



**“Sundrop Brands Limited  
Q2 & H1 FY26 Earnings Conference Call”  
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**MODERATOR:** **MR. AJAY THAKUR – ANAND RATHI SHARE & STOCK BROKERS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Sundrop Brands Limited Q2 and H1 FY26 Earnings Conference Call hosted by Anand Rathi Share and Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ajay Thakur from Anand Rathi Share and Stock Brokers Limited. Thank you, and over to you, sir.

**Ajay Thakur:** Hi, good afternoon, everyone and I welcome you all to the Second Quarter and First Half Earnings Conference Call for Sundrop Brands. From the management team, we have with us Mr. Nitish Bajaj, Group Managing Director; Mr. Asheesh Kumar Sharma, CEO and Executive Director, Sundrop Brands; Mr. K.P.N. Srinivas, CFO, Sundrop Brands; Mr. Abhinav Kapoor, CEO and Executive Director for Del Monte and Mr. Amitosh Banka, CFO, Del Monte.

So without missing much of a time, I should like to hand over the call to Mr. Nitish Bajaj for his opening comment, and followed by Q&A session. Over to you, sir.

**Nitish Bajaj:** Great. Thank you so much, Ajay, and good afternoon to all the participants on this call. I'm very happy to be with you all of again and take you through how we have valued in quarter 2. I will be -- I assume we have all downloaded the presentation and we have the presentation available with you. I will refer to the slide numbers or page numbers of the presentation as I speak through and take you through the performance of the organization.

I'm starting with Slide number 3. This is just a quick recap of the vision and mission we have set for Sundrop Brands as an organization and as a group organization. Our vision remains to make sure that we bring very and enjoyable experience is approved to the model evolving consumers. And we shall do so by continuously creating innovative, delicious and easy to process and make food solutions for our consumers.

Just a quick recap. And I'm on Slide number 4 now Sundrop Brands as the thesis is created as a scaled food platform where we would bring multiple opportunities of building synergies, expanding the growth and building a profitable business for the organization. As we stand today, we have our presence in high-growth and high-margin categories, which you are aware of.

We do -- with the entry of two management teams, we do have a very significant and expanded focus on identified cold portfolio through which we will drive our growth journey. We continue to build our salience increasingly and aggressively in fast-growing channels and I'll talk you through that. There is, of course, a very high focus on improving EBITDA and margins of the organization and you will see some discussion in this meeting around that.

Overall, as we build scale and we build profitability, our approach for any new entry or new expansion in this business will be to make sure that our capital efficiency improves. So while we will build scale, we will do so ensuring efficiency of the capital we deploy at the core of our thinking and business decisions.

And we do remain always open, of course, there is a very strong organic growth story, which we have talked about, but we do remain open to any opportunities which will be in the ecosystem to look at an inorganic growth for expansion and building our business scale and efficiency.

I'm moving on to Slide number 5. A quick recap for you. As a platform today, we have very, I would say, high on consumer affinity, consumer familiarity and very powerful brands, three such brands, which exist [inaudible 0:04:26] Del Monte, our global brands for which we have the perpetual license for greater India geography and Sundrop is iconic brand, which was created almost about 40 years back and that brand continues to win the hearts of our consumers even today through multiple offerings.

Now coming to the performance in quarter 2. We continue our growth journey in an equally strong way. I'm now on Slide 6. In quarter 2, our growth has -- in quarter 2 we have grown at about 8%. You are aware that there was some impact of GST because there were new rates which are brought in most of the categories. In the last week of September, introduction from 23rd of September.

And as an outcome of that, we did see some transition issues in September month because trade down stocked. And as an outcome, I would say we have lost out an opportunity to cash in the full offtake or secondary lead demand in the month of September and that has slowed down the growth a little.

We did grow in H1 at about 10%. In quarter 2, I would say our inherent growth has remained the same, but there is a 2% to 3% impact of GST transition on our business and that should hopefully come back as we move ahead in the periods over next two quarters for this year. What has worked well for us in this quarter and I'm calling out our B2B business specifically today, this is dominantly led by Del Monte.

So while Del Monte did experience same transition issues in B2C business, but in B2B business, they continue to perform strongly and they have accelerated the growth of that business in quarter 2 to 23%. And I'm calling this out because as I said, we will focus on new channels or growth for the business.

In e-commerce similarly, which is an emerging channel for the business, we continue to drive strong growth and we have grown at 41%. This entire growth is being backed by aggressive marketing investments on driving saliency of our brands and also driving purchase occasions for our brand. And that you see in continued high investments on advertising ahead of curve. So we are now spending about 35% more than last year.

On the margin side, with the focus and I would say a relentless focus of both the organization on improving our cost side of levers, we have seen about 250 basis points improvement in our gross margin, both in the side of material margin and also in the operational side and I would say specifically on the operations side, in manufacturing and supply chain.

And as an outcome of this, we have delivered a growth of 29% in EBITDA. And I would say this is -- of course, I would just want to call out here that this 29% growth does take out certain onetime costs, which we are implementing in the area of cost efficiency improvements, which

are not recurring in nature and there is, of course, a very strong employee engagement program on ESOP which is a noncash expense that has also been kept out in this assessment.

This wasn't there in the base of last year. This today sits in the base, of course, for this year and is not like-to-like and hence I've taken it out plus also the project expenses, which we are doing for realizing efficiency in business, they are onetime in nature. Our balance sheet continues to be strong. Our total net worth is about INR1,450 crores.

We continue to be a zero borrowing company, no debt at all on the balance sheet and we do have a free cash balance along with the mutual investments which we have made, totalling to about INR 24 crores in our balance sheet. Moving to Slide number 7. This is just to show you how in the same context, the H1 looks at H1 is at about 10% growth overall.

B2B business, I talked about of Del Monte has accelerated in quarter 2, but at an overall level also is growing at 12%. E-commerce growth very sustained similar number 42%, advertising investments in the full half, we have spent aggressively. Overall investment going up by 44% and gross margin expansion at the full half basis is about 190 basis points.

What it also reflects is that Q2 is better than Q1 and there is a progressive improvement in our margin expansion. And at an overall level, our EBITDA growth on same principles, I'm talking about taking out ESOP costs and taking out the onetime project expenses stands at about 30%. Moving to Slide number 8.

This is just to give you a flavor of how the two organizations which today constitute Sundrop brand as a platform are doing. So Sundrop Brands, which is about 58% of our business in H1 has grown at 11% in quarter 2 has grown at 7%, but I would say there is a 3% GST transition impact. I'm on Slide number 8, just for clarification. Sundrop Brands has grown as a company at about 7% in quarter 2.

And with the GST impact factoring the growth could have been about 9% to 10%, full year last year we had grown at about 5%. So there is a clear market improvement in our growth trajectory as we continue to invest and drive for efficiency in the organization. Del Monte, very consistent performance. If I look at H1 growth of 9, quarter 2 growth of 10.

Quarter 2 has some impact of GST transition could have been, again 2% to 3% better, if I would have not had that impact, but is overall done well because B2B business has accelerated further in quarter 2. And as an outcome of this at a group level, in quarter 2 we have grown at 8% and in H1, we are growing at about 10%.

Moving to Slide number 9. This is about our core categories where we are investing on brand building and also expanding our innovation platform. And you will see both of that being talked about how we are doing it. But on our core category, our relentless focus for expanding business is yielding very strong results.

Our business saliency from our core categories has now moved to 64%. So just in about 2 years' transition time, I would say, from FY '23 to as we stand today in the middle of FY '26, our saliency has moved 11% up for our core categories. I would also want to refer back to quarter 1

numbers when I had shown you the same numbers for quarter 1, the saliency of our core category was 61%.

So we have -- with our focus of advertising investments have further strengthened our core category and today they are contributing to 64%, which means they are the ones which are really driving the growth of the organization. A snapshot of how we have done in quarter 2. I'm on Slide number 16 -- sorry, Slide number 10, my apologies.

On Slide number 10, on our core categories, if I look at popcorn as a business, which is where ACT II brand is dominantly centered, has grown at about 12% in value terms. Culinary, which is where our Del Monte business is in the form of ketchups, mayo and kind of offerings has grown at about 15% in value terms.

Premium staples or our edible oil business, which is where Sundrop brands is sitting, has grown at about 13% in value terms. We have seen some erosion in volume, but that, I would say, is an outcome of very, very steep commodity prices for sunflower oil in specific. Sunflower Oil today is the most expensive edible oil in the set of oils we compete with because of which we are seeing some of the bulk pack users who, let's say, use it possibly more as an institution, they are shifting out gradually from Sunflower oil to other cheaper alternatives of oil.

And this, of course, is a transient nature. We do see that commodity prices do fluctuate. And as and when we would see sunflower oil stabilizing to, let's say at, more harmonized levels to other commodity oil, we should expect to see this bulk oil volume also coming back. But today, in the transient state, we are seeing an impact with sunflower oil inflating higher than other commodities, other edible oils.

On Italian business, which is a combination of olive oils and pasta and olives, under Del Monte brand. We are seeing very strong volume growth, but there is a value decline of 3%. I have talked about this in the last quarter also. The reason we are seeing this phenomenon is because edible oil prices have actually -- in olive prices are actually opposite in trajectory to the edible oil price.

They had increased significantly in the last 2 years but have softened in this year and has significantly softened in the last 6 to 12 months as an outcome of which we have passed the benefit of the input cost to the consumer without changing our margin profile at all. So we have maintained our margin profile, but the cost side benefit we have passed to the consumer, because of which we are seeing a transient decline in the value terms.

But intrinsically, our volumes are growing at 13%. So we are recovering. One business, which is, again, Sundrop brands, Peanut Butter business. This is a business we are facing very strong competitive challenge, and we need to get out of a negative situation. We continue to be declining at about 11% in this business, and I'll talk about it in some detail ahead.

Same performance at full half 1 level, again, Popcorn and I'm on Slide number 11. Popcorn business is growing at 16% in value terms. Wherever you see marginal shifts, let's say, please do keep in mind that there was a GST transition in September, which has, let's say, put about a 3% growth impact in each of the businesses. So Popcorn has grown at about 16%, culinary ketchup, sauces, and mayo has grown at 12%.

Edible Oil business has grown at 16% in value terms. Volume I talked about bulk oil business dominantly impacting in quarter 2. Quarter 1, this number was more at about minus 2%. Oliver oil and Pasta Italian business of Del Monte, again, growing at 10% in volume term, volume further expanding, I would say, in quarter 2 versus quarter 1. And that's why quarter 2 is better than H1, and spread business continues to be under pressure.

Getting into some details about our old categories. In Popcorn, I would say our business, and I'm on Slide number 12. Popcorn business is a mix of ready-to-cook at home, Hot 'n' Fresh popcorn as ready-to-eat format business. We are seeing consumer increasingly shifting towards convenience, but the inherent growth of ready-to-cook at home experience also continues to be strong and buoyant.

So both categories are doing well. And of course, ready-to-eat business is doing significantly better, growing at about 43%. This is, of course, our growth hero category. Overall Popcorn franchise is, if I had to call it, it's growing at about 16% plus in business over last year. And this is driven very, very strongly by the investment calls we are taking on this business.

You may recall, last year, this business was growing at about 4% to 5% in the popcorn business and growing at about 30%, 35% in ready-to-eat. So there is a clear acceleration we have seen in both businesses as we invest on growth. E-commerce, where we are investing even more aggressively.

And I'll show you some numbers there is increasing the growth velocity of each of the core categories and doing significantly better. We did launch two new packs to upgrade our consumers in quarter 1 of this year. These bags have done well and have now started to contribute about 5% of our business on a stabilized basis.

When we had launched them, they were contributing at about 10%, but clearly, they have stabilized to now add about 5% incremental volumes for us at a business level. We also have launched four -- two more new products in quarter 2, I would say. Overall, we have launched about 4 products in H1. So we did launch a butter blast and cheese blast favor in ready-to-cook format in quarter 2. So innovation to drive our growth is also taking shape.

Moving to Slide number 13. On premium staple business, I have talked about how pricing has been one of the key drivers of this category because at the commodity side, we have seen inflation our overall endeavor in this business is to make sure that we protect our volumes while we continue to ensure our profitability is stabilized in this business.

We are seeing good signs on that minus the bulk volume, bulk oil pack impact. On the consumer pack side, we are now seeing our volumes are flat to marginally growing in that direction. But clearly, we are not seeing any further consumer erosion in our edible oil volume franchise.

We are also doing some experiments. I would just want to call them out there in the early phases, we are looking to expand our Sundrop heart franchise through a media experiment in a regional market and then take account of investment in the longer term on this business. Similarly, we are working to expand newer franchise of Sundrop oats business and that is showing promise for us to build as the future growth here for the business.

Coming to spreads and dips business, Slide number 14. I have talked about that this business is under pressure. And I would say this business is under pressure, primarily on two sides. One is we are seeing new entrants which have launched high protein and chocolate variants, so new experiences for consumers which we did not really have as an offering in our basket.

We were more positioned as a family strength and immunity builder offering. But clearly, with the use today moving towards protein, these new offerings have taken shape in a big way, and we have lost out some share of our franchise to this area. To counter this side of threat, we have launched two new offerings in September 25.

So clearly, innovation, which we have talked about, will be a driver for our recovery is starting to take shape. We have launched the high protein variant and we have launched. We have actually won two high protein variants, 1 in the dark chocolate flavor, which is the consumer preferences and second is in a honey flavor, both of which are very good tasting products.

In addition to that, we are also seeing some pressure on the side of mass strength in immunity building largely again in modern trade, driven with attractive consumer offers. To counter this, we have launched again two new products, one in the jaggery format and second, in a chocolate format to gain share back from the mass segment through modern trade again.

There is, of course, in the cycle, as we put on our path to recover in this business, we had started dialing up e-commerce and big commerce investment. And that channel has started to respond well and today, driving our growth at about 36% on H1 basis. Moving to Slide number 15.

On our culinary business, which is a combination of ketchups and sauces, we are seeing strong growth both in B2B and B2C format, clearly, very strong consistent performance. We are entering into broader key account deals and investments in modern trade. Our Del Monte business, I must say, is a very strong in modern trade and stand-alone modern trade format and in that format we are building our distribution and account tie-ups to drive higher growth, and those are also reflecting.

Mayo business is growing very strongly in H1 on the back of B2B and e-commerce and modern trade. So again, we are seeing in that business also strong growth coming in. Italian business, I talked about it. Pasta business is growing at about 7% to 8%, again, driven by modern trade and e-commerce channel.

Olive oil business, while doing very well in volumes because we have passed out reduction in the prices to the consumers is declining on value. So overall, this business is growing at 10% in volume, but is transiently because of price reductions is not showing that in the value number. But as we stabilize this base, this business should also come back to value and volume growth in the period accretive.

Moving on to Slide 17. On the e-commerce business, we have done significant investments across both quick commerce and hybrid platforms, and that is showing in a very strong, consistent ahead of industry growth, I would say in this channel. Overall, we are growing at around 41%.

This channel is also, of course, our testing ground for innovation. So a lot of innovation, which -- you have talked about in slides before. I'll show you also a snapshot ahead are being driven also to e-commerce to drive accelerated growth for this channel. Overall, brand investments, if I have to talk about.

We continue to invest. I'm on Slide number 18. We continue to invest both in traditional and digital media and also on e-commerce marketing to make sure we grow strong and significant. So overall, in quarter 2, our investments are up by 34%. E-commerce, which is our growth hero channel is getting a greater investment share.

The key point is in both these channels, I would say we are investing ahead of them. So clearly, investments ahead of curve, both in H1 and in quarter 2 continue to accelerate and drive our growth in business momentum. Moving on to Slide 19. And this is the Sundrop specific story.

We have a very large coverage of about close to 500,000 (5 lakh) outlets in Sundrop, but this coverage was still honor wasn't on a tech platform. the change even which we have now implemented started from month of April, May in this year is to bring our entire coverage on a tech platform. This is a very critical area, I would say, to drive productivity of our field force and the outlets which we cover.

So this project, as I said, was initiated from April, May, but has been ramped up nationally. Today, 79% of Sundrop field force which goes into the retail outlet is on a mobile platform. And we have already been through efforts in quarter 1 and quarter 2, where we have ramped up this coverage of people brought almost like 25% of our total coverage universe on the tech platform. We do expect by end of this year to be 100% on the tech platform. So, this is going to be a very key driver of our efficiency, productivity and outlet specific growth calls as well in the journey ahead.

Moving on to Slide number 20. We did onboard some external partners to help us improve our margins in three specific areas. One area we picked up was a packaging material in Sundrop business. And the two areas which we pick across both the organization is manufacturing and logistics or supply chain costs. And of course, together with external advisory, there are certain onetime costs, which we have paid to these partners in the -- in quarter 2 and quarter 1 of this year.

These have delivered significant improvement outcomes both on the material margin side and also in the manufacturing and supply chain costs for our business. And as you can also see, there is an accelerated benefit in quarter 2 versus quarter 1 as an outcome of these initiatives. But clearly, overall, our margins have improved by about 250 basis points in quarter 2 as a business.

You are also aware that there was a GST transition. 95% of our Group business is now on 5% GST. So clearly a strong growth driver for consumption, which applies to almost 95% of our business and minus the edible oil and olive oil business, which would be, let's say, about 25% of our business.

Rest of the business has seen reduction in GST from 12% to 5% or 18% to 5%. And that means also in the period ahead, we are very confident that this should drive the growth. We have, of



course, passed all the benefits of GST reduction in the form of reduced MRP or increased square meter to our consumers in alignment with government recommendation and also to drive our growth in volume for the period ahead.

There have been multiple new launches -- I'm on Slide 22. There have been many new launches seen on each of the businesses. I have taken through most of them just coming to Del Monte side of launches. We have expanded our portfolio in layers and in time fruits and vegetable segment to make sure that we drive accelerated growth in each of the businesses.

Moving to slide on financials. Slide 23 and 24 are reported financials they are not like-to-like because you are aware Del Monte business became part of Sundrop from sixth of February. And hence, if I do a comparison of reported financials, it's not like-to-like. So I'll move straight to Slide number 25, where its pro forma financials, which includes Del Monte financials in the base period of quarter 2.

So clearly, growth, 8% improvement, material costs improving as a ratio and hence, giving us benefits on the material margin side, growing at 6%. Employee expenses have grown faster at about 13%. But I would say these are, of course, excluding ESOP expenses which are taken out. But this growth has been there to drive our Del Monte sales infrastructure and expand the reach of our coverage.

Advertising as a business, we have taken a call to invest. That's clearly reflecting. Other expenses, which is where a lot of efficiencies have been running through manufacturing and supply chain costs have actually been flat, and this is helping us improve EBITDA ratios by about 60 basis points versus last year, taking out the onetime costs, which I talked about. Those are specifically listed for you at the bottom line as an ESOP and onetime expenses at the last row as the second last row in this slide.

Same picture on Slide number 26 at H1 level, very similar performance, very similar story, improvement in material margins, employee expenses, as I said, we did do some ramp-up in our sales coverage in Del Monte in quarter 1 and quarter 2, but the full expansion happened over the quarter and that's why you've seen some increase in employee expenses. But at an H1 level, employee expenses are only up by about 7%. Advertising investments continue to be strong, and overall other expenses are virtually flat, driven by improvements in manufacturing and supply chain.

Again, for reference, the ESOP and onetime expenses has been specifically called out and separated from the results for sake of like-for-like comparison. That brings me to Slide number 27 and a closure slide. Some of you may have seen this before. This just sums up the pieces and also brings the story on which we will continue to build this business.

So we do have very, very strong brands in this business, which cater to our mutual consumers. Our business is seeing strong tailwinds driven by consumer megatrends, which will drive consumption of branded packaged foods. And that is also going to be strong growth stimulus for industry and has put together.

We, of course, have an opportunity to gain share significantly, and that should drive our growth ahead of industry. Our presence, as you have seen through the various slides, is in high growth and good margin categories. We do have leadership positions in some. We have a challenger position but a very strong brand in other, which gives us a significant headroom for growth, both through category expansion and also share gain.

We would continue to drive high investments on business while ensuring efficiency of capital we invest. And one part of since which we are working on but will shape up is leveraging complementarity of businesses.

And hopefully, sooner, I should have some stories to talk about there. We are starting to do some experience there. will also drive the growth of our business, leveraging strengths of each other. And on manufacturing side, we are already seeing efficiency coming in.

Last in summing up overall, we do have a very strong management team. And today the entire leadership of both Sundrop and Del Monte are with me to answer any questions you would have in our journey to drive growth, profitability and value creation for the organization.

So we'd like to this, I would like to thank you all for being here and hand it over back to the team so that we can start Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL Securities.

**Percy Panthaki:** I was just doing some rough calculation trying to derive the volume growth for the company as a whole. It's somewhere in the region of about 2%. I might be off by 1 or 2 percentage points, but not very materially. So if I add back the GST impact, which is another 2% to 3% we get a volume growth of about 4% to 5% for the company.

Given that there are so many low-hanging fruits. Most of the products are quite small in size and market share how do we, I mean, evaluate a 4% to 5% growth for companies such as yours, expectation, I think, should be much higher at least internally, wouldn't it be?

**Nitish Bajaj:** Thank you for the question. So I would like to nuance this a little bit for reference. Again, see, our investment cases are category specific. We have chosen certain categories on which to invest for growth. And we are constantly driving both value and volume growth in these categories. In a few categories like ready-to-eat popcorn and even ready to Popcorn.

We sell an experience of popcorn and commodity prices does require us to change the grammages in line with the commodity movement. But consumer buys an occasion and a pack to fulfill the occasion. And hence, we are driven in these categories more by number of unit sales we do.

So I would say if you look at popcorn as a business, our unit sales growth is a more important determinant than the volume growth. And our unit sales growth, because we largely haven't taken any unit price increases and we have only passed the grammage benefit or grammage increase whenever the commodity cycle has moved or GST benefit has come.

So Popcorn business, I would urge you to look at value growth because dominantly, our value growth is equal to our unit growth, and those are driving the consumer consumption locations as an outcome. Outside of Popcorn, if you look at olive oil, ketchups and sauces, which is where we are investing.

We are seeing strong volume growth as well. edible oil, I was right -- I had called it out. Our stated objective is to protect volumes, we are not yet looking to grow volumes in that business. We are running some experiments as and when they shape up we will come back to you and say how we are looking to change the strategy there. But for now, on edible oil, the oil is to protect volumes and margins.

Outside of this, olive oil, again, volume growth is faster. Value growth is rather lower. So, overall, I wouldn't say that the number, the way you are looking at 2% to 4% is a right view to look at. Look at popcorn in a value growth perspective. Look at other categories like olive oils, ketchups, even peanut butters in the volume growth and value growth.

Our only category of concern is peanut butter, I would say, where we are losing both volume and value. And management is committed to turn it down and innovations, which we have launched are a clear reflection of the steps we are taking to bring that business back.

**Percy Panthaki:**

Understood, sir. Secondly, just wanted to understand the GST rate change has affected what percentage of your portfolio and how have you passed on the increase? I mean, in what percentage is it a grammage led pass on? And then what percentage is it a price-led pass on?

**Nitish Bajaj:**

Okay. So GST, I did talk about between 70% to 75% of our business -- sorry, 95% of our business has, let's say, move to 5% GST. So, within this 95%, 70% to 75% of our business has benefited with GST reduction. Edible oil and olive oil business is the only two businesses, which have remained at 5% GST as they were before. Outside of it, everything else has seen a GST reduction and that benefit has gone to consumer.

Now coming to your second question on how much of it has passed through as the price increase and how much through grammage. I would need to come back with an exact number. I don't have an exact number.

But broadly, the way to look at it is all the packs which were at a price point of INR 10. There, we have passed the benefit in the form of grammage increase because on a INR 10, you can't make the price as INR9.30. That currency does not exist with consumers.

On all our bigger packs, which were at a higher price points dominantly, we have passed a price reduction to the consumer. So, peanut butter is a fully priced reduction. Olive oil, sorry, not olive oil, ketchups, sauces, mayo is fully price reduction. Popcorn business, I would say, dominant rate is in the format of INR10 price point. There, it is a grammage pass-through to the consumer.

**Percy Panthaki:**

Understood. And lastly, can you help us from a modeling point of view, how much of ESOP cost to build into the P&L for FY '26, '27 and '28?

- Nitish Bajaj:** Okay. So, Percy, I need to come back to this question. See, these are noncash expenses in this nature. We have, of course, launched a 5-year grant, and those details were shared with the stock exchanges when the grant was made. The entire grant has been made upfront to all employees, but there are very clear performance parameters linked to actual achievement. And these are long-term performance parameters.
- So while there is, I would -- just to give you a nuance, there's about a 30% of the total ESOP grant is linked to tenure. 70% is linked to performance. And these performances are long term in nature, which means the employees and management will get the benefit of those only at achievement of 3 and 5-year milestones. So, clearly, the intent of larger grant is to make sure that we build sustainable long-term growth of the organization.
- Percy Panthaki:** Understood.
- Nitish Bajaj:** For modelling [inaudible 0:40:10] honestly ready to give you at this point of time.
- Percy Panthaki:** Understood. But just directionally, should I take the P&L hit to be linear across 5 years, front-ended or back-ended?
- Nitish Bajaj:** I would say, it will be higher in the first 2 years and much lower in the last 3 years.
- Percy Panthaki:** Okay. Okay. Got it, sir. Okay. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Motilal Oswal Financial Services Limited. Please go ahead.
- Shirish Pardeshi:** Hi. Nitish, Asheesh. Good morning. Thank you for the opportunity. Niteesh, on Slide 10, you have given the popcorn value has grown 12% and volume 2%. And also, I see on the subsequent slide, there is a INR20 pack and INR30 pack has also seen some extra grammage. What question here I have is that what is the mix of popcorn ready-to-eat and ready-to-cook?
- Nitish Bajaj:** Yes. So Asheesh, do you want to answer it?
- Asheesh Sharma:** So Shirish, this is Asheesh. Can you hear me?
- Shirish Pardeshi:** Yes.
- Asheesh Sharma:** Yes. So the ready to cook, or as they call it IPC or MWBC, and ready-to-eat, the mix is roughly 66%, 34%. 66% of the popcorn business still remains in ready-to-cook. 34% is in ready-to-eat. Now coming to the specific question of those INR 20 and INR 30 pack that you are seeing, those packs have been a part of our new launch this year, right?
- In the new launch, there is a grammage which is given here, right? And again, these are those packs where we are sticking to price points for the consumer, right? Pricing packs at 19 and those are not part of this, right?
- So there are all the parts up till about where Nitish had mentioned that there is a pack that we have, which are price point packs and there are packs which are grammage packs, right?

Whichever were the grammage pack, there is a reduction in price and whichever were the price point pack, there is increase in grammage.

**Nitish Bajaj:** Yes. Also Shirish, just to nuance your question of, let's say, I do not know if your question was 2% volume growth in quarter 2 versus 6% in H1. There is a 3% to 4% GST impact. You need to keep in mind in quarter 2, because last month sales did get impacted in the transition.

**Shirish Pardeshi:** Yes, I understand, Nitish. My question was that if one-third of the business is ready-to-eat and that is driven by the price point and you've taken an intervention of grammage increase, I was expecting this volume growth should have been higher. So, let me ask that question a little differently. So, what percentage?

**Asheesh Sharma:** Shirish, just to answer...

**Shirish Pardeshi:** Sorry, go ahead.

**Asheesh Sharma:** The grammage increase is happening post 22nd of September. There is a trade pipeline, which will get built. Going forward, right, you should see that. I don't think in quarter 2, we would have seen the impact of this.

**Nitish Bajaj:** I would rather say the other way around in the prior year we had seen inflation in the commodity side, some of which was passed to the consumer through grammage reduction because these packs play on a unit and consumption occasion. So, when you see a 16% value growth or 12% value growth, in a way, you are seeing a more closer to that unit growth for us.

While volume could have been adjusted in the prior period, it has reduced in the prior period, which means it was sitting in my last year base, but is not sitting in this year base. H1 is dominantly that story. GST, volume pass back, you will see more in H2.

**Shirish Pardeshi:** You may be right. But last year, if I remember, is recalling in the month of April, May, we also ran the 20% extra promotion to expand our coverage. So anyway, so are you trying to say that quarter 3 volume growth will be in excess of double-digit or maybe high-single-digit?

**Nitish Bajaj:** High-single-digit is the duration I would give for volume growth.

**Shirish Pardeshi:** Okay. On the premium steppers, I mean I understand there is an inflation and there is a pass-through. So we will try and maintain the run rate and the margin profile. But do you think this business will always be volume value driven and the volume is still far fledged or may not happen in the near future?

**Nitish Bajaj:** No. See, this is business -- any business can never be long-term value-driven because eventually it's a commodity business. We are already at a price premium. Today, whatever we do as a price increase, is in sync with what the industry, which means today, we enjoy a certain premium. We are not looking to expand that premium any further.

Our intent is to make sure we protect our volume from this point of time. Today, whatever price increases we take dominantly are linked to commodity price movements. So that story of saying we will improve our premiumization and grow via premiumization on oils is not there anymore.

We are saying we will ensure that our price premium position is protected. We will experiment to find there are stories for volume growth for us in some specific areas. And hence, we will pivot to protect the volumes and protect the absolute margin as a story in this business.

**Shirish Pardeshi:**

Okay. In the spreads business, what is the exact issue? Because last 2 quarters, the business is seeing a lot of volatility. And I would understand the peanut butter is the main part, which is seeing a lot of competition. So can you explain a little more depth of what is the problem and what we are trying to fix here?

**Asheesh Sharma:**

Okay. So in the spread business in the last 6 months to 1 year, there has been an entry of very, very competitive players with multiple kind of one plus one offers, etcetera, right? Now that has really put a lot of margin pressure on the category for us. We started a journey on this, forced this by developing newer products, which we could compete and also changing a part of our sourcing model, right? Because we had a single plant supplying across the country.

So we had to work on the product. We had to work on sourcing and get it. As of September, if you look at now we have three new products which Nitish had mentioned, right? If you look at our Jaggery product that we have launched, it is very competitively priced and sourced also competitively to compete with them. Where this is?

So for fixing structurally a peanut butter business, we needed to have a good product and very well-sourced product also, right? So that took us some time in Q1 and Q2 to fix both of these issues. So one was the pricing issue. The other was the new product development of high-protein chocolate products, which we needed to build.

So that is, you will be aware that developing a new product takes a little longer than just addressing our current pricing, but that would have impacted our margins far more severely. So that's one. We believe that going forward in Q3, Q4, we should start seeing benefits of these as we roll out and build consumer demand for them.

**Shirish Pardeshi:**

Okay. Just last question on the distribution. You said that sales force automation is taking speed. But in your pilot or in your experience, what are the tangible benefit you have seen in these 4 lakh outlets which you are covering?

**Nitish Bajaj:**

So as I said, we are right now in the face of bringing the entire organization onto Salesforce platform. We started this journey with about 100 of our field force in May, from 100 to about 720, we have expanded from May until September end because these numbers are dominantly H1 end numbers, which we have shared with you.

What we have been able to do in this period is to bring the entire data on a tech platform. How it will benefit in future because benefits will now start fructifying in the platform data which is available, we can know how many lines we are selling in each outlet.

How many -- what is the productivity of each outlet, which outlet is good to service, which outlet is a high throughput outlet how do we treat high throughput outlets differently from low throughput outlet and give some differential advantages and growth, how do we pick up journey of contiguous outlets. Two outlets with a very similar profile are not selling the entire range.

How do we make sure that we cross-sell and build a wave? So increasing line sold, increasing throughput per outlet will be the key driver as an outcome of bringing them with an ag tech platform because you could guide those decisions and monitor the impact of those at an outlet level.

**Shirish Pardeshi:**

I understand that's helpful, but I just wanted to check post the first handheld book you've introduced in the month of May. And when you have this data on a real-time basis, is there number of lines which have improved from 3 to 5 or 3 to 10 or which are the categories within that?

Because I would assume that Act II would have been largely distributed in terms of RT and RTC. I think -- is that the understanding or you can share some outcome of these implementations?

**Nitish Bajaj:**

So maybe we are not ready with that information today. We can come back to you separately. As I said, our focus till now has been more on expanding and building the full platform. But you're right, the local level sales team has started to work on that, but launching a national program linked to this we have not yet done.

We will do a national program linked to this once we have the entire database on platform. As of now, at a local level, it is more a sales team, local working to drive this data and improve their productivity.

**Moderator:**

The next question is from the line of Naitik Mody from OHM Portfolio.

**Naitik Mody:**

Thanks for the opportunity. Coming to the spreads category business, we said we lost a lot of market share. So with these new products, what is our strategy to possibly gain market share? Is it pricing or what else it is. If you could give us some color on that?

**Asheesh Sharma:**

Yes. So as we said, why did we lose market share. We lost market share largely improved basis. One, it was in ecommerce, right? And on a price per year at the standalone [inaudible 0:51:49] both have been fixed now. So as we had mentioned, so if I address it first by the channel, the ecommerce channel, our growth has started coming back and [inaudible 0:52:05] process we will start now gaining shares. Protein specific product, [Inaudible 0:52:10] to repeat the second part, which was to compete with the lower end price point products that we have developed...

**Moderator:**

Sir, sorry to interrupt your voice is not audible. We cannot hear you properly.

**Asheesh Sharma:**

Yes. So we had to -- as we had said that we would have lost share. We had lost share on two accounts. One, on high protein products in e-commerce, and we have lost to price warriors in stand-alone and bigger modern trade change. The product development to compete in both of these are different.

So if you look at our high-protein chocolate product, was designed to compete in e-commerce and the protein segment, where we have, and you will see we have started now growing in our e-commerce segment. We still need it to fix in modern trade, where the product has got launched

in the last week or the last 15 days of September in certain stores once the product was developed.

So we were getting hit from two ends. One, on the innovation on the product, other on the price. We have addressed both of them. Products are ready sourcing is ready, and now this rolling out is happening. So as we build demand and start taking back growth on the force, we are bound to gain share with the growth happening.

**Nitish Bajaj:** Yes. So net-net, Naitik, we will invest on these innovations to recover the loss of volume from the players we have lost out to. So it's a very micro target program.

**Naitik Mody:** Would that mean that we will hence forward, start operating at a lower gross profit margins in this category than earlier?

**Nitish Bajaj:** No. So that's why I said, it has been led to a product development while protecting our margins.

**Asheesh Sharma:** And also, if you see, the high protein chocolate will be at a higher margin, the jaggery one, which is there will be at lower, but we are going to compete at both, right, to us to protect our total margin, one by an SKU combination, that is a product portfolio and secondly, by sourcing correctly.

**Nitish Bajaj:** So high protein variants are typically higher margin also. So you will gain on the margin on that side. while you may have a little erosion on the jaggery side but by flanking both sides of premium customers who want high protein and mass customers who are looking at a standard peanut butter offering, we do expect our margins will be protected.

**Naitik Mody:** And on the external advisory fees that we paid. This -- we are done, right, 6.1 is done for the year or there will still be more in the second half as well?

**Asheesh Sharma:** Yes. So dominantly, I would say you could see very small costs in October. But beyond October, this cost is going to be not as large. So let's say, from an outcome perspective, you will see very limited cost in quarter 3, quarter 4 will be negligible.

**Moderator:** The next question is from the line of Sudhir Kedia from Value Wise.

**Sudhir Kedia:** Sir, my question is slightly from your longer-term perspective that over the two, three year period, how should we look at this company in terms of size? And if you can break it up between core categories and the other part of it. That is question one.

Second number is that related to ESOP cost, you said 70% of the cost is linked with performance. Can you spell out in terms of what kind of performance parameters are there for this?

**Nitish Bajaj:** Right. So let me just understand your first question correctly. You're saying would we go into new categories beyond where we operate today?

**Sudhir Kedia:** So my question is more holistic in nature. In terms of, let's say, two, three years down the line, right? How should we look at this company in terms of the existing business when you include the core categories and others? And I think you are also looking for inorganic opportunity. So



how should we look at this company from slightly two, three years perspective betterment this year in terms of the size and the margins as well.

**Nitish Bajaj:**

Okay. So see, overall longer term, we have shared the picture that we do operate at the scale and size of business where we today are as a combined organization. We are already INR 1,500 crores plus kind of organization. Organizations of this scale and size do operate in double-digit or higher EBITDA.

As of course, you go to INR 5,000 crores, you can even go to 20% kind of EBITDA. But organizations of our scale and size do operate at double-digit EBITDA. So our direction over next four years, I would say, would be to get into strong double-digit EBITDA in the business, and that's what we are looking to.

All of that will be funded by expansion of scale, looking at how the two organizations can work together? What are the synergy and harmonization opportunities in the organization? And how do we ride on each other's strengths. So that is a broader part of thesis. But it will go through a journey of, let's say, making sure that we learn where we can gain from each other.

And those things will take shape in the year ahead in our business, right? From a category play, we have already called out categories we will invest on both in Del Monte business and in Sundrop business, and those will be our hero growth drivers of business.

Coming to your question on ESOP or performance plan, which is there. Clearly, again, the performance plan is driven on delivering these objectives of improving the scale of the organization further, we need to grow significantly ahead of industry growth. Industry growth, we know has been in the range of 5% to 10%.

Of course, it changes between the years, which means we would want to grow much faster than what industry is growing at. I believe we will want to grow 2x to the industry growth, but we need to pivot it out on how do we grow the second part of our business, which are noncore, especially the edible oil business.

But core business, definitely, we would want to grow faster. Also improving the margins of the organization as we build scale and we look at leveraging the cross strengths of each of the organizations to come to strong double-digit margins. So that's the way I would say you should look at this business going ahead.

On the inorganic side, it is purely opportunity-based. If you find anything which is available, fits in very well in our portfolio, we would remain open. Our thesis is that we are a food platform organization. We do have skills in marketing, distribution and manufacturing all three areas. So we would look at complementarity and any portfolio which is relevant, which can ride on these competencies which are available and improve value for our shareholders.

**Sudhir Kedia:**

Sir, a couple of points here. Will I be right to assume that to assume that the aspiration would be roughly doubling the pro forma top line from about INR 1,500 crores to INR 3,000 crores. And within this, if I break up the core and noncore category which is about 1,500 ballpark should be

like, should be in the -- somewhere between INR 2,000 and INR 2,500 and noncore the remaining part of it. Will it be a broad assumption, right?

**Nitish Bajaj:** Yes, you're correct. You're correct. Yes. That is the broad picture for the next four, five years, yes.

**Sudhir Kedia:** And any inorganic will be on the top of it, right? This is the way you are seeing it.

**Nitish Bajaj:** Yes, it has to be following our thesis of capital-efficient approach. It needs to make sense to get that acquisition. It has to pay back for our shareholders in a reasonable finite horizon.

**Sudhir Kedia:** And sir, in terms of margin, there is a strong double-digit margin right? From the flow-through perspective, will I be right to assume that when we reach that scale, right? Broadly, we will be in terms of, let's say, 40% gross margin and about 20%, 25% other costs in the remaining as an operating margin. How do you see that?

**Nitish Bajaj:** Yes, so that is the base necessity. I think you've got the broader thinking, right? That is the base necessity if I do want to get to double-digit margin, because if I have to do any business of this nature, you're right, the margins in gross margin side need to be in the range of 40% to 45%.

Your people cost will be in the range of 10% to 14%, depending on how you pivot the structure and things. Your advertising costs will be about 7% to 8%. And below gross margin, your manufacturing, logistics costs will be again 14%, 15%. So broadly, the way you put the walk is correct.

**Sudhir Kedia:** Sure, sure. And sir, one more thing is that we have issued roughly somewhere around between INR 15 lakhs ESOP brands. Can we expect more ESOP brands in the years to come? Or we are more or less done with the brands?

**Asheesh Sharma:** So the entire brand, which we have made to the existing set of employees is already done. Now if there is any structural change dominantly, you would say that we are going to be a stable organization. But yes, there could be minor additions, deletions linked to the structure as we go ahead. So at a holistic level, I would say we are 80% plus already there. 80% plus of the brand is already made. But beyond that, you should see some additions and deletions linked to how we look at the structure.

**Sudhir Kedia:** And in terms of accounting of this ESOP cost, I was in for ground calculation based on the current price, the cost is about INR 30-odd crores. In total, right, of which I think we have accounted with INR 8 crores in the first half. So from accounting perspective in the P&L, how should we look at that -- the remaining number? I think one participant asked this question in terms of, how we should be looking at that cost in the P&L?

**Nitish Bajaj:** Yes. I request [inaudible 1:03:30] to answer that.

**Management:** The accounting point, we need to do the valuation of the ESOPs and the fair value. So it is giving the period, we need to be charged off. So it is not only the market price, it is the volatility and

all those things are also considering by completing the fair value. So do the accounting and the charger. Does it answer your question?

**Sudhir Kedia:** No, I was looking more in terms of -- based on the current estimates, right? How much cost will come in the second half and year ahead. That was my more pointed question?

**Asheesh Sharma:** I would say you should look at for next, I would say, six quarters, the cost will be very similar in nature to the cost you are seeing in this quarter. We'll see a significant reduction beyond next six quarters.

**Sudhir Kedia:** And sir, one more question. Is that the onetime cost in terms of advisory in other expenditure? Is that done in the current quarter? Or this will repeat in the quarter to come?

**Asheesh Sharma:** So see, look at the organization in totality, we have picked up two areas in this advisory -- three areas, sorry, packaging in Sundrop and manufacturing and supply chain in both organizations. So if I have to call up for these three areas, dominant part of the cost is done. I would say 80% plus of the cost is already done.

Balance about 20% may flow through dominantly in quarter 3 and a little bit in quarter 4. But yes, as we are a growing organization, we do see opportunities to improve efficiencies in business. And hence, there could be other areas which organizations may pick up in our sales structure, in our IT thinking, in our technology road map, those could come again, but we will be very cognizant to a very capital-efficient approach in any decision we make there.

We would want to make sure it pays off. Very clearly, the way we have spent these costs have started to pay back to the P&L already. And all of these benefits are consistent and continuous in nature, while the cost is one-off.

**Sudhir Kedia:** That was helpful, sir. And I would request you to allow us to meet you in person whenever time permits.

**Moderator:** Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

**Nitish Bajaj:** Right. So thank you all so much. I know we have exceeded a little bit, but thank you so much for your time, and we really look forward to continuously engaging with you. If you have any questions beyond this, feel free to reach us out through our Company Secretary. We would be always able to -- happy to answer and give you the sufficient responses.

We stay committed to our journey of making this business stronger, sharper and more efficient as we go along. Thank you so much and all the best.

**Moderator:** Thank you, sir. On behalf of Anand Rathi Share and Stock Brokers Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.