"E.I.D.- Parry (India) Limited Q1 FY25 Earnings Conference Call"

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MANAGEMENT:	**MR. MUTHIAH MURUGAPPAN – WHOLE-TIME DIRECTOR & CEO, E.I.D.- PARRY (INDIA) LIMITED** **MR. SURESH KANNAN – WHOLE-TIME DIRECTOR, PARRY SUGARS REFINERY INDIA LIMITED** **MR. Y. VENKATESHWARLU - CFO, E.I.D.- PARRY (INDIA) LIMITED** **MR. BISWA MOHAN RATH – COMPANY SECRETARY, E.I.D. PARRY INDIA LIMITED**
MODERATOR:	**MR. SANJAY MANYAL – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the EID Parry India Q1 FY25 Earning Call Conference hosted by DAM Capital Advisors Limited.

As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" 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 this opportunity to host this call.

On the call today, we have with us Mr. Muthiah Murugappan – Whole-Time Director and CEO; Mr. Suresh Kannan – Whole-Time Director, Parry Sugars Refinery India Private Limited; Mr. Y. Venkateshwarlu - CFO and Mr. Biswa Mohan Rath - Company Secretary.

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

Muthiah Murugappan: Hi, very good afternoon. Thank you, Sanjay. Thank you all for logging in to EID Parry's First Quarter FY25 Earning Conference Call.

I will start with a brief overview of the global scenario, then move on to the Indian scenario and our Q1 performance. We also hope that you have been able to review the Investor Presentation, which we have uploaded after our board meeting.

I will start with the global scenario. So, as of 1st August, the Sugar Year (SY) '24-25 balance sheet, which initially appeared to be in deficit in the early part of the season is now beginning to show a surplus. And this is mainly on the back of a better mix in Brazil and higher production estimates in India. The EU on the other hand, is also estimated to produce a higher output of close to 17 million metric tons (MMT) of whites. As per Czarnikow, the total global sugar production is now estimated at 184 MMT, while consumption is expected to be 180.8 MMT. Further, any dryness and impact of La Nina weather patterns can limit Brazilian output. However, in spite of this, Brazil is on the way to produce historically second largest output of 40.5 MMT.

Production estimates for other Asian countries like Thailand are still evolving with good monsoons expected and this is also expected to positively impact the output. Raw sugar prices have softened as funds are selling on a developing surplus story. White premiums have been robust until October '24 showing peaks in December '24 and March '25 due to expected higher exports from the EU, Thailand and India.

Coming to India, the sugar production for the SY 2023-24 is estimated to be 34 MMT as a few mills are still operational as the special season is in progress in Tamil Nadu. With diversion to ethanol is expected to be just over 2 MMT, the net sugar production will be close to 32 MMT. Considering an opening stock last year of about 5.5 MMT and forecasted domestic consumption of 28.5 MMT, the closing stock by September '24 is expected to be a healthy 9 MMT. And this is significantly above the 2.5 months consumption number which the government would ideally like to maintain. This increased closing stock of course augurs with a significant additional cost for the millers on account of idle inventory and carrying cost. The FRP increase which has already been announced for SY 2024-25 by Rs. 25 a quintal will also attract more farmers to plant sugarcane which augurs well for the industry. The monsoon has also thus far been favorable, a little delayed in some parts of peninsular India, but right now moving at 6% more than normal at all India level. This will further bring relief to sugarcane farmers and the industry at large.

Preliminary estimates from ISMA are pegging production for SY '24-25 at 33.3 MMT. We still don't have any policy clarity with regard to the rollback of ethanol diversion and revision of MSPs despite number of representations from the industry. We will have to wait and watch how the policy makers respond.

From our perspective, at Q1, the standalone revenue from operations for the quarter ended 30th June 2024 at Rs. 751 crores registered an increase of 7.58% as against Rs. 698 crore in the corresponding quarter of the previous year. The EBITDA for the quarter ended was loss of Rs. 28.59 crores as against the loss of Rs. 14.63 crore in the corresponding quarter of the previous year.

The standalone loss after tax for the quarter was Rs. 78.59 crore as against a loss of Rs. 45.77 crore in the corresponding quarter of the previous year.

The operating performance of the standalone sugar division was higher during the year as compared to the previous year on account of marginally higher alcohol sales and the launch of the consumer products staples business. The overall cane crush for Q1 period has reduced from 4.01 lakh metric tons (LMT) to 1.93 LMT and overall sugar sales has reduced from 1.21 LMT to 1.05 LMT on account of lower release quotas. During the quarter, the Haliyal 120 KLPD distillery started its operations and the Nellikuppam 45 KLPD distillery for ethanol has also completed initial trials. Alcohol sales went up from 3.4 crore litres to 3.9 crore litres when compared to the same quarter last year.

I will now hand over to our CFO - Y. Venkateshwarlu to take you through the operating parameters and the financials.

Y. Venkateshwarlu: Thank you, Muthu, and good afternoon to all the participants. It is a great pleasure to be part of the Earnings Call and to share the key information of the operation and financial performance of the company. I would like to share the key operating parameters of each segment.

So, the first we will take about the sugar operations. So, crushing operations was about 65 days in Tamil Nadu. And I would like to share the quantitative details as under. So, we crushed about 1.93 LMT compared to the corresponding quarter of the previous year of 4.01 LMT. As far as the recovery is concerned, it was 8.60% compared to the corresponding quarter of the previous year of 9.05%. As far as sugar production is concerned, we produced about 16,000 metric tons (MT) during this quarter against the corresponding quarter of previous year of 33,000 MT. So, overall cane cost is about Rs. 3,491 per MT and last corresponding year was Rs. 3,267 per MT. As far as the sugar volume is concerned, we sold about 1,05,000 MT. The entire volume is for domestic sales, we did not have any exports. The corresponding volume of sales for the previous year was 1,21,000 MT. As far as the sugar selling price is concerned, average realization is Rs. 38.60 paisa/kg, against the Rs. 36.40 paisa/kg of the previous year quarter. So, we carried about 1,59,000 MT of sugar, at average price of around Rs. 35/kg.

As far as the revenue from sugar is concerned, revenue is about Rs. 251 crores in the current quarter against the corresponding period in the previous year of Rs. 336 crores, registering a decline of 25.3%. This is on account of lower release and no release order for export. All FRPs were paid on time. The consumer product group has achieved a turnover of Rs. 216 crores for this quarter against the corresponding period in the previous year of Rs. 129 crores, registering a growth of 67%, which included branded staples around about Rs. 51 crores. As far as the cogen is concerned, power generated for the current quarter is 307 lakh units against previous of 522 lakh units.

As far as power exports is concerned, it was 170 lakhs unit against previous year of 243 lakh units. Average power tariff is 4.23 per unit as against previous year 4.05 per unit. Revenue for power division is around Rs. 11.95 crores against previous year which was around Rs. 19.24 crores. As far as the distillery operation is concerned, we sold about Rs. 3.9 crores liters of 1.73 crores of ENA and 2.17 crore litres of ethanol. Previous year the same was the 3.43 crore litres, out of which 1.2 crore litres was ENA and 2.23 crores litres of ethanol. As far as the price realization is concerned, the average price realization is Rs. 64.31 paisa per litre against the previous year's realization is Rs. 61.8 paisa per litre.

The revenue from this segment is Rs. 263.23 crores compared to Rs. 208.64 crores during the previous year.

As far as the Nutra is concerned, we achieved a turnover of about Rs. 8.41 crores against the Rs. 4.70 crores in the previous year. At the consolidated level, Nutra business turnover is Rs. 65.71 crores against the corresponding previous year which was Rs. 54.98 crores.

As far as the refinery operations is concerned, operational revenue for the quarter is Rs. 1,213 crores, as against the corresponding previous year quarter of Rs. 608 crores. registering a significant increase. As far as the PBT is concerned, for the quarter, loss is about Rs. 6.79 crores against the previous year's corresponding quarter of Rs. 96.51 crores. Loss has significantly reduced, so improving the performance of the refinery business.

As far as the refined sugar production is concerned, 1.6 LMT was produced in the current quarter as against the corresponding previous year's quarter, of 1.3 LMT. With respect to the refined sugar sales, we were able to achieve just 2.23 LMT for the current quarter. Previous year corresponding quarter was around 1.33 lakhs metric tons. So far as long-term loan of the refinery is concerned, including EID Loan is Rs. 200 crores. The same was Rs. 200 crores in the last year. As far as the short-term loan is concerned it was about Rs. 220 crores for the current quarter as against the previous year's corresponding quarter of Rs. 596 crores.

If you look at the summary of the operational performance of the refinery, sales stood at 2.23 LMT versus 1.33 LMT in the previous year. Revenue was Rs. 1,213 crores in the current quarter, as against the corresponding previous quarter of Rs. 608 crores. EBITDA is Rs. 13.24 crores, as against the previous year it was a loss of Rs. 54.5 crores. The external borrowing is Rs. 220 crores against Rs. 596 crores in the previous year.

Over to you, Sanjay.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gautham from Nalanda Securities Private Limited. Please go ahead.

Gautham: Sir, just one thing, so we have launched this new Amrit product in brown sugar, which is priced at Rs. 80 and your existing product price is Rs. 100. So, what is the thought process behind that if I see your slide 15? Are you trying to create the brown sugar category?

Balaji Prakash: Gautham, this is Balaji here. So, we are looking at pricing the new brown sugar which is nothing but your crystal brown sugar under the 'Parry Gold' brand name and this is priced lower more as a penetrative pricing into the market in order to generate more trials from consumers.

Gautham: And so this 1800 tons that you have sold of Jaggery plus Amrit, so what would be the exit run rate for June specifically for that month?

Balaji Prakash: For the month of June, we have sold about 400 tons, only in June.

Gautham: And similarly on the pulses, I think you mentioned Rs. 50 crores of revenue for the quarter, how is the month-on-month growth? Is there like a monthly run rate, exit run rate that we can work with?

Balaji Prakash: Yes, so we started with Rs. 10 crores in April and June were Rs. 25.2 crores.

Gautham: And in general, how has the traction been for our products and how many distribution points are we at now?

Balaji Prakash: So, overall, we are at about 1.5 lakh outlets in the south of India and the traction has been pretty good in the first quarter.

Gautham: And just one last question was in the annual report, we have mentioned Green Grow product, which is, I think, some nutrient-based product made out of bagasse, so can you just highlight what is the opportunity over there and is it like a very long-term play?

Muthiah Murugappan: Gautham, the Green Grow Media is from bagasse, the residual bagasse. It is a soil-less growing medium, which you would find in greenhouses, got a lot of potential in the export market and in India. Product development and customer development is ongoing. We don't want to discuss too much right now because we are not yet ready and ideally we would like to have an edge in the market as well. The opportunity is large in the sense, soilless medium is also moving towards greener formulations and that is where bagasse comes in, incumbent formulations do have environmental issues and that is what we are trying to sort.

Gautham: And just sorry, one last question was for our Nutra division, have you got certification from Europe?

Muthiah Murugappan: So, yes, we do have some good news that is coming through in the next couple of weeks. So, I think we should be able to start billing to Europe towards the end of sort of Q3.

Gautham: Q3 you said?

Muthiah Murugappan: I think we should be billing from Q3 onwards.

Moderator: Thank you. The next question is from the line of Chirag Jain from Yogya Capital. Please go ahead.

Chirag Jain: So, I was trying to understand the company, so I had few questions regarding the capacity of distilleries that we have. So, can you provide a break-up regarding the split between sugarcane, rice and maize capacity?

Muthiah Murugappan: So, our total distillery capacity is about 582 kiloliters per day (KLPD). All of these are sugarcane-based feedstock. There is one distillery which is 120 KLPD which is in Andhra. That is dual feedstock. So, we can do either sugarcane-based feedstock on it or grain. So, we have actually been running it with grain for the last couple of quarters. A 120 KLPD distillery would be able to give you about just over 3 crore liters of alcohol every year, so just to put it in….

Chirag Jain: Does the 582 figure include 120 or it is other than that?

Y. Venkateshwarlu: Yes, this includes 120 KLPD.

Chirag Jain: So, it would be around 460 for the sugarcane?

Y. Venkateshwarlu: We can't say it is like that because whenever there is a feedstock available for the grain, we can do 582 as well as the molasses base kind of thing.

Chirag Jain: So, sir, I was trying to understand that the sugarcane availability for ethanol has been kind of reduced and government is trying to push for the rice and the maize, dominantly for the maize, so do we have plans to convert the sugarcane part into the grain-based part?

Ashiq J A H: We will wait for Muthu to join. This is Ashiq. I head the Sugar and Biofuel business. That is an opportunity that we are continuously evaluating. Directionally, grains is an opportunity. We would want to have a repeat product distillery where we can use different feedstock. We keep evaluating that on a continuous basis.

Chirag Jain: So, just for example, if you want to convert a 100 KLPD sugarcane distillery into a multi-grain base, so how much the conversion cost would be for us?

Y. Venkateshwarlu: That is what Ashiq is mentioning, it is a process of evaluation. At the right time, we will evaluate what is the CAPEX involved versus the return on the additional benefits from the grain, basically.

Chirag Jain: Sir, also the rice, pulse, and millet size that we have launched, so will it be significant in terms of revenue going forward?

Balaji Prakash: I was just answering. We have exited June at about Rs. 25 crores, and the numbers are going upwards as we go forward. We are looking at building it into a larger value.

Chirag Jain: So, how do we see it going forward, so would we be reducing kind of sugarcane and focusing more on the bringing more growth from these three brands, these three products?

Management: Basically, if you look at it this branded staple is not from the sugarcane now. This is more we are going with the asset light model kind of thing. There is no linkage between the sugarcane related operations versus the branded staples.

Chirag Jain: So, just to clarify, what I was trying to ask was that for example, if you want to grow from here Rs. 1,200 crores to Rs. 1,400 crores. So, would the majorly growth be from the rice and pulse or would it be from the sugar? I was trying to understand that point?

Balaji Prakash: See, it is a little too early to put a number down on the Staples business because this business has just been launched and we are trying to build it. So, I think as of now, while we have a forward-looking outlook on this, we won't be able to put a number on this.

Chirag Jain: So, is it on the breakeven side currently?

Management: Yes.

Moderator: Thank you. The next question is on the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Taking forward from previous participants' question, this Rs. 25 crores from retail, what we are talking is a sweetener or non-sweetener, both put together?

Balaji Prakash: It is non-sweetener, Rs. 25 crores.

Bharat Sheth: And sweetener is how much?

Y. Venkateshwarlu: The sweetener will be around Rs. 60 crores.

Bharat Sheth: Rs. 60 crores for only June month?

Balaji Prakash: Yes, correct.

Bharat Sheth: So, total work put together is Rs. 85 crores, correct?

Y. Venkateshwarlu: The results are there in the segmental results, Bharat. Because if you look at it, for the quarter, the CPG segment for revenue operations is Rs. 216 crores. Out of that, Rs. 51 crores is from the non-sweetener. The balance is from the sweetener business for the quarter.

Bharat Sheth: So, now going ahead, our strategy we will be focusing geographically only in southern India market because sweetener I believe is mostly B2C kind of a business, whereas in non-sweetener it is B2B, is that fair understanding through distribution model?

Balaji Prakash: So, I will just explain. Non-sweetener is completely B2C and it is going through the distribution model into the retail outlets and we are currently planning to be only in the south of India. The sweetener business comprises of B2C and B2B segment as well. So, that should clarify your question.

Bharat Sheth: And I understand that the kind of photographs that we have put in our presentation, it is a large packing, non-sweetener its small packing is also available?

Balaji Prakash: Yes, so non-sweetener is both large packs and small packs, both are available. According to the requirement of the category, the packs are being sold.

Bharat Sheth: And how do we want to expand our SKU also in this, if you can give color. And now currently, since you say that we have around 1.5 lakh distributors reach, so where do we see kind of our strategy to take it forward to what kind of level of distributor as well as new SKU?

Balaji Prakash: So, I think the SKU will be expanded based on the relevance to the consumer and the consumer buying habit. We will keep expanding the portfolio. Similarly, distribution, we will be looking at growing the distribution as we go forward.

Bharat Sheth: Any number you would like to put after 2 years or something?

Balaji Prakash: It is a very progressive point, and so we won't be able to put a number on that now.

Bharat Sheth: Muthu, coming back to this Nutraceutical with this European certification available, so how do we see this business for next two years? Because in the past, we have seen several ups and downs. So, overall, how do you would like to give some colour in two years? Where do you see this business in the topline as well as the main contribution to the profit?

Muthiah Murugappan: Nutra segment, as mentioned in past call, is still under strategic review. We are deeply reviewing various strategies to see how the business can be taken forward. There are two key pieces. One is the Nutra India operations, and secondly, the Valensa operations in the US. So, that clarity, I think once it emerges, we will be able to articulate a better strategy for the Nutra segment. Up until then, we will obviously continue to run the existing business efficiently and any critical investments around science or product development which are required for the progress of the business, we will continue to do. We have not frozen on any major CAPEX.

Bharat Sheth: Muthu, is there any new product development in pipeline within this Nutraceutical segment or will we stick currently to whatever product line we have?

Muthiah Murugappan: We will largely stick to the current product lines. There is some clinical work which we are doing in the US on the Saw Palmetto products. Currently it is used for prostate health. We are seeing initial scientific discovery on the opportunities with that product on the skin health and dermatological side. So, we are doing some clinical work on that front. So, that is perhaps the only area we are focused on from Saw Palmetto. In India, continuing with Spirulina and Chlorella, we have in fact done quite a bit of work to bring our cost position down at both locations and some science work on Chlorella we were doing, but again, no drastic changes, no large CAPEX's and no new launches. We want to keep the existing business running well until we have a clear strategic approach towards the business.

Bharat Sheth: How do we look at the sugar, cogen and distillery business? This year also looks relatively better and the sugarcane crop in your initial remarks you stated is likely to improve. So, how do we, any kind of ballpark, when do we expect on annual basis to turnaround that business?

Muthiah Murugappan: So, let me give you a general overview on the sector, I guess, the sugar and the alcohol sector. Yes, monsoons have been better, but the deficient monsoon last year still has reeling impact. We go through data from past years, El Nino impact can almost take close to 24 months to really normalize. The deficient rainfalls of last year have certainly had an impact on Tamil Nadu. We are already seeing that, Venkat talked about the lower recoveries that we are experiencing, and it is only now that once the monsoons have picked up, we are starting to see some plant coming in. Tamil Nadu will remain challenging. Of course, the fact that the monsoons and summer showers have been good is good for the main season crops, that is the winter season crushing. With regard to Karnataka, with good summer rains and good southwest monsoon it augurs well. There is a slight drop in area under cane in Karnataka, but I think the yield should be strong and I think that definitely augurs well for the segment. Now, coming to policy, I think policy is very critical. If you look at FRP they have significantly gone up this year by 8% while it might help with some planting, I think it will put a lot of pressure on the mills. There is also a healthy closing stock of 9 MMT. So, we are really awaiting the policy makers approach towards firstly ethanol blending and also exports, but I would say most importantly towards MSP which has not moved up for many years. So, I think the policy angle is something which we now have to very closely watch, and I think this will determine how the sector performs in the fiscal that we are in and the years after that.

Bharat Sheth: And last question, Muthu, so what is the gap in the spread between sugarcane vis-a-vis multi-fed stock that other grain stock that we consume?

Muthiah Murugappan: So, maybe I will let Venkat give you the exact data, but it is a great question. I will say though on sugarcane, we haven't seen any increases on ethanol procurement prices for the last two years, so we are still actually working with old prices. There wasn't, while there was an FRP increase and there is a significant FRP increase coming up, again policy will hopefully address this from a sugarcane feedstock perspective. From a maize feedstock perspective, they did give us some respite by hiking the maize ethanol purchase price and this has helped. But from the sugarcane feedstock perspective, it is an area of concern. When I talked about our distillery segment margins, we would have been very happy with 20%-21% EBITDA business. That is what we were really building towards in the old policy framework. But I think once there was a reconsideration of this and the fact that prices were not taken up, these margins have fallen substantially and gone in sort of closer to single digit. So, this is a concern. Venkat, would you have the exact spreads?

Y. Venkateshwarlu: No, Muthu, because as of now, unless we start the new season and the FRP increase or something, maybe the next call we can come with the exact spread kind of thing.

Moderator: Thank you. The next question is from the line of Sanjay Manyal from DAM Capital Advisors. Please go ahead.

Sanjay Manyal: Sir, just few questions on the sugarcane availability, you mentioned that probably this season the rains are better, but the impact of last year rains will be there as far as current sugarcane availability is concerned. Is it possible for you to give a ballpark number, what kind of crushing numbers we would see in next season?

Muthiah Murugappan: In the fiscal that we are currently in, we would aspire to almost match last year's number; however, there could be some challenges in Tamil Nadu on that, but we are working towards trying to match last year's number.

Sanjay Manyal: Sir, just want to understand one more thing about the recovery rate, the way North India or say UP or some of the other states have seen some of the varieties, sugarcane varieties which have given them a very high recovery rate, close to a gross recovery rate of 12%, is there any long term plan or long term measures which Tamil Nadu or the southern states are taking where recovery rates structurally can improve to a level of maybe 100-200 basis points higher than the current recovery rates?

Muthiah Murugappan: So, there is constant work which has been done at the R&D level like the sugarcane breeding institute, as companies would do organic work as well. We are not seeing too much improvement. There is also a lot of work on yield improvement which is not of more directly in our control and I think we will see some of that this year, there was a lot of focus on that area. In Karnataka, of course, we have some strong varieties with higher recovery, but we are not seeing too much yet on that front. We will have to continue our work to see how this can pan out. The UP varieties are really going to perform well in southern states, so it is hard to replicate those. EID is really in a unique way, an amalgamation of three states, so we have to average our recovery around Andhra Pradesh, Tamil Nadu as well as Karnataka.

Sanjay Manyal: Sir, one question about the refinery business because we have seen last few years where the global prices were quite high, the spread between the raw and the refinery was also pretty high, but somehow we have not been able to get major benefit out of it, so what exactly a long-term plan as far as refinery business is concerned?

Muthiah Murugappan: There are two parts to your question. I will answer the second one and Mr. Suresh Kannan, my colleague who runs the business wing to cover the first part. From a long-term plans perspective, we are trying to see how best we could work in partnerships to improve the operating parameters and the metrics of the business. So, I think that endeavor continues and as and when we have concrete information around how we take that forward, we will come out with updates. But Suresh, would you want to cover the first part of the question?

Suresh Kannan: As far as the refinery plant is concerned, basically it is on two prongs. One is to upsell our sugar. So, initially, we had started off with selling the sugar in the international trade market and subsequently, we are now moving into niche segments, such as beverage manufacturers, food manufacturers, etc., as a result of which we are making some tailor-made products, which gives us a higher premium over the normal trade sugar that has been there. So, over the years, this percentage has moved up as a result of which it will start giving us an additional premium over the spread, whatever the market is able to give us. Our objective is to take this value-added product to a higher percentage of our overall sales. So, that will give us in good stead as far as, even if the spreads have to drop a little bit, we will get compensated by this mix of scale that we have. A large enabler for this is the ability to ship, in container loads instead of break well. And over a period of time, we are finding more solutions in terms of reaching the global market using containers, using multiple ports in the Eastern coast. So, we expect this to scale up and give us a benefit over the medium to long term. The second strategy, of course, being a commodity product is to improve our cost position. Our cost situation currently is quite competitive as far as standalone refiners are concerned. We continue to work on further improvements in terms of the bottlenecking, energy optimization, etc., wherein we stand ahead of the race. That is the second prong of the strategy to keep the cost improving continuously in order to keep up with the market.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities Private Limited. Please go ahead.

Sanjay Shah: Sir, my question was on non-sweetener staples. Since we have strengthened our sourcing tie-up and even streamlined our process, can you elaborate how well we can go in this because we are catering towards, a very large market size? So, what could be we can see scenario ahead in next 1-2 years or maybe 3 years on the new variety, new geography and so on?

Balaji Prakash: So, I think, see the market, as you rightly said, the market is very large and we are laying the foundations now in terms of distribution buildup and reaching to new outlets and within the south of India. And as I explained earlier for one of the questions, we will be looking at expanding the portfolio and the opportunity we will be growing as we get the opportunity in the future.

Sanjay Shah: You identified any new varieties like we are now into rice of different varieties, pulses, millet. So, have we listed out any new products on that side?

Balaji Prakash: It is whatever we are doing, as per the market and as the market opens up and expands, we will be getting into the products as and when it is required.

Sanjay Shah: How about our sourcing tie-ups and all. Are we satisfied with that?

Balaji Prakash: There is always scope to improve the sourcing tie-ups. Right now, our volumes are smaller. As the volumes grow, I am sure our efficiency of sourcing also will improve many folds. So, as we go along, we will get better at the sourcing efficiency.

Muthiah Murugappan: So, just to overlay a little bit, in terms of as Balaji said, I think the focus in the immediate term is on the products entering different outlets, building that distribution and laying a strong foundation. I think over time, we would like to see this business build on its gross margin level. Once we had this base of distribution and foundation set, higher gross margin products can overlay and bolt on the existing portfolio. Noting to that extent or on the back for this would be dosa mixes, roti mixes, upma mixes so on and so forth which would come in. And I think on the sweetener front as well, there will be more value-added sweet products. We are exploring across categories. There are number of other categories on the food FMCG side which are part of the kitchen shelf, part of the dining table, part of the store cupboard of the consumer. I think they are all under development and work in progress and I think we will come back once we have more concrete plans. But once the foundation is built, bolting on with more products and especially building the gross margin profile of the business will be a key area of focus.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: On this retail business, non-sweetener, so what I understand that gross margin is always a challenge, but what is our sourcing strategy because what we understand that getting right product at right price and sustaining the quality parameters is a challenge since we are attaching our brand name with that. So, regularly the same quality kind of a stuff availability should be ensured. Since this is a non-controlled seller or farmer, so how do we also using our Coromandel connect with the sourcing product?

Muthiah Murugappan: Bharat bhai, we will now need to explore further, we are just building out this business in terms of the Coromandel connect, I think we will certainly explore how we leverage this in terms of building the business further. But Balaji, do you want to cover a little bit of the sourcing side?

Balaji Prakash: Yes, so I think right now we are sourcing the products from the different millers in different geographies, which are known for certain products, and we are sourcing it from those geographies. We are also ensuring that the quality is kept under check because we have our large quality control team in place, which actually checks every lot which is getting dispatched from the miller point and only after that it is getting packed. So, we are keeping a track on that as well. And we are moving with the market pricing at this point in time. But as Muthu was also saying that as we go forward, there will be a stronger dimension to the sourcing in terms of identifying whether Coromandel will play a role in helping us or we will identify other avenues for sourcing, but that will come up as the future plan.

Muthiah Murugappan: Bharat bhai, we are very hyperlocal in our approach in terms of sourcing, processing, and packaging which is why you see different varieties of rice because even in bunch of districts there is a certain variety of rice which is popular and then there had been changes once, we move in out into another cluster of districts. So, that is something we realize, and I think some of that hyperlocal approach apart from other elements have been quite instrumental in getting us a good start.

Bharat Sheth: So, Muthu, to put it this question, what I understand that sourcing is more important for the success of the business, is that fair understanding?

Muthiah Murugappan: Yes, this state is very critical. As I said, we are very early in this game. I think the team is also building its muscle and building its powers. We will need to work on how we integrate best into this supply chain. There is a very reasonable element of the profit pool which sits on the sourcing side. So, as this business grows, I think it is a key muscle and an expertise which we will be building going forward. So, these are very early days. This is only the fourth month of the business. I think the business has made a reasonable start, but I think I have a lot to learn in this segment and I think we are focused on learning that very quickly and implementing.

Moderator: Thank you. The next question is from the line of Divesh Vora who is an Individual Investor. Please go ahead.

Divesh Vora: Your short-term loan has gone up hence and can you elaborate on why it has gone up?

Y. Venkateshwarlu: Short term loan is basically the working capital. Since our networking capital has gone up, thereby, your short-term loans also have gone up. Because even if you look at inventory also, inventories has gone up around Rs. 300 crores, in line with the short-term loans also increase.

Divesh Vora: So, inventory, you are saying it is Rs. 300 crores, right now, but last year also the turnover was around Rs. 698 cores for Q1 June 23 is that the inventory reason behind it?

Y. Venkateshwarlu: Divesh, when you look at the short-term borrowings, you look at it year-on-year, it has gone up. When you compared to the March to June, it has come down. I am not sure which number you are looking at. If you are looking at the March number, yes, because when you look at March 23 versus March 24, the inventories have gone up.

Divesh Vora: So, as far as distillery is concerned, you have mentioned that it is 225 KLPD will come. So, now, do we expect in September the entire facility to be on board, 482?

Y. Venkateshwarlu: We have talked about the 582 KLPD Divesh, because as on 30th June, yes, because except the 45 KLPD, everything was onboarded. As on today, if you look at it, the 582 KLPD is in operation.

Moderator: Thank you. The next question is the follow up question from the line of Gautham from Nalanda Securities Private Limited. Please go ahead.

Gautham: Just follow up on the refinery part. So, I just want to understand what kind of premiums do we get when we sell to institutions that are above the white premium like percentage wise or absolute numbers?

Suresh Kannan: It is a range of premiums we get on top of the white premium that is available from the market. It depends on the type of the product and the institution, but it is generally in the region of $10 to $25 per ton.

Gautham: And how much percentage of our volume would be in the institutions right now and say, 1-2 years down the line, how much can we take it to?

Suresh Kannan: The moment we are between 10% and 15% on the institutions, depending on the time period, our aim is to take this number at least to one third plus.

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

Muthiah Murugappan: Thank you Sanjay and thank you to all the participants. We look forward to connecting again in the next quarter. Thank you.

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