DFM
FOODS LTD.

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21st November, 2022

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, **Mumbai – 400 001** Scrip Code: 519588	National Stock Exchange of India Ltd. (NSE) Exchange Plaza, Bandra Kurla Complex, Bandra (E), **Mumbai – 400 051** Symbol: DFMFOODS

Dear Sir/Madam,

Sub.: Transcript of Earnings Conference Call held on 16th November, 2022

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed herewith the Transcript of the Earnings Conference Call held on 16th November, 2022, relating to the Company's performance for the 2nd quarter and half year ended 30th September, 2022.

This is for your information and records.

Thanking you.

Yours faithfully,
For DFM Foods Limited

RAJU SINGH TOMER
Digitally signed by RAJU SINGH TOMER
Date: 2022.11.21 17:56:54 +05'30'

(R.S. Tomer)
Company Secretary

Encl: As above

"DFM Foods Limited Q2 FY-23 Results Conference Call"

November 16, 2022

MANAGEMENT: **MR. LAGAN SHASTRI – MANAGING DIRECTOR & CEO, DFM FOODS LIMITED**
MR. NIKHIL MATHUR – COMPANY CFO, DFM FOODS LIMITED

ANALYST: **MR. HIMANSHU NAYYAR – SYSTEMATIX INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen good day and welcome to the DFM Foods Limited Q2 FY23 Results Conference Call hosted by Systematix Institutional Equities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Nayyar from Systematix Institutional Equities. Thank you and over to you sir.

Himanshu Nayyar: Thank you Faizan. Good afternoon, everyone and welcome to DFM Foods earnings conference call. Today for the call we have the senior management represented by Mr. Lagan Shastri – Managing Director & CEO and Mr. Nikhil Mathur – Company CFO. Before we start, I would like to mention that in today's conference call some of the statements might be forward-looking in nature. Actual results could differ from those expressed or implied. At this point in time, I would request Mr. Lagan Shastri to make his opening remarks. Thank you and over to you sir.

Lagan Shastri: The four strategic pillars that I've always been talking about are as follows; the first one is driving accelerated growth, the second is sustaining profitability, the third is focusing on people and talent and the fourth is setting up scalable systems and governance standards. I will talk about each of these pillars one by one.

On driving accelerated growth:

In Q2 the extruded market continued to grow at a healthy rate of 26.6% YoY. DFM grew faster than the market and thus grew share by 20 bps YoY at an all-India level. Also, our Q2 revenues, on a YoY and QoQ sequential basis, grew 12.1% and 13.1% respectively, while for the full half year we grew 20.7% YoY. Clearly our sustained investments in brand building and sales infrastructure have started working.

We continued to strengthen our retail channel sales infrastructure. Our investments have increased weighted distribution for Natkhat, Curls and Fritts by 120 – 770 bps in our core geography viz. North India.

Our expansion efforts outside of the North are also bearing fruit with continued increase in salience of the other geographies every month.

As you are aware, our approach has been to invest behind building our core brands. Accordingly, in Q2 we forged ahead on this agenda with some impactful campaigns. We launched an integrated campaign with on-ground activation for our Fritts brand. We supported our Large Pack business with an attractive cash back consumer promotion. We also collaborated with the Discovery Kids channel, integrating our Rings brand with a popular cartoon character, "Little

Singham". We feel these initiatives will help strengthen our core brand assets and propel our business forward.

As we do this on growth we continue to focus on sustaining and profitability. After battling the inflationary storms over the past few quarters, we finally started to see some softening of commodity prices through Q2. The prices of Palm Oil and Cartons receded by 15% and 9% respectively in Q2 over the previous quarter. However key inputs such as Palm Oil, Laminates and Corn Meal still remain priced much higher than a year ago. The prices of fuel viz. PNG continued to rise in Q2.

Even as the commodity cycle turned a little bit benign or has moved towards a little bit benign as we continue to push hard on our ongoing company wide cost management program to extract as much cost efficiency as possible from operations. The commodity deflation and our cost management efforts helped improve our material margin by 410 basis points from Q1 to 40% to 40.2% in Q2 (excluding new category expansions)

I am happy to highlight that our Large Pack business continues to grow and add to our overall profitability. I am also very pleased to state that our foray into the new segment of Potato Chips is also going as per plan.

I have always placed great emphasis on building the organizational capabilities to capitalize on all the exciting opportunities before us. In accordance with that, we have stayed with the strategy of investing in our brands, sales infrastructure, technology and talent.

Our investment in Advertising and Marketing grew from 9.1% of Net Sales in Q2FY22 to 9.9% in Q2 this year and Go-to-Market expenses grew from 2.4% of Net Sales to 3.3% over the same period.

I feel we are beginning to see the results of our efforts in our revenue growth numbers in the quarter gone by.

The third aspect of one of our pillars is focusing on people and talent, to make all of this sustainable. We move further on our agenda of building a strong future ready organization. We have set up processes to proactively identify and cultivate the future leaders of the company in a systematic manner. This will go a long way in creating a high-performance culture at the company. At the same time, we're putting in place the mechanisms to track and build engagement levels across the company so that lasting bonds across team. We've also invested in people and strengthened our Tier 2 management. Even as we build and inspire a core leadership team

The last and one of the most important things of building a scalable organization is to have systems and governance standards that are excellent. Q2 to saw the successful implementation and stabilization of the last of the ERP modules across the company. This and our earlier IT initiatives will make our operations faster and more efficient. Our work in the area of environment protection gathered pace. We successfully obtained our brand owner registration under the plastic waste management rules. We also recently initiated a program around ESG compliance which shall operate cost functionally and get embedded deep into the organization.

To conclude, I would like to say that the Q2 showed good revenue growth as well as market share gains. Commodity receded which, together with our cost management programme, boosted our material margins quite significantly. Our focus on building brands and strengthening sales infrastructure remains unwavering and we are seeing the results of this approach in our sales performance.

As always, I am very grateful to you all for taking the time to join our earnings call today! Thanks a lot. Thank you.

Moderator: This is the Operator. Should we start the floor for the question and answer.

Yes, please you may start.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask questions may press '*' and '1' on the touchtone telephone. If you wish to remove yourself from question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, you will wait for the moment while question queue assembles. Reminder to the participants, anyone who wishes to ask a question may press '*' and '1' at this time. The first question is from the line of Kunal Patel from Equilligence Capital. Please go ahead.

Kunal Patel: Thanks for the opportunity Sir. My first question is regarding volume growth. If you can just talk about, out of this 13.7% growth how much is volume and how much is pricing? Secondly, also if you can just bifurcate this growth between five-rupee packs and non-five rupees packs because we are clearly focusing more on higher value packs. Also, if you can just give this growth number for GTN and our existing market. So that would be my first question. If you want me to ask all the questions altogether then I'll do it. Otherwise, one by one I can ask.

Lagan Shastri: **So,** the pricing growth of 13.1% is sequential and it does not have too much grammage changes except for some grammage changes in our potato chips category and aside of that all of this is basically absolute growth of the business, not related to grammage. The second question I think you asked was how's five and ten rupees doing? Rs. 10 and above I would say, Rs. 20 and above is a very nascent intervention done by us. While on the 13.1% absolute growth in terms of large packs will be obviously higher because that has an inherent small base. So that's how it is. The growth on core is a little less than 13% and most of the growth then by that logic is coming from the larger packs. That's the way you have to do it. But both are growing that's very important.

Kunal Patel: And finally, on the GTN.

Lagan Shastri: About the core geography versus the new geographies, the growth again, as you start in new geographies the growths are on a lower base so they're always going to be higher than the core but the core itself is also growing.

Kunal Patel: Okay ,. regarding our raw material sourcing, this quarter we have done roughly around 40% of gross margin. What was our average of our raw material last quarter and how do you see that has come down to this right now and how much delta do you see our gross margin will improve because of this softening in the raw material prices?

Lagan Shastri: As the commodity cycle is receded in terms of the heat that had in the previous quarter and this quarter, the quarter has a sequential reduction like the industry norm as whatever stocks that we had transit around this month and we are moving to a new baseline. What you're seeing is the margin is an average out of that number. Between the previous quarter and this quarter that sequential improvement has happened. All I can say is during the quarter also because the commodity prices itself is a public information has receded and they have receded in that same manner. How it will look out in the future I will not say. But you can make your own estimates.

Kunal Patel: But just to get some sense. Palm oil roughly is around 100 and 510 as an average for this quarter or do you see this going down further?

Lagan Shastri: The commodity prices of palmolein oil, I won't be to able share what we are procuring at. You can safely assume we will be procuring similar to the industry that currently in the market and there has been a reduction over the last 4-5 months and part of that you've seen in this quarter. What is the actual rate of palmolein oil, unfortunately I will not able to share but there has been reduction.

Kunal Patel: Lastly on the expense side; our employee cost is roughly around 40 crores for 6 months and other expenses of around 60 odd crores. So combined together they are roughly around 100 odd crores. Do you see any meaningful jump in this number of roughly around 50 crores per quarter for the year ahead and how do you see this expense trending for next couple of years because we are in the investment mode?

Lagan Shastri: The investment in people are sustained and continued. As we move forward, we will continue to calibrate our investments on people, so that the talent pool is maintained. That extent what you're seeing in our P&L is going to sustain to that extent. Now whether we move it up or down I again won't want to comment. The way we would look at it is the historical number as you see is an investment that is being made by us which we plan to continue.

Kunal Patel: That is for other expenses as well or you see a larger part of fixed expenses already wherein the other expense and we don't see a significant jump despite good growth that we may see over the next couple of years?

Nikhil Mathur: I'll take that question. What you're seeing in other expenses largely are variable in nature. They are of the nature of freight and other expenses which are variable with respect to production and sales, so they largely will vary with the level of turnover that we have. But having said that, as Lagan had mentioned, we have an ongoing cost management program and that is there with the intent of taking out costs so there is an ongoing effort to see how those costs can be optimized but largely they are variable in nature but there is scope for optimization.

Kunal Patel: Understood. Thank you so much.

Moderator: The next question is from the line of Himanshu Nayyar from Systematix Institutional Equities.

Himanshu Nayyar: Firstly, I just wanted to understand on the growth side of it, can you just throw some more color on the current demand environment in both rural as well as urban markets and in light of your plans that you would have on distribution, expansion and the traction that you are witnessing in new products, what's your medium-term growth target? Any quantitative targets that you can share with us?

Lagan Shastri: Unfortunately, I would not be able to share our growth ambition and targets. What I can do say is that we would like to keep beating in the market and the market growth. And the market growth, we will try and continue to gain share in the marketplace and therefore keep gaining against other competitors, so that's our overall approach and therefore that will be consistent and that’s how our investments are planned. So, as the market grows further, we hope to continue move faster than the market but an absolute number I won’t be wanting to share. In terms of color on overall growth, as I said between our strategies of piloting potato chips, our strategies of expanding into new geographies, our strategies of investing into large packs are continue to pay off and growth is being driven not only in the course but also in those spaces. That's the flavor I can give and that continues to be consistent to what we wanted to achieve.

Himanshu Nayyar: In terms of distribution expansion where do you think we are in the journey as in at least in our focus stage are we happy with where we have reached on the distribution front or there is a lot more that needs to be done.

Lagan Shastri: In our core geographies there continues to be major and massive scope in terms of building distribution so not only there's opportunity to go and do this in other territories but more importantly and most importantly our core geographies remain a significant nature of future opportunities from a distribution standpoint as such.

Himanshu Nayyar: Secondly on the margin side obviously we are in an investment phase right now, so our EBITDA margins are obviously much lower than normalized level. By when do you think we will reach a stage where we are able to reach a steady state margins and all our expenses especially on A&P and GTM expansions normalize? Any color if you can give.

Lagan Shastri: We normally work on a three-to-five-year planning cycle and along with that manual operating plan. We are in line with our ambition and plans around that and therefore we continue to look at this closely. Our investments are in line with our current EBITDA plans, and over a period of time, over a particular planning horizon, we should be able to get to a normal state again. The planning horizon is the only thing I can tell you that is normally 3 to 5 years.

Himanshu Nayyar: Alright Sir. That's it from me. Thank you and all the best.

Moderator: The next question is from the line of Naitik Mody from OHM Portfolio. Please go ahead.

Naitik Mody: Thanks for the opportunity, you referred to the investments into advertising bearing foods. Could you please elaborate more on the same?

Lagan Shastri: Our reference to continue in the space of APL, BTL and Digital. We have invested in all these three media spaces and all of them in combination have worked, not only for our core brands of Fritts, Curl and even Rings to some extent but also in terms of getting our larger packs into the market through appropriate BTL intervention and support on marketing.

Naitik Mody: Would you be able to share where is the predominant investment going into geographically? Is it more towards your stronger areas or is it also into, so is there a proportion, is there a ratio there?

Lagan Shastri: We continue to believe our current areas of core markets and core brands are the place where we believe is the maximum potential. So, we continue to invest appropriately for those current areas, current geographies and current brands. Even as we spend some investments and bandwidth into expanding into other territories other areas of our spaces. So, it is continuing to be investing in our core, is the approach.

Naitik Mody: And any sense on new product addition over and above the potato chips that we have started.

Lagan Shastri: Unfortunately, I won't be able to share that. As I have said this before we continue to look at all opportunities and as the opportunities come to us through a proper management decision matrix, we decide whether it's worth going for or not. But as of now I will not be able to share anything on this.

Naitik Mody: Okay Sir, Thank You.

Moderator: We have one more question came in the queue from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Am I audible?

Lagan Shastri: Yes.

Lakshminarayanan: A couple of questions. I joined the call a bit late. I see that the new management has been there for the last couple of years. In terms of your distribution, how the distribution has been rejigged, can you just give some qualitative as well as quantitative comment in terms of what's your modern trade versus retail and how do you manage to keep the net working capital as negative given these changes. I think that would be my first question.

Lagan Shastri: In terms of overall distribution systems, we have largely four channels, one is retail sales, the other is wholesale and the third is rural distribution and fourth is, actually we club it together, but technically as they evolve into two channels, it's ecommerce, that's digital and modern trade, emerging channels as we would call it. So, emerging channels continues to grow at a faster pace than our core business, and therefore it will increase in changes but as of now it's still nascent and in initial in nature but continues to grow and new investing that over last one and a half years. Between these three channels of retail, wholesale and rural our single biggest focus has been retail, both from a weighted distribution perspective and a numeric distribution perspective and our entire efforts are around investing in capability around building and stabilizing retail routes that give enough extraction to make the whole system viable. That's the primary approach around how we build our distribution network.

Lakshminarayanan: I'm just trying to understand this little more because even in places deep down in the South like Bangalore your preference is there in modern format and also in the normal Kirana stores and despite that you actually have negative working capital. What is the and how do you manage it given that there is too much of, it's a crowded space especially in these far-off markets like Bangalore etc. Just to understand that a bit more?

Lagan Shastri: So, I don't want to share about negative working capital but all I can say is in modern trade e-commerce there are multiple channels and there are some channels that want credit and some channels that want cash. Now, I am not aware of your particular specific news trend but we do mix of the two. So, in our modern trade approach there is a cash-and-carry and there is a cash-and-carry means on cash from our side and on credit also. It kind of works and therefore we are able to overall manage this.

Lakshminarayanan: In terms of institutional sales or sales near the entertainment zones etc. so what's the broad mix of institutional channels for you?

Lagan Shastri: The emerging channel itself is a combination of modern trade, e-commerce and institutional sales and as I said it's very nascent and we have invested in this over the last 2 years and as we built it forward though I won't be able share with you the salience within the three but they are combination of all three. We have presence in all the three spaces of emerging channels.

Lakshminarayanan: In terms of the price point orientation, I see that at least in the biscuit category there is a movement towards higher price points and at some point, in time we were as an industry and also in particular for us we were largely in the Rs. 5 packet thing. What is your take? Are we moving towards a higher packets and has that meaningfully changed for you? Any color on that?

Lagan Shastri: We won't be able to share the salience of large pack versus small pack. But as I said we initiated into this in a big way over the last 2 years and that space has continued to grow faster than Rs. 5 . But as planned our Rs. 5 continues to be, we are in the space of affordable snacking and for the Indian consumer it's a mix of affordable snacking and all the way up to occasional snacking. We want to play that entire bit and therefore both still remain relevant to us in the immediate to medium term.

Lakshminarayanan: We are not seeing as an industry moving towards leaving the Rs. 5 price point, that's something which you are still not feel?

Lagan Shastri: We didn't understand your question. Can you repeat it?

Lakshminarayanan: Rs. 5 price point the saliency of that, is it still prominent or is it waning out?

Lagan Shastri: It's our core business and it continues to be our core business.

Lakshminarayanan: Got it. Any inputs on the supply chain. How you are minimizing or how are you taking efficiencies there at a national level or at a regional level, any thoughts on that?

Lagan Shastri: As part of our overall cost management program, we look at efficiencies at an operating level and also efficiency at a network level. As and when something between the C&F, the plants and everything else that comes up, if it comes up as a management, we review that and we take appropriate decision when required. But as of cost management program we do look at operating efficiencies and network efficiencies.

Lakshminarayanan: Just to summarize what are the three top strategic priorities for you for the next 5 years?

Lagan Shastri: I said that the four pillars of our growth will continue to be driving accelerated growth and be relevant to the consumer as to what the consumer is asking which we believe is our core portfolio, primarily even as we build other area. So that's our first priority. The second priority is while we do that, we need to sustain profitability and that has to be through the system whether it's operating efficiencies or there is network efficiency or anything else and as we do that it has to be built around a fully embedded cost management program which we are doing. The third one is as it will scale one of the biggest things that we need to be really concerned about is sustaining this and that has to revolve around our talent and having the right talent in place to make this happen. And finally, I will add a fourth one is to make this all work together as one system. It has to be one enabled IT technology platform where all these things come together. These four and around them everything gets built in the way I would put it for me as a management.

Lakshminarayanan: I was just looking at something like okay in this region you want to actually become bigger or this is how you want your product placements to be. I was looking at little more quantitative there, if you can just help me quickly, it will be wonderful?

Lagan Shastri: I said this before our region North is our core and it continues to be our single biggest priority. Even as we work on our expansion plans as and when we believe we need to be put in place and similarly our core business continues to be our priority even as we look at opportunities like potato chips and as we experiment by the industry. So, our core continues to be our priority whether its geographies or categories or products.

Lakshminarayanan: Thank you so much for the detailed answer.

Moderator: The next question is from the line of Arpit Sikka from HCL Capital. Please go ahead.

Arpit Sikka: Good afternoon. Thanks for taking my question. First, if you could provide an update on the de-listing process where we have reached, what milestones we have crossed and what lies ahead?

Lagan Shastri: So, the update on the de-listing is we are currently waiting for an in-principle approval from the stock exchanges from NSE and BSE and the same is awaited. Once that comes, post approvals from the stock exchanges a detailed public announcement in the newspapers and Letter of Offer will be dispatched to shareholders within the 2 working days of the detailed public announcement, the DPA. Post that, according to the receipt of the DPA the board, our statutory board will form a committee of Independent Directors to provide their opinion on de-listing. Lastly after that the bidding period shall start not later than 7 working days from the date of the detailed public announcement and shall remain open to 5 working days.

Arpit Sikka: Any tentative timeline that the stock exchange approval will be received?

Lagan Shastri: We don't have an update or any timeline from the exchange. It's up to them as to by when they will approve it. Once they approve it and we do a DPA then the entire process will take a total of 7 days.

Arpit Sikka: Okay. Thanks a lot.

Moderator: The next question is from the line of Nidhi Babaria from Envision Capital.

Nidhi Babaria: Hi. Thank you for taking my question. My questions have been answered.

Moderator: The next question is from the line of Kunal Patel from Equilligence Capital. Please go ahead.

Kunal Patel: Thanks for the opportunity again. If I look at our investments since you took over the management, our employee expenses went up was roughly around 60 crores, that has gone up to roughly around 80-90 crores now. Other expenses have gone up from roughly around 100 odd crores to roughly around 180-190 odd crores now. Also, our investments in GTN and A&P spend so if I sum up all the incremental expense that we have done and what we'll do over next couple of years; it would roughly amount to roughly around 300-400 odd crores. So, unless we as a company don't do top line of say 1,300 to 1,500 odd crores it does not make sense to do such kind of expense. What is your thought process on the same? If you can just help me understand the rationale behind everything unless and of course I don't want any qualitative answers because that we have heard over last 1 or 2 years in all the AGMs and on all the con-calls. What is the payback time that you are looking at with all the investments that you are doing? It's quite intriguing that we are spending so much of money and we don't see ourselves growing more than 25%-30% for next 3-4-5 years?

Lagan Shastri: I will just comment on two parts to your question. One is the fact that the significant portion of the money that you are talking about are actually in the other expense line which is variable in nature. That's not something you should actually be looking at. But our investments which are fixed in nature in terms of advertising and people are deliberate and part of those investment plan and they'll continue in that space and it is in line with our current plans and ambitions. These are two parts to your question. Now I will not be able to give you any guidance or any information on how the numbers will pan out in the future.

Kunal Patel: No, I'm not asking about the guidance but I'm more looking towards your thought process on the payback that we are spending. For example, what variable cost you're talking about in 2019-20 at 500 crores of top line our other expenses were close to around 100 crores so that was 20%. But this year when we are looking at 620-630-650 crores odd of top line, we are already at 180-190 crores. So, I'm not sure and that has not helped us in increasing our gross margins significantly. It was always around 38%-39%. The numbers are not adding up there unless you are spending money or investing money for the growth. Also, if you can just help us understand the payback period that you are looking at, I'm sure you have given the history of the con-call. You don't talk about numbers, I understand but at the same time we as an investor if we don't get any hands off the numbers, it's very difficult for us to stay invested. I'm just trying to understand the numbers here?

Lagan Shastri: Let me just say this way is that the horizon which we look at is what was discussed earlier. A normal business planning investment cycle is in the range of 3 to 5 years. That's the kind of investment cycle that normally any company looks at and we are similar in that nature. Investments are built in the manner where that's all I can say is kind of over a 3 to 5 year horizon, considering those horizons in mind. Having said it, in terms of margins I would slightly differ with your view that our margins are at (40%+) levels higher than what we acquired it at and after and on the back of even with the benign commodity pricing almost a 30% increase on all commodities literally from what we acquired. Just wanted to be careful there and currently on the margin Therefore, the significant improvement in margins on the back of a 30% was single on commodities, after becoming benign so that's what it is. And on the advertising and the people investments I continue to maintain that it is in line with the investments pay back is line with what we had anticipated.

Kunal Patel: Okay fine. I will get back to you later. Thank you.

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

Lagan Shastri: Thanks a lot everybody for keeping the interest into our company. We are undergoing a de-listing process. As part of that process just if there are any queries it's already the details of that are uploaded on our website. Please do reach out on the website to check and there's always our Company Secretary, you can write to him Raju who will respond to any of your queries further than this. Thanks a lot once again and see you again soon.

Moderator: Thank you. Ladies and gentlemen, on behalf of Systematix Institutional Equities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.