“E.I.D.-Parry (India) Limited

Q4 FY‘24 Earnings Conference Call”

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MODERATOR: **MR. SANJAY MANYAL – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the EID Parry Q4 FY '24 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjay Manyal from DAM Capital Advisors. Thank you and over to you, sir.

Sanjay Manyal: Hello everyone. We thank EID Parry's management for giving us the opportunity to host this call. On the call today, we have with us Mr. Suresh, Managing Director, Mr. Muthiah Murugappan, Whole-Time Director and CEO, Mr. Suresh Kannan, Whole-Time Director, Parry Refinery, Mr. Y. Venkateshwarlu, CFO and Mr. Biswa Mohan Rath, Company Secretary.

I hand over the call to the management for the opening comments followed by question and answer session. Thank you and over to you, sir.

S Suresh: Good afternoon to all participants. It gives me great pleasure to be part of this Analyst Call to share and update on the global as well as Indian scenario and explain the Q4 performance of the company.

On the global trend, the global sugar supply surplus projected for 2023-24 has decreased by 421,000 metric tons compared to the March '24 estimate to 5.58 million metric tons. This reduction was mainly pushed by upward reversion in global sugar consumption, primarily on account of Brazil and Turkey. Annual growth of global sugar consumption for 2023-24 season is now estimated at 1.2% compared with earlier estimate of 0.9%. For 2024-25 season, the sugar supply and demand balance has been revised downwards from an initial estimate of small surplus of 27,000 metric tons to 278,000 metric tons of deficits. Just like the 2023-24 season, the change in scenario is expected to be on account of higher sugar consumption estimates aided by a consumption growth in China and EU. And on the Indian front, as of end of April 2024, sugar production has reached approximately 314 LMT, with a few mills still operational around the country. An additional volume of 5 to 6 LMT is expected from TN and Karnataka, with TN scheduled to crush during the special season in the months of June '24 and July '24.

Hence, the final net sugar production is estimated to be 323 LMT for sugar season '23-'24. Taking into account an opening stock of approximately 56 LMT, as on 1st October 2023, and a forecasted domestic consumption of 285 LMT, the closing stock is estimated to be approximately 90 LMT by September '24. Government considers that a closing stock equivalent to 2.5 months of consumption would be adequate.

However, given the current scenario, we would be ending up with a higher closing stock. This would mean additional costs for the millers on account of the idle inventory and carrying cost. For the sugar season 2024-25, the announced increase in FRP, approximately INR25 per quintal and forecasted above normal monsoon, augurs well for sugar production.

On the Q4 performance, the standalone revenue from operations for the quarter ended 31st March 2024 was INR717 crores, registering a decline of 11% as against INR807 crores in the corresponding quarter of previous year.

Earnings before depreciation, interest and taxes (EBITDA) for the quarter ended was INR166 crores as against INR327 crores in the corresponding quarter of previous year. Standalone profit after tax for the quarter was INR80 crores as against a profit of INR83 crores in the corresponding quarter of previous year.

The standalone revenue from operations for the year ended 31st March 2024 was INR2,809 crores as against INR2,895 crores in the corresponding period of the previous year. Earnings before depreciation, interest and taxes (EBITDA) and before exceptional items for the year ended was INR307 crores as against INR527 crores in the corresponding period of the previous year. Standalone profit after tax for the year ended was INR107 crores as against INR197 crores in the corresponding period of the previous year.

The profit after tax for the previous year ended includes an exceptional item of INR Nil as against Net exceptional loss of INR111 crores on account of impairment of investment in Parrys Sugar Refinery India Pvt. Ltd., Algavista Greentech Pvt. Ltd. and Alimtec (SA) including an impairment loss of INR155 crores and a gain of INR44 crores on sale of properties relating to Puducherry and Pettavaithalai factories.

The operating performance of the standalone sugar division was lower during the year as compared to the previous year on account of lower recoveries, higher cane costs and no exports and change in product mix in distillery on account of government policy. Overall cane crush has marginally reduced during the year from 51.81 LMT to 50.09 LMT and overall sugar sales has reduced from 5.2 LMT to 4.64 LMT. During the year, expansion in distillery of 165 KLPD in Haliyal and Nellikuppam had reached greater degree of completion and will operate in full stream by Q1 of FY25.

Further, the company has forayed into the staples space during Q4 of FY24. The standalone Nutraceuticals Division had registered loss during the year on account of certification issues in Europe. However, such certification issues are expected to be resolved in the near future. Refinery business volume has grown by 16% and the spread also has improved about $10 PMT and cost reduced by $3 PMT and this has resulted in the refinery posting a cash profit of INR12 crores.

Now I hand over the call to Mr. Venkateshwarlu our CFO for further details. Thank you.

Y. Venkateshwarlu: Thank you Suresh. Good afternoon to all participants. It is a great pleasure to be part of the analyst call and share key information on the operational and financial performance of the company. I would like to share with you the key operating parameters of each segment.

First I will take up the sugar operation. So as far as the sugar operation is concerned, in Q4 all three phases we operated. The crushing operations at Nellikuppam, Tamil Nadu were carried out for 86 days, at Pugalur, Tamil Nadu for 81 days and at Sankili, Andhra Pradesh for 77 days.

The crushing operations at Haliyal, Bagalkot and Ramdurg in Karnataka were carried out at an average of 55 to 65 days average. The quantitative details of the sugar operations, as far as the crushing is concerned, we crushed about 19.79 LMT compared to the corresponding quarter of the previous year which is about 22.95 LMT. Recovery is at 10.69% compared to the corresponding quarter of the previous year which was around 11.51%.

The recoveries dropped due to climatic conditions prevailing in South Tamil Nadu and Andhra Pradesh. So as far as the production is concerned, we produced about 2.04 LMT during the quarter against 2.34 LMT of the corresponding quarter of the previous year . Overall cane landed cost is INR3,504 per MT as against last year's corresponding period of INR3,278 per MT.

Sugar sales for the Q4, was at 1.05 LMT (Domestic 1.05 LMT and Export 0.00 LMT) and in the previous year for the same period, it was around 1.2 lakhs metric tons (Domestic 0.88 LMT and Export 0.32 LMT). As far as the sugar selling price for the Q4 is concerned, it was INR38.16 per kg against previous year Q4 of INR36.52 per kg.

We carried a sugar closing stock of about 2.40 LMT at the end of March 2024 valued at about INR33.80 per kg. The revenue from sugar Q4 was INR436 crores in current quarter against the corresponding period of previous year of INR498 crores, registering a decline of 12.5% on account of export restrictions imposed by the Government and partly offset by increase in domestic volume and prices.

All FRP paid on time. As far as the cogen is concerned, we generated power in Q4 of about INR1741 lakhs units against the previous year of INR2,034 lakhs units. As far as the power exports is concerned, we did around INR903 lakhs units against the previous year, which was INR1,060 lakhs units. Average power tariff has come at INR4.84 paisa per unit as against the previous year of INR5.11 paisa per unit.

So as far as cogen revenue in Q4 is concerned, it was INR77.75 crores as against Q4 of previous year, which was around INR104 crores. As far as the distillery is concerned, we did about 3.31 crore litres against the previous period of 3.76 crore litres of which. 1.33 crore litres was ENA and INR1.98 crore litres was ethanol. As far as price realization is concerned, the price realization in Q4 is INR64.49 per litre against previous year realization of INR62.56 per litre. So as far as the revenue is concerned, Q4 revenue was around INR224 crores compared to the INR238 crores during the previous period.

So as far as the Nutra operations is concerned, turnover from Indian operations were about INR10 crores against INR5 crores in the previous year. At the consolidated level, the Nutra business turnover was INR70 crores against the previous year which was INR60 crores.

As far as the refinery operation is concerned, the operational revenue for the Q4 2023-24 was INR899 crores against the previous corresponding period 2022-23 which was about INR579 crores. PBT for the Q4 of 2023-24 is a loss of INR8.56 crores against the loss of the corresponding period INR45.31 crores. Sugar production, in Q4 was around 2.49 LMT. In Q4 for the same corresponding period, it was around 2.29 LMT. As far as the sales of refined sugar is concerned, for Q4 2023-24 it was 1.5 LMT for the current quarter. Corresponding previous quarter, it is 1.32 LMT. So we have a long-term loan as of Q4 ’23-’24 for about INR200 crores against corresponding previous year period which was INR200 crores as well.

As far as the short-term loan in the Q4 ending as on 31st March 2024 is concerned, it was about INR94.78 crores against the 31st March 2023, which was around INR620.04 crores. As far as the operational performance of the refinery is concerned, the sales was 1.51 lakhs metric tons for the current quarter as against the corresponding previous quarter, which was 1.32 lakhs metric tons.

Revenue from operations was INR899.35 crores for the current quarter as against INR578.87 crores for the corresponding previous year quarter. Positive EBITDA for the current quarter which was about INR56.21 crores. It was a loss in the corresponding previous quarter, which was about INR9.11 crores.

PBT before exceptional item, positive INR36.84 crores against the previous corresponding period loss of around INR45.31 crores. As far as external borrowing is concerned, which is in short-term nature, it was INR94.78 crores as on 31st March 2024 and the same as on 31st March 2023, was INR620.04 crores. Over to you, sir.

Moderator: Gentlemen, this is the operator. Should we proceed with the question-and-answer session.

S Suresh: Yes, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Karan Mehta, an individual investor. Please go ahead.

Karan Mehta: Thank you, sir, for the opportunity and congratulations for a great set of numbers. I just have a couple of questions. So my first question is how are our operating parameters in the distillery segment as compared to our peers and what is our outlook for the distillery segment for FY'25?

Muthiah Murugappan: So in terms of the distillery segment, obviously towards the end of Q3, there was a policy change and ethanol diversion was restricted. So this impacted our overall distillery EBITDA margin on a full year basis, probably at around 12%. While this has improved from FY'23 of 9%, if there was perhaps no change in the policy framework, the EBITDA margins would have been closer to 16% and perhaps on track to move closer to 20%, which is something we would have been quite happy with. Of course, we'll really have to see how policy unfolds in the coming months. In terms of comparisons to peers, we're just waiting for all of the results to come through. We have to make those comparisons and see how we stack up.

Karan Mehta: Okay. And secondly, we have been doing quite well in some of our other segments, like refinery has done better in this quarter. But the cogen performance has been slightly poor these last few quarters. So what is the reason for the same? And when do we expect this to improve?

Muthiah Murugappan: Venkat, you can come in here, but we've had lower cane crush.

Y. Venkateshwarlu: Can I take this call, Muthu?

Muthiah Murugappan: Yes, go ahead.

Y. Venkateshwarlu: Karan, as far as the cogen is concerned, you have to look at the cogen and sugar together. Because basically this major dependency of cogen will be on the sugar division. If you look at the cogen and sugar together, marginally, yes, the profitability has reduced, mainly because of the recoveries and the cane cost. All these things have factored in the lower profitability in sugar segment.

S Suresh: Overall volume reduction in cane has resulted in lesser quantum of power available for export. So that is another reason why the cogen profitability is also low. Once the cane volume improves, obviously the surplus will go for exports and thereby result in an improvement in the cogen profitability as well.

Karan Mehta: Okay. Sir, if I can just ask one more question.

Muthiah Murugappan: Yes, please.

Karan Mehta: Yes. Sir, what's your outlook for sugar production in FY'25?

Muthiah Murugappan: It's too early to say. I think it will take a couple of months. You mean overall India production?

Karan Mehta: No, our company production.

Muthiah Murugappan: Okay. So from our perspective, planting has dipped in Tamil Nadu because of last year's monsoons. So there will be a challenge on this front. In Karnataka, while monsoons were a little deficient, we're starting to see early summer rain, which is good. I think in Karnataka, we should be okay. In AP there maybe a marginal dip. We don't sort of give guidance on any of our volumes or revenues, but this is the broader picture for you.

Karan Mehta: Okay. This was very helpful. Thanks a lot, sir, and wish you all the best.

Moderator: Thank you. The next question is from the line of Pinaki Banerjee from AUM Capital Private Limited. Please go ahead.

Pinaki Banerjee: Good afternoon, sir, and thanks for the opportunity. Sir, my first question is, like the government is planning for the 20% ethanol blending target by 2025. So we're considering the flip-flops with the government that did in the last December and how confident do you see in the government that we will be able to meet the 20% blending target? Because as we know that this E20 petrol is now mostly available in Southern India and the rest of India is now, it takes time to catch up. So what is your opinion on that?

Muthiah Murugappan: So, thank you for your question. I think from what we hear, the policy makers are still committed to the blending target. It's obviously a very well put together policy framework. Of course, on certain compulsions, they made some edits to the policy framework and revised it for the reduced diversion on account of food security and food price security as a priority. But you know, with the improving climate and food situation, we're hopeful that, you know, policy makers will view this positively. It just remains to be seen when these policy decisions are taken.

However, that said, while we remain hopeful, I think the grain ethanol has certainly, in the last couple of months, been given some impetus and been given some encouragement. We do foresee that to also stay on. So the originally envisaged split between grain and sugarcane based ethanol in terms of meeting the entire blending target might see a change as things unfold. So you can expect that the ratio of grain to the ratio of sugarcane may differ with grain moving sort of slightly higher than originally estimated when we get to steady state.

Pinaki Banerjee: Okay, sir. Comparing if the inflation is under control and if we have, as IMD has predicted, a good monsoon, do you foresee that the government will remove the restriction on exports?

Muthiah Murugappan: So, we remain hopeful. Obviously, official estimates from the industry are putting opening stock for the next sugar year at almost around 9 million or perhaps a little more. This is encouraging and it's certainly significantly above the two and a half, three-month stock, which is usually required or meant to be held comfortably.

Pinaki Banerjee: Okay.

Muthiah Murugappan: So with this in mind, we're hopeful for a couple of things. We're hopeful that they will revert to the original policy framework around ethanol blending. We're hopeful that exports will be considered, although I will caveat by saying that global sugar prices are ruling much lower than what they did six months ago.

Six to nine months ago, they were probably closer to [£0.27 cents per pound]. I think they're well into the late teens right now on account of surpluses in the global sugar balance. So, I think we must take note of that.

But more importantly, at least it's our view, that the sugar MSP could be certainly relooked at. The MSP has stayed at INR31 a kilo, while the FRP has moved up on a year-on-year basis for a number of years. So, I think it would be really positive for all stakeholders if the MSP is relooked at, because this is very important from the industry perspective.

Pinaki Banerjee: Okay. Sir, just one last question, sir. Actually, what is the reason for increase of your debt level from almost INR500 crores to INR1000 crores in a standalone basis?

Venkateshwarlu: I'll take this question. Because if you look at the composition of the debt, out of INR1000 crores, INR300 crores is long-term in nature, which is for the projects which are underway and is getting commercialized in a quarter. So, as far as the short-term is concerned, it is about INR750 crores or so, and this majorly is on account of inventory increase, compared to the 31st March 2023. So, the debt is stretched around INR1000 crores, but gradually it will come down by September or so.

Pinaki Banerjee: Okay, fine, sir. That's all from my end, sir. Thanks and all the best for the future.

Moderator: Thank you. The next question comes from the line of Gautam Dedhia from Nalanda Securities Private Limited. Please go ahead.

Gautam Dedhia: Yes, hi. Congratulations on crossing INR500 crores in branded sugar. So, my first question is, on your slide 19, you mentioned Amrit and Jaggery is about 5700 tons that we sold in FY '24. So, that's about 4% of our total branded sales. So, I just wanted to get a sense, like 2-3 years down the line, what is like a realistic number we can consider as a percentage of our branded sales? Like, can this move up from 4%?

Muthiah Murugappan: So, Gautam, thanks for your question. So, this is specific to the brown segment. So, if you look at that slide, you know, around the entire value-added piece of that portfolio, we put a little checkbox. That's obviously a part of the product portfolio we're giving a lot of importance to because realizations are better, as you can see on that slide. And we will aspire to grow the value-added portion of retail. While, you know, retail overall this year was about 28% of our sale in terms of volume, the value-added portion of that, we will aspire to grow aggressively because it's a sterilization of retail over the coming year.

Gautam Dedhia: So, just to get a sense, when you look at your White Label is at INR60, your Amrit is at INR100, INR110 is jaggery. So, on that incremental INR50, how much is captured in the bottom line like just a brief sense?

Muthiah Murugappan: So all of these will, at a COP level, differ. They also have A&P expenses which are ascribed to them. So at steady state, and I think we're some years away from that if you look at this business as a P&L, we need to be in the late single-digit EBITDA on an ideal basis.

Gautam Dedhia: Okay. And just one last question regarding the COO we've hired recently. So, is it for the branded business?

Muthiah Murugappan: No, it's not. It's actually for the non-branded business. It's for the bulk in the institutional business and the operations of the company.

Gautam Dedhia: Okay. Thank you.

Moderator: Thank you. The next question comes from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Yes good afternoon sir and thanks for the opportunity. Sir, my first question was actually asked by the earlier participant, but I was not able to get a clear answer. The retail realization is just a tad above the wholesale number of 38 odd. So, despite selling products between 45, 50, and even higher why is the difference in the retail realization just one rupee or even lower than that with the wholesale number?

Muthiah Murugappan: So, Rajesh I think partly the answer was conveyed to Gautam. I think we need to really aggressively look at growing the value-added piece because that's when your realization will really improve. Of course a good proportion of sales on the retail segment are the entry-level products.

While that will continue I think in the future we will see more growth of the value-added segment which will then start adding to that delta on realization. Sorry, I don't know which realization you're referring to.

Rajesh Majumdar: Say slide 17.

S Suresh: I think as you see the various products, those MRPs are also high. The cost of production and the equivalent packaging and the related processes which need to be followed to make those products are also higher. Hence, it's not that the difference in the MRPs will flow in as a bottom line.

And second thing is the saliency of these high-value-add products have to go up to get a significant addition to the bottom line. That's what the CEO was referring to increasing the salience of rounds on the premium products over a period of time as it will improve the overall realization from the current level of around 39.

Rajesh Majumdar: And sir out of this INR522 crores of total sales in retail, how much is the sweetener part and how much is the non-sweetener part?

Muthiah Murugappan: Non-sweetener is negligible Rajesh because it only launched last year. It's all sweetener.

Rajesh Majumdar: Okay. Fine sir. And lastly on the same subject, would you care to enlighten us as to who are the key hires etc or the kind of people who are going to lead this business and where do you have this kind of visibility of growth coming from, any other strategy which you would like to highlight on the same?

Muthiah Murugappan: So, Rajesh I think the gentleman who has come on board is the Chief Operating Officer. He will be responsible for the sugar and the biofuel, that we see as the sugar and the alcohol operation at the front as well as the backend. And this is to bring focus to the business and also to address succession planning.

We already have a leader on the consumer product group segment who has led this initiative since it got started in 2017-18 and this individual continues to lead the consumer product group going forward. So, these are I would say the biofuels piece which is around the distillery segment and the consumer product group.The biofuels piece will really be the profitability and the cash driver for the business. And the retail segment, of course, is the future growth segment. And I think these are the two areas of growth the company is seeing going forward.

Rajesh Majumdar: Right. If I could speak in a last question we have seen the last three quarters of refinery profits. So, is it like now all the problems are behind us and we will be able to see continuous profitability here or are we still going to see fluctuations in the earnings of the refinery business?

Suresh Kannan: As far as the refinery business is concerned, as you said in the last three quarters, we have definitely moved forward. Since we don't have a recurrence of this one-off event we expect to build on this momentum. So, we hope we should be in a position to continue this performance on the refinery in the coming years.

Rajesh Majumdar: And there is no decision yet on the nutraceutical refinery business long-term solutions or is it going to be continuing like that what it is right now - last question?

Muthiah Murugappan: So, Rajesh, are you referring to nutra and refinery or are you just referring to one of them?

Rajesh Majumdar: Both nutra and refinery.

Muthiah Murugappan: As I said, nutra is under strategic review and we're always going to be open to looking at alliances which are going to create value for the business. So, I think that's kind of where we are right now.

Rajesh Majumdar: Thank you so much.

Moderator: Thank you. The next question is from the line of Anushree from Alpha Invesco. Please go ahead.

Anushree: Congratulations sir for a good set of results. So actually I have some questions on the refinery part. So, earlier we mentioned something about bringing a strategic partner in the business. So, what's the status on that?

Muthiah Murugappan: So, Anushree I think the same answer as I gave to Rajesh. I think we are always open to alliances for value creation and if we have any news at all we'll make appropriate intimations, but there's no news to discuss at this point in time.

Anushree: Okay. And I have two bookkeeping questions actually. So on slide number 41 of the presentation in the refinery performance, there you have mentioned about some impairment provision. So, can you explain a bit about it? What exactly is that?

Y. Venkateshwarlu: Yes. Anushree, this is an impairment provision in one of the overseas subsidiaries, the PIDMCC, which is in Dubai. So, this is a major trading concern. In the last couple of years, this entity is doing the trading business. We created a provision for the investment on a conservative basis because last year and the year before last, there have been nominal losses that we have incurred. So, on a prudent basis, we have created the provision.

Anushree: Okay. So, that subsidiary is fully provided for currently or it's partly provided?

Y. Venkateshwarlu: Investment is fully provided and the loan is also partly provided.

Anushree: Okay. And where exactly does this impairment fit in the consolidated results? Because I couldn't find any exceptional line item in the consolidated results.

Y. Venkateshwarlu: Consolidated, this will get eliminated, right?

Anushree: Okay.

Y. Venkateshwarlu: It's in a 100% subsidiary. So, it will get eliminated.

Anushree: Okay. Fine. And just another question. Our segmental refinery profits on Slide 44 is INR3 crores, PBIT, EBIT on Slide 41 is INR3.97 crores. So, I guess they don't match. So, what is the difference between these two numbers, if you could explain a bit? Or is it just a conversion issue or something?

Y. Venkateshwarlu: Anushree, when you look at the consolidation, there is a net of console adjustments, because there will be the sales between the subsidiaries, that is, between the PIDMCC and PSRIPL, which we have just now spoken about. And also, the PSRIPL refinery will also make the sales to the EID parent. So, all these console adjustments will be netted up in the results. Therefore, you can't do the comparison equivalent to the numbers.

Anushree: Okay. So, there are no one-offs per se, other than this impairment in subsidiary, right?

Y. Venkateshwarlu: Other than this, nothing else. That we can see in the standalone.

Anushree: Okay. Thank you. That's it from my side. Thanks.

Moderator: Thank you. The next question is on the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: Hello, sir. Just one question regarding the consumer product division, which is mentioned in your presentation Slide 23, that you'll be entering the millets and the pulses and rice segment. Just a way forward for this, because this would require major investments, and that has not been disclosed in the presentation. So, if you could just highlight those things.

Muthiah Murugappan: So, thank you for your question. We are obviously seeing this from the perspective that we have built a certain position in the sweetener space, and we've got a strong brand. We want to leverage the equity of the brand and leverage the distribution infrastructure that we've created across more product lines. And we've chosen these categories as they are natural extensions into other parts of one's kitchen shelf.

All of these categories alsohave a huge headroom in terms of branding. A lot of these categories and segments are sub-30%, sub-25% branded. Sweetener, for example, is only sub-10% branded. So, we do see a headroom for growth. You're right. They will need investments in partnerships and alliances. They will need investments in advertising and promotions. And that's not something we've talked about in our presentation.

Our presentation largely reviews the FY'24 performance. So, I think in the coming quarters, and when we actually upload our next presentation, FY'25, we'll obviously have more information about the non-sweetener part of the consumer product goods.

Nitin Awasthi: Understood, sir. Thank you.

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

Sreenivas: Sir, this is regarding biofuel-sustainable aviation fuel. So, the ethanol has to be produced in a different channel. Is our company going in that direction or can you throw some colour on it?

Muthiah Murugappan: Actually, Sreenivas, there's no clarity from a policy perspective yet on sustainable aviation fuel. So, there are still a lot of conversations and there's a lot of discovery around the whole segment. So, we don't have any clarity as of yet. We don't have a clear strategy unless a clear policy emanates.

Sreenivas: So, the next question is regarding the brand building of EID Parry. So, you are a well-known brand in Tamil Nadu and Karnataka. So, to get familiar with other southern states like AP and Telangana, are you going to take up any TV ads or commercials like that?

Muthiah Murugappan: So, we do have television commercials for a number of our product lines, which we have aired in the multiple southern states. As and when required, we will do media bursts on various segments. It obviously also has to correlate with distribution. It's prudent to have a media burst when your distribution has reached a certain critical mark so that you get the best bang for the buck from the media burst. So, we'll keep these parameters in mind when we choose to go on media.

Sreenivas: But I don't see much TV ads in AP and Telangana and a few others.

Muthiah Murugappan: So, that's just making my point again. I think we have to build our distribution up in these states and then subsequent to which we will evaluate media bursts in these states.

Sreenivas: Okay. Thank you, sir.

Moderator: Thank you. The next question comes from the line of Majid Ahamad from Smartsync Investment. Please go ahead.

Majid Ahamad: Okay. So, my question is what about your FMCG business? I'm seeing a lot of retail products. What's the medium to long-term planning for FMCG business?

Muthiah Murugappan: Yes, thanks for your question. So, we aspire to build this business as a new growth vertical for the company. We certainly want to scale this business up. There is, as I mentioned earlier, our logic for deepening in this segment. Moreover, we're in an accelerating country wherein we looked at various segments which are going to contribute to the GDP growth of India going up to 2030 and consumer lifestyle, etc is right up there.

So, I think we really believe in the opportunity that the segment presents itself. So, we will aspire to grow the segment more aggressively and obviously do so profitably. At least towards the end of the decade, we want to have a business with the late single digit EBITA and a business which is substantially larger than what it is today.

Majid Ahamad: Okay. So, what's the current financial updates?

Muthiah Murugappan: We'll refrain from giving guidance. I think we've given you a broad direction in the comments earlier.

Majid Ahamad: Thank you.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Thank you for the opportunity, sir. So, sir, our sugar distribution-the sweetener distribution has moved from almost 20,000 outlets to 1.1 lakh outlets as of FY '24 and I assume most of it will be in Tamil Nadu. So, how do we see our distribution expanding from current 1.1 lakh outlets.

What number are we targeting or envisaging in the next two to three years? And what kind of distribution overlap is there between your sweetener business versus the staples and sugars or the FMCG business? If you can just help us understand that part, sir.

Muthiah Murugappan: Yes. Suresh, do you want to comment and I can come in or do you want me to?

S Suresh: No, you can come in and then I'll…

Muthiah Murugappan: So, perhaps 40% is Tamil Nadu. I would say the rest is in other southern states. So, this has grown well in the last three or four years. However, we do feel the need for it to grow more aggressively. I think in a couple of years' time, really getting closer to half a million would be the near to medium-term objectives which we have. You know, in terms of an overlap, and it's a very good question, as we launch into staples, we are realizing that there's obviously an overlap and there's no disputing that.

But we're also realizing some incremental possibilities where even products like rice are enabling us to drive distribution. So we always thought that entry-level sweetener products would be driving distribution for us, but rice is also in some states, especially in Karnataka and AP, Telangana helping us drive some distribution in upcountry regions. So, I think there is a positive synergy which we're seeing.

S Suresh: Yes, adding to that is the value-added products which are also in the sweetener's platform like your jaggery or Amrit , Amrit gold etc., all these products are also helping us to penetrate into more outlets as we go beyond Tamil Nadu. So, those are the ones, which are going to help on the sweetener side. Like what Muthu explained on the non-sweeteners and the staples side, the launch of the branded staples is going to help us to break out into more and more outlets and expand the distribution.

Chetan Phalke: Okay. So, we can assume there's almost 80% to 100% kind of an overlap between these categories?

Muthiah Murugappan: I mean, look, it's early days for us in the non-sweetener segment. So, I could perhaps make a better hypothesis of our sweetener distribution than our non-sweetener. So, if I can put it that way, I would certainly be able to make stronger hypothesis perhaps when we come back after FY '25 results and onward. So, we're being candid.

Chetan Phalke: Okay. And so, for our staple launches in your presentation, it is mentioned that now our commercial launch in Tamil Nadu is done. In January 24, it was completed. And in April, we have just launched in Andhra, Telangana and Karnataka as well. And there are a few more products which will be launched in this year, ready-to-cook products and other dosa batters and more. So, if you can just help us understand the current status, I mean, what kind of response you're seeing, any new innovations or products that are in the pipeline or new launches that we can expect this year?

Muthiah Murugappan: So, regarding the launch, we've got good initial feedback. I would say placements are still going on. We still need to cover some more ground in terms of placements. So, from that respect, placements are still going on for some more time. We are seeing good feedback coming. I think the strength of the brand and the trust in the brand is very strong and I think this is driving off-takes.

In terms of new products, we will see new products and the sweetener stable in Q1. And as the distribution of the staples, the bare bone rice, dal, millet is placed across the spectrum, we will start seeing value-added products in that realm also coming in on the lines of dosa mixes, roti mixes, adais, upmas, and so on and so forth, just to give you a little flavour of that. Those, of course, are already under development within our own development centre and in partnerships.

Chetan Phalke: Okay. So, just to follow up on this, sir, what kind of gross margins we can expect on this FMCG business as the product mix evolves in the next two, three years? I mean, just a broad range or is there like a criteria that we have decided that we will operate only above a certain gross margin while looking at new products and new categories?

I understand because of the dynamic corporate overheads or other expenses, we won't be able to talk about EBITDA margins per se. But can you just help us understand the gross margin profile of this business over a period of time? And what is our current brand expenditure and how it will evolve in what direction it will go over the next 3 years, 2 years?

Muthiah Murugappan: So, let me start with the broader picture. And I commented on that earlier, aspiration over the next 5 or so years, build a solid FMCG business with a solid individual EBITDA margin. So, that's kind of where we are working towards. And we're obviously aspiring to be quite prudent in terms of how we go about this. In terms of gross margins, let me start with the value-added products you talked about. So, there you will aspire for gross margins north of 35% because that would be important.

On the bare bones, on the straight, which is your dal, rice, etcetera, you would have substantially lesser gross margins because these are more scale products. But we exercise a lot of prudence in terms of how we go about our working capital management, our sourcing, and so on and so forth, so that we keep to certain contribution targets. The Millet category, as we build, will sort of come and fall in between the value-added and the straight in terms of where it lands on margin.

So, I think this is how we're seeing it. From a sweeteners perspective, the value-added sweeteners are the ones, again, which are margin-accretive, whereas the entry-level ones will really drive more top-line and drive distribution. Obviously, we had a positive contribution. So, sum of all parts and amalgamating everything, the aspiration is still to deliver a single-digit EBITDA over a substantially larger business over the next 5 years.

Chetan Phalke: Okay. And the brand expenditure? So, what is the current brand expenditure and where do we see it in the next 2-3 years?

Muthiah Murugappan: So, obviously, this is a very important component-the AMP spend. So, to give you perspective, it sits within the mother business right now. And brand expenditure, if you look at FY ‘24, is about INR35-INR40 CR in total.

Chetan Phalke: And on what trajectory are we looking at over the 3-5 years?

Muthiah Murugappan: Look, as the categories grow, this will have to move forward. And this is where I think the value-added products and the products with higher gross margin start coming in. But only on the back of strong distribution when we start putting them into the market, can they quickly move in. And the margin that they bring in, clearly will start because you have to incur that AMP expenditure as well.

Chetan Phalke: Okay. Just a last question on the sourcing strategy for our rice and pulses. I mean, is it a direct procurement we are doing via a farmer network because we have, as Murugappa group, we have an advantage of farmer reach. So, is that coming into play somewhere for direct procurements or we are procuring via agents? I just want to understand how we are planning to scale up our sourcing strategy for these new staples?

S Suresh: Shall I take it, Muthu?

Muthiah Murugappan: Yes, go for it.

S Suresh: Yes, we are in the initial stages in terms of this staples launch. Initially, it is going to be disordered sourcing and we have to identify the right sources in the market and get the right product as per the specifications, living up to the brand standards. And what you talk about as a farmer network leveraging will happen over a period of time, say maybe the next 4-6 years. It is not something that can be done immediately because the markets, the product, the brand, all has to stabilize in the market.

Then it has to gain some volume traction. Post that, we will be able to get that sourcing done through our farmers. But that is a bit far away. It is not going to be in the immediate future.

Chetan Phalke: Okay. But broadly, the group is thinking in that direction. Eventually, that is a possibility?

S Suresh: Yes. There is always a possibility in that direction.

Chetan Phalke: Okay. Thank you very much, sir. That is it from my end.

Moderator: Thank you. Ladies and gentlemen, you may press star and 1 if you wish to ask a question. The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: Yes, thank you. So, my question is with regard to our sugar business margins and profitability. Given the kind of growth we have seen on the consumer side, reaching INR500 crores plus, I just want to understand, one, what is the typical gross margin, EBITDA margin on the consumer front? And secondly, despite that growth in consumer, why is our sugar business so much under pressure? While I understand the points that you mentioned, but I would have also assumed that the growth in consumer should have benefited us?

Muthiah Murugappan: Hi. So, Suresh, I can start off. So, thanks for your question. So, we were talking about the AMP spend, and that fits within the mother business now. And I think it's a conscious investment of sorts, which we are making for the future to build the brand equity and build distribution.

So, that is an expense that we have to incur. Of course, our realizations on the consumer business are much higher, but there is also an AMP spend which has to be incurred, keeping the broader future plans of the business in mind. In terms of the sugar business being under pressure, last year, the challenges were actually many fold. And that's why you've seen a very challenging performance in the sugar industry segment. If I was to outline the challenges, the challenges on climate, we had deficient rainfall, this impacted yield and subsequently impacted the recovery when sugarcane feedstock flowed through as well. And largely in Tamil Nadu recoveries dropped substantially and to a very small extent in Andhra as well. But yields were impacted all across.

We also had a change in policy framework, which we talked about earlier on this call, and that has impacted the EBITDAs of the distillery segment. We were on course to deliver, say, 16%-17% EBITDAs, but we ended up only doing close to 12% on the distillery segment. So, this was, again, another challenge.

We had some operating and project delays in one of our plants on account of environmental challenges and, delay of the new ethanol discovery projects. And we lost out on some volume and throughput there. I would say, in terms of looking ahead, these operational delays should be behind us. I think we've made amends. From a climate perspective, it is looking to be a better climate year.

So, that is encouraging. From a policy framework, we talked about it and it’s speeding up nicely. We hope the policy makers will look at these opportunities positively and revert to the old policy framework on ethanol. So, and if some of these kick through, we should have stronger operating metrics going forward.

Naysar Parikh: And could you mention what is the gross EBITDA margin for the consumer business, roughly, given now it's 500 cross scale? Any sense you can give on that?

Muthiah Murugappan: So, as I said, look, regarding the consumer business, it’s within the sugar business right now. We do aspire to obviously make it a separate business unit. And I think work is going on internally on that front. It might take us a bit more time to get there. And perhaps at the time, we will start. We're encouraged, of course. We see all the data internally. I think we're encouraged by where the consumer business stands. But perhaps once we've been able to move forward to make it an official reporting business unit, I think we will then sort of lay the operating metrics out.

Naysar Parikh: And what percentage of AMP did you mention?

Muthiah Murugappan: So, it's not INR35 crores last year. I think that was the AMP. Venkat, is that correct, right? 35?

Y. Venkateshwarlu: Yes. Between, 35 to 38.

Muthiah Murugappan: Yes.

Naysar Parikh: And lastly, in terms of the distillery margins between you using sugar and say, grain-based or something like that, when this policy persists, we can't divert sugar. What is typically for you the margin difference?

Muthiah Murugappan: So, Q4 is a good example. So, that's where we would have landed up. We would have finished F24 at 16%, 17%. So, we finished up F24 at 12%. So, that's a 5% delta EBITDA margin.

Naysar Parikh: Thank you so much.

Moderator: Thank you. The next question is from the line of Majid Ahamad from Smartsync Investment. Please go ahead.

Majid Ahamad: Sir, I just need your update on your division.

Moderator: Sir, sorry to interrupt, but the line is muffled for you.

Majid Ahamad: Sir, any updates on dividend and buybacks for this year?

S Suresh: As such, nothing, sir.

Majid Ahamad: So, as of now, obviously, nothing.

Moderator: Majid, do you have any further questions?

Majid Ahamad: No.

Moderator: As we have no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, Sirs.

S Suresh: Thank you, everyone, for taking the time and attending this call. See you in the next one. Thank you.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.