2 parts to this question. One, with respect to the large brand that we had mentioned, Reliance is already in the business. So, they had communicated with us, but with respect to the pricing that they actually asked, we have not been able to match the pricing what they have wanted. That's number one. So, this has actually played into our hands the other way around wherein Coke and Pepsi actually understand that a lot of raw material which is going to be available is going to be sidelined by Reliance. So, they are also trying to secure their supply chain. So, that is where we are benefiting as a Company.

Rahul Jain: And sir, just one last question with regards to the volumes. So, from somewhere around 50,000 tons in March '21 to 78,000 to 100,000 and this year we are somewhere flattish. So, next 3, 4 years, given your perception or understanding of the business environment, the customer field, what kind of volumes we can do for say 3, 4 years hence?

Anand Krishnan: Rahul, so one thing that we had indicated last year itself is that our order book was higher by 40 odd percent. So, we have not completed the sales against the confirmed orders as such. So, that will flow through in this particular year, apart from the current year order book that we will build. So, the current year order book, we might get a better sense by the end of July or early August , by which time we might be able to give you a view as to how this year might go.

Rahul Jain: No, I was talking more about the 3 years hence. With the existing infrastructure, your connects, your procurement, processes and strategies, procurement agents, typically 3, 4 years, what kind of volumes is possible? I am talking about the guidance for the next 1 year, sir.

Anand Krishnan: See, our endeavor is obviously a minimum of 20% growth in the mango business accompanied by the other product mix that we have actually given you an idea about. But it's very difficult for me to just throw up a number on the volume.

Rahul Jain: Fair enough. Thank you so much, sir, for the detailed replies. Thank you so much and wish you all the best.

Moderator: We have the next question in the line of Pavan Kumar from RT Capital. Please go ahead.

Pavan Kumar: So, my question was specifically regarding this particular quarter. If I look at basically the EBITDA per kg or gross margin per kg, when I take off the PLI incentives from the reported numbers, it seems like it has come down from around Rs. 11 to Rs. 6.5. So, is it like we are going to pass on whatever is the benefit from PLI incentives to the customers? Or what is the kind of strategy we are looking forward?

Anand Krishnan: Mr. Pawan, with respect to passing on the PLI incentives, it is definitely not a strategy because this is not an industry-wide incentive, that we get, right? So, in the industry, there are only 2 players who have benefited under the PLI. Unlike a lot of other schemes like the ROTEP scheme or the MEIS scheme, that's the Merchandise Export Incentive Scheme, it was industry-wide, right? So, at that point of time, the customers actually came to the vendors and said that, boss, this is something that you're getting as a benefit. So, you need to pass on a part of it to us. But now, when it is not an industry-wide practice, there is no passing on of benefits to them. So, I hope that answers your question.

Pavan Kumar: So, the thing is, last quarter, gross margin per metric ton, I am talking about ex-PLI benefits, gross margin per metric ton last quarter was around Rs. 35. Now it is around Rs. 21. So, what explains this in the sense that sharp drop of around Rs. 14 in terms of gross margin per whatever you have processed in terms of volumes when I take off the PLI?

Anand Krishnan: The product mix determines the gross margin per kg. So, what we have sold in Q4 could have been slightly lower realization per kg because of which the gross margins came down.

Pavan Kumar: But going forward, what is the kind of realistic expectation on gross margin per kg that we should have? Will it be more similar to Q3 or will it be more similar to Q4? What is the kind of expectations we should have?

Moloy Saha: Moloy here. I just would like to highlight. I think someone communicated that our EBITDA per kg this year is lower than last year. But actually, it's not there. Even if you exclude the PLI incentive, our EBITDA absolute figure is around Rs. 100 crores. Last year, it was also Rs. 100 odd crores, this year also Rs. 100 odd crores. And this year, volume is there.

Pavan Kumar: I am talking about this specific quarter, sir. I am not talking about the entire year.

Moloy Saha: Specific quarter, okay, I am sorry. I am talking about overall, our realization is better than last year by Rs. 1.

Pavan Kumar: Yes. That is right, sir. I fully agree with that. But my only thing was what I am trying to get answer about is this particular quarter, I am not even talking about the realization, I am just talking about gross margin, why has it dropped so sharply?

Moloy Saha: I think this particular period, I believe we have sold more concentrate than puree. There are 2 types of product in mango. One is the mango concentrate, another mango puree. Mango concentrate is having better gross margin than mango puree. So, last year, PepsiCo took a major quantity of concentrate this quarter. But this quarter, we have seen PepsiCo concentrate is much lower than last year. However, other customers' puree has increased substantially, which is helping to have a volume growth. So, this type of product mix sometimes gives a distorted figure on the gross margin. But if we go product wise, then probably you'll see that overall gross margin per kg slightly improved than last year.

Pavan Kumar: Just let me put one more question. So, it's like your gross margin per kg, if I start looking from September '22 quarter, it has varied between Rs.40 and the lowest has been this particular quarter Rs.21. So, what is the realistic kind of gross margin per kg we should be looking at between Rs.20 and Rs.40? Is it the average or what is it?

Moloy Saha: Sir, it will be difficult to say because it's a product mix. Because if I say something, assuming some product mix, it is not going to happen. If I say uniform product mix, then it may go to Rs.35 to Rs.40 in between. If the uniformity product mix is not going to happen, if there is a change, then definitely the gross margin is likely to be changed. So, it's very difficult in our type of product category to say that this quarter, this is the right gross margin. It may not be correct to indicate from our side.

Anand Krishnan: And Mr. Pawan, with respect to the volumes that are given in presentation also includes volumes from Spray Dried, volumes from Kusum, volumes from other businesses that we do, right? So, just to divide that and get a realization is not the right way to look at the business is what we have tried to time and again express on the call.

Pavan Kumar: And one more question that I had was currently our debt levels have gone up a little and even our finance costs are up. So, are we looking at any kind of number in terms of the upper band in terms of debt to equity or how are we looking at that particular element?

Anand Krishnan: As we stand today, I think we would have almost reached the peak levels of debt because by June end, we should have our investors' money that actually comes in the form of equity, right? We have that warrant issue, which actually happened in November of '22 for which the 18-month period actually ends in June of 2024. So, having said that, unless we grow our sales drastically, we might not need more amount of working capital debt. But if you see the debt, which has actually risen to the level as of March 31st, the major reason for that is basically we had produced 40% more than what we actually did in FY23. But the sales that we have actually achieved till March is only what we did in FY23. So, bulk of it actually stands in inventory as of March '24 balance sheet date.

Moloy Saha: I would also like to highlight one point. If our balance sheet closes at June, then we could have seen that debt level substantially reduced. But because the stock which we are holding, I mean substantial stock is moving now. So, that is due to this carry forward of stocks, the working capital outstanding was more. But otherwise, there is nothing to be concerned on this particular because being a seasonal nature of business, we need to invest in 3 months' time during the season period and dispatch or liquidate the stocks next 12 to 15 months' time. So, this is the nature of business. So, we have to bear with that type of volatility.

Pavan Kumar: One small extended question, sir. I am asking you this question because our inventory levels are high. So, let's say, I process 10 kgs of mango this particular quarter, and I was able to sell only 8 kgs. So, the 2 kgs processing cost, would it come into the expenses item this particular quarter or will it get recorded whenever that 2 kgs gets sold?

Anand Krishnan: It is always a matching sales to matching cost concept. We follow the Ind AS.

Pavan Kumar: So, basically, you are saying though we have processed 40% of extra, that 40% extra cost has not been recorded as of now.

Anand Krishnan: Correct. It will come in the quarter when we sell that material.

Pavan Kumar: Thank you, sir. I am done.

Moderator: We have the next question from the line of Shyam Garg, an individual investor. Please go ahead.

Shyam Garg: Sir, my first question is with respect to the CAPEX. What is the CAPEX guideline for this year?

Anand Krishnan: So, we have finished most of the CAPEX except for the CAPEX that needs to be done for the tomato processing line in Gonde in Nasik. We should be done by Q2 of FY25. Not more than Rs. 15 odd crores that can be actually seen. Going forward, the total project cost would have been say around Rs. 25 crores to Rs. 30 odd crores as such. That's number one. Apart from which, we have a small CAPEX that we are actually doing at our co-packers line which is in Ahmednagar, which is the top fruits processing line that we have., MS, you might be able to give a better idea of the CAPEX that we are doing there. MS, so can you just give us some idea about the kind of CAPEX that we are going to do in the TPPL processing line apart from the tomato processing line that we are doing in Gonde?

Moloy Saha: That is already done. I think 70%-80% . The total cost would be likely around Rs. 25 crores to Rs. 30 crores in between.

Anand Krishnan: Sir, which one are you talking about, the tomato processing line or the TPPL?

Moloy Saha: Tomato processing line in Gonde.

Anand Krishnan: So, that I have already given an idea. So, with respect to TPPL, if you could just guide us.

Moloy Saha: No, we are not incurring any major cost there other than some storage activity. We need to enhance the storage activity. Otherwise, we are not doing any CAPEX there because we have an existing line which we have transferred there to increase the capacity. Only we have to increase the storage which will be around Rs. 3 crores to Rs. 4 crores. That we have not yet done. We have not yet decided.

Anand Krishnan: Mr. Shyam, so the total CAPEX that you can actually expect in FY25 should be around Rs. 25 odd crores as such. That's it all put together.

Moloy Saha: But Anand, out of Rs. 25 odd crores, I believe that some cost already incurred in this quarter Q4, which is under CWIP. So, I believe the actual addition would be like Rs. 18 crores or something, should not be more than that, Rs. 17 crores, Rs. 18 crores.

Anand Krishnan: Okay, Rs. 18 crores. Including the ECRC?

Moloy Saha: Yeah

Anand Krishnan: Okay. I hope, Shyam, that gives you the answer for your question.

Shyam Garg: Yes. Yes, sir, that answers my question. And sir, with respect to your working capital cycle, do we see any decrease in working capital employed days this year?

Anand Krishnan: So, last year was tough for us because the call-offs were lower than the production that we actually did. So, we are obviously expecting that to go down this year, especially with the increased competition that the brands are seeing from Reliance and the Tata Consumers as such. Let's hope for the best.

Shyam Garg: Okay, sir. And sir, while we are procuring pulps from satellite factories, just a fundamental question to you, how do we procure it? Do we just have go there and check the quality of the product or we call the product and then we check the quality? If it's up to the mark, we'll take it and otherwise we'll send it back. How does it work?

Anand Krishnan: No. So, what we do, during the season time, we have our people placed in that factory and we have a few SOPs which are actually given to that particular factory over a particular line which needs to be produced in a particular manner following those SOPs. So, our people ensure that all the SOPs are in place and as per the customer requirements as well. And then we procure it as and when the customer demand comes in.

Shyam Garg: That's it from my side. Thank you for answering my questions.

Moderator: Thank you. That was the last question. I now hand it over to Anand Krishnan for closing comments.

Anand Krishnan: Thank you so much, Mike. I want to express my gratitude to all our investors and shareholders for their continued support. Your trust in our Company is invaluable and we take it seriously. We have already laid a strong foundation for sustainability and are confident in our ability to grow with sustainability at the core of all our practices. Should you need any further clarifications or would you like to more about the Company, please feel free to write to us. Thanks again. Bye.

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