"Parag Milk Foods Ltd. Q3 FY17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2017 results of Parag Milk Foods Limited hosted by ICICI Securities. 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 this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks. On behalf of ICICI Securities, we welcome you all to Q3 FY2017 results conference call of Parag Milk Foods Limited. We have with us Mr. Devendra Shah - Chairman as well as Mr. Bharat Kedia - CFO of the company, also we have the other senior members of the board. Now I handover to Mr. Devendra Shah for your opening comments and the quarterly performance. Thanks and over to you Sir!

Devendra Shah: Good evening everyone. On behalf of the Board of Directors and Management I would like to extend a very warm welcome to all of you present here for the earnings call of Parag Milk Foods Limited to discuss results for the third quarter of financial year 2016-17.

Before we discuss the financial performance of this quarter, let me quickly go through the business developments that took place during the third quarter of financial year 2016-17.

During the quarter gone by, which marks the festive season of India, we launched new marketing campaign for our flagship product cow ghee with new positioning "Pyaar ka Rang Sunehra". The campaign was launched on television, digital media and we also released a highly engaging TVC that aims to bring back festivity and fun associated with food and how it connects people across generations. The ad film covers various emotions in life linked through food and brings forth colours of love and how golden (yellow) colour is associated with cow milk. The vision of the new campaign is to own the leadership position in the ghee segment by category expansion and to change the focus of the consumers from festive consumption to throughout the year consumption pattern. To attain this endeavour, we followed larger communication amplification through our 360 degree approach and extended it to connect at regional level.

During Q3 FY17, we also signed celebrity Veer Das in our new marketing campaign to promote our newly launched product "Spice up" available in 5 different flavours of cheese. The focus of this campaign is to target the school children and entice the youth to consume "Spice up" directly as snacks item.

The company have taken sustained efforts in ramping up pride of cows business by extending its reach to Surat. With the rising demand from the south India we have expanded our distribution system by establishing a new depot in Chennai. This will help us to improve our reach in southern India.

We are also driving innovation at the backend for the commercialization of cow-dung manure into high value-added manure, generation of bio-gas, etc. has led to our subsidiary, Bhagyalakshmi turning into profit for the first time and that too, with hefty net margins during the last month of the quarter. While this business is much smaller as compared to total business, we expect good profitability to flow in going ahead.

As discussed earlier, for our commitment to grow at a steady pace, we have also started creating a base for the same and accordingly, put proper procurement infrastructure in place. This has led to an increase in milk procurement by around 27% during the quarter. This would act as a foundation for our future growth.

On February 1st, we launched most awaited product - Whey Protein Absolute in the market available in 0.908 Kg and 2.27 kg packs marketed under the brand name of "Avataar". This makes us India's first company to launch Whey Protein for direct consumption. Avataar is Indian whey protein brand specially made for Indian audience. It is quality tested at every stage and hence poised to be the best whey protein product. It is 100 % vegetarian whey protein. It has 30.4 gm of protein, 10 gm BCAA and EAA of 10.2 gm in every scoop. It is gluten free, soya free, sugar free. It comes in three flavours double chocolate, vanilla snow crème and café mocha swirl.

Coming to our performance during the quarter our focus was on a long-term sustainability and profitability. In fact with the modest growth in the first two quarters the background and the festival season in the offering we had planned to chase maximum growth during the Q3. This endeavour faced a little bit setback from demonetization, else the growth would have been even higher. Historically during Q3, which starts from October and ends in December, marks the flush season in the dairy sector. Milk prices stay increased in this quarter and settle down by next quarter, however, this increase in the milk price was at a global level and also lower inventory of the commodity at the domestic level created the pressure on cost of procuring the milk. The flush season also resulted in procurement of ~1.2 million litres of milk per day. Further, demonetization which happened immediately after Diwali did not provide the right window to increase the consumer product prices and we had to wait for its effect to settle. The company had planned to increase the milk prices post festive season, however due to demonetization, company had to delay the increase in the price of milk to Q4 FY17 instead of Q3 FY17. We had also seen one-of incidents of the VAT claim because of errors committed by a few super stockists. During our last call before demonetization, we have mentioned that we have witnessed higher growth in the skimmed milk powder which has provided as a cushion in terms of our revenue growth to extend it further. During Q3 FY17 SMP grew by 273% YOY due to better realization in the market. Currently we have increased the price of major categories like ghee and cheese in the consumer segment. and are in the process for the rest of the categories. In fact with the help of our brand power and consumer loyalty, we could take prices increase in some cases, way ahead by the market. For example, our ghee price is currently around Rs.100 more than the nearest competitor. We are sure that with above price increase that we have taken, we would be definitely back into the force, during the current quarter. Notwithstanding current hiccups, we are confident of achieving our medium-term targets. Now, I request Bharat, our CFO, to discuss our financial performance for Q3.

Bharat Kedia: Thank you Devendra bhai, thank you audience. Good evening ladies and gentlemen, this is Bharat Kedia. The revenue from the operations for Q3 of FY17 has grown up by 15.1% to Rs.446.1 Crores in this quarter of the financial year 2017 which is Q3 from Rs.387.5 Crores in the similar financial quarter of the last year which is Q3 FY16. During this quarter, contribution of fresh milk remained stable at about 21% in Q3 of FY17, also revenue from fresh milk has increased by 15% Y-o-Y from Rs.79.7 Crores in quarter of last year to Rs.91.8 Crores in quarter this year. This was mainly at the back of higher volume and also increase in the territory in which we operate and sell fresh milk.

As mentioned by Devendra bhai, the share of the skimmed milk powder has increased by 800 basis points Y-o-Y to 12% as a share of pie in the revenue along with an increase in its revenue by 273% Y-o-Y from a mere sale of Rs.14.6 Crores last year in this quarter to an exceptional sale of Rs.54.4 Crores in this quarter of the current year. This better realization has two impacts. (a) The price realization for skimmed milk powder has improved in line and ahead of the increase in the raw milk prices and (b) The procurement of milk in the company has been higher in this year and a part of that excess milk has been converted into skimmed milk powder and thereby sold in higher quantity of skimmed milk powder. However, the long-term strategy of the company is to focus on milk and milk products, and this being temporary for this quarter, does not indicate a change in the strategy of the company. The company observed modest growth in revenue of milk products which increased by 5% Y-o-Y from Rs.281.4 Crores in quarter of last year to Rs.295.3 Crores in the current quarter. This growth is coupled with effect of demonetization that happened in the month of November, where for a particular week in that month we had a subdued demand of the consumer product and that had an impact on the overall growth of the revenue of the company.

Gross margin declined by 770 basis points from a 29.8 % margin in Q3 of last year to 22.1% in this quarter of the current year. This decline is actually a sequential evident of few things that has happened during the quarter and the sum of these has put a large amount of pressure on the margin. To give you an instance of the examples which caused to the decline in the margin are (a) The increase in the raw milk prices was above 20% in this quarter Y-o-Y vis-à-vis the similar quarter of the last year. Demonetization forced us to delay some of our management decisions to increase pricing of the consumer product and of the fresh milk in the market from Q3 to Q4. Increase in the share of skimmed milk powder from a mere 4% last year to 12% this year in this particular quarter has impacted being an unfavourable mix and driving lower margin. Having said so, I must remind that a 12% share of skimmed milk powder is not exceptional to a full year target of the company, but it is definitely for the quarter. We have incurred an operating loss of Rs.14.4 Crores in Q3 of this year as compared to Rs.38.3 Crores positive profit in the December quarter of the last year. This is a significant operating profit margin drop from 9.9% in the last year being positive to a -3.2% in the current quarter of the current year.

During the quarter, other expenses shot up mainly due to increase in advertising spends during Q3 of the financial year 2017 to create a brand impact during festive season of Diwali and Christmas. However, at an annual level we are likely to remain within the budget and the company is committed to manage these expenditures. Company's net loss is minus Rs.37.9 Crores in Q3 of FY2017 as compared to the net profit of Rs.14.5 Crores in Q3 of FY2016. There is substantial PAT margin decline from a positive 3.7% in Q3 of the last year to a negative 8.5% in the Q3 of the current year. The PAT growth was impacted due to an exceptional expense of Rs.16.5 Crores pertaining to prior year as a result of a sales tax investigation conducted by Maharashtra Sales Tax Authority and therefore if you exclude the exceptional item from the bad performance, the negative PAT for the current is minus 4.8%. Please note that the current year financials are under the limited review of our auditor.

To sum up the results of the Q3 of financial year 2017, the revenue growth has been 15.1% which is in line with the expected growth of the company. The EBITDA margin has declined and has gone into a negative territory of minus 3.2% and the PAT margin has gone down with an exceptional expense to minus 8.5% and without an exceptional expense to minus 4.8%. What it means is the pain is temporary but the success is permanent, and therefore we need to leave this discussion to a thinking and thought process of how we make sure that our organization move forward with a positive result. I leave this forum now to all of you to ask questions and seek information and clarity from the management of the company who is present here. Thank you very much.

Moderator: We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and then "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a few moments while the question queue assembles. We have the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead sir.

Rajesh Kothari: Good afternoon Sir. My first question is, what is the total brand investment you have made in the current quarter and what is your total brand investment you are targeting for the full year?

Bharat Kedia: The company's advertising expenditure which is net of promotional expenses being targeted at 2% of its revenue in the year. The current quarter advertising expenses exceeded 3% for that quarter in terms of its revenue.

Rajesh Kothari: Okay. My second question is with reference to the increase in the milk price which you mentioned about close to 25%, am I right, that is what you meant. 27% or 25%?

Bharat Kedia: It is greater than 20%.

Rajesh Kothari: Greater than 20%, okay, so the corresponding price increase whether it has already happened in the Q4 or if it has not yet happened by when you think you will be able to pass it on?

Bharat Kedia: As we are the talking about the consumer products, the price increase in consumer product is relatively independent of the price increase in raw milk prices. When we go out and when we take the price increases in the market we look at the competitive landscape, we look at the consumer affordability, and we look at the brand strength after which we take the price increases. Generally, they are not completely coupled with the price increases and therefore the increase in raw material prices and the increase in consumer prices, they have certain lags. They do not go on a day-by-day basis. What has happened so far is that we have had an increase in the raw material cost of about 20% plus, whereas the price increase that we have taken in the fourth quarter is about 8% to 9% on an average which is not in all categories, but in most of the categories. We believe that opportunity for price increase at one attempt to grow that far is not justifiable and we need to remain loyal to our consumers who have been loyal to us forever. Our opportunity to price increase has not shut its door down. We have a possibility of further price increase in future to come. The right time to take price increase is being evaluated as we speak to see depending on our brand health track that we have just received and based on the ability of market to absorb and competition to follow the price increase that we have done. As of now, we continue to state as we have said before our ability to drive premium in the market and take price increases ahead of our competition and pull up the strength of the brand remains the same. Today our prices continue to stay at a high level compared to our next competitor.

Rajesh Kothari: So, basically this price increase what you have made both in B2C as well as in B2B business or is it only into B2C business?

Bharat Kedia: In a B2B business there are three components; component one, which is skimmed milk powder which is a commodity business, the prices in the commodity business follow market trend. It is a little bit beyond the ability of a dairy or a company to drive that pricing. The skimmed milk powder pricing has increased in line and slightly ahead of the increase in the milk prices. So, they have automatically taken care of themselves in terms of the margin impact. The other B2B business, which we consider B2C but many people in the market consider as B2B is our institutional sale of cheese business. In our institutional sale of cheese business, we have gone ahead and have also taken price increases in line and thought of the increase in the prices that we are having in the raw material cost. However, it is as hard to take a price increase in institutional business as it is harder in any other commodity business. However, what we have done, we have had a lot of pressure in this process of taking price increase in institutional business, we have remained firm and as a part of the process we have taken those price increases. Will that have an impact on the volume? Let me assure you, there is a short-term impact on the volume which will come because some of these times these institutions will put pressure on us and sometimes even hold orders from us, but as we remain firm these orders come back. It is a matter of a few days or sometimes weeks before we recover that volume.

Rajesh Kothari: Basically, on the consumer segment you are saying that the price increase has been limited compared to the institutional segment where you are able to pass it on the price.

Bharat Kedia: The price increase has taken place on both ends; consumer and institutional and commodity in all aspects. The price in consumer is a determined **by our** decision. The price increase in institutional is an effort of combined partnership between the company and the customer, and therefore sometimes the price increase in the institutional product would have some temporary volume impact. However, that is very limited to a shorter period of time of few days to weeks.

Rajesh Kothari: Okay, great, thank you Sir. Wish you all the best.

Moderator: Thank you very much. We have the next question from the line of Druv Agarwal from Cresita Investment. Please go ahead.

Druv Agarwal: My question is regarding the price point for the absolute protein, so what is the price for 1 kg and 5 kg variants?

Bharat Kedia: It is not a 1 kg pack, it is 2 lbs which is 908 grams, the MRP for that is Rs.3200 and the larger pack is 5 lbs which is 2.2 kg for Rs.7000 MRP.

Druv Agarwal: Okay and in which areas are these products available, have you identified a particular area or is it pan India, how have you launched it?

Mahesh Israni The way we are going about launching this product, we have three phases to the entire launch plan. In the first phase, we will be into large seven towns in the country which are primarily in West and North India. In the phase two, we will get on to 30 cities in the country, the top 30 cities, and then gradually become an all India brand in terms of the physical availability. Having said that, we are also aggressively going behind the e-commerce business in this particular product category because close to 35% - 40% of the business happens on the e-commerce and through e-commerce, possibilities of the brand expanding itself into even the smaller towns is high.

Druv Agarwal: Okay. Sir one more question regarding the IPO money which you have still not utilized for the Capex. We see Rs.125 Crores still lying with you, so how are we going to spend it in the coming years?

Bharat Kedia: The money we raised from IPO is Rs.300 Crores; Rs.100 Crores is for repayment of debt, Rs.50 Crores is for working capital and Rs.150 Crores is for Capex. If you are referring the question which is relating to Capex, in the Capex category we have spent about Rs.25 odd Crores so far in the first seven months of the IPO. As per the IPO process, we have a year's time to spend about Rs.85 Crores to Rs.90 Crores. We are on target to spend that money which we would be spending over the quarters that is coming up. So, total Rs.150 Crores as laid down in the IPO document requires to be spent over a period of three years and therefore we are well within the time.

Druv Agarwal: So, you have almost three years to spend that Rs.150 Crores.

Bharat Kedia: Total Rs.150 Crores we have total three years' time to spend.

Druv Agarwal: Total three years, so in the coming FY2018, for example, how much is your target to spend?

Bharat Kedia: The IPO document has already split out the targets by year, the first year was between Rs.85 Crores and Rs.90 Crores of spend. The second year was about Rs.50 Crores of spend and the third year was about Rs.10 to Rs.15 Crores of spend.

Druv Agarwal: Okay. If you could give me the Q3 FY 2017 buying and selling price per litre of milk?

Bharat Kedia: As we stated before, the raw milk prices in the Q3 has increased by 20% and above. The individual prices of milk differ from territory to territory, district to district. We procure milk in 29 districts in four states and they also depend from the content of solids and the microbiological impact of it and there is no one standard price that we are able to provide.

Druv Agarwal: Okay. And Sir one last question on how do we see the Q4 panning up, is the demonetization effect still prevailing in the market particularly for the dairy business and as a full year how do you see the business going forward?

Bharat Kedia: As we talked about in our opening speech by Mr. Devendra Shah as well, that demonetization had an impact in our business for about a week. When the demonetization was announced, people were in a little bit state of mind where to get cash and how to spend, so I think we have had an impact.

However, a week over a period of 13 weeks is the large proportion of time and therefore it has impacted our growth in the third quarter of the year. Having said so, after that week, we see a complete normalcy in our business growth. Our business has seen a growth target for the first month which is October and the next month which is December in line with the normal performance. Therefore, we do not see any demonetization impact going forward in terms of the consumer product.

Druv Agarwal: And Sir one last data point, how much is the contribution of your institutional cheese business to the total sales?

Bharat Kedia: The institutional cheese business are two parts; we have institutional cheese business which goes to fast food joints which is kind of Dominos and all, and then we also have an institutional business that goes into HORECA which is a small restaurant chain. If you take the total institutional business, which partially may or may not classify as institutional, but if you still take the total business of institutional this is roughly about 10% of our total revenue.

Druv Agarwal: Okay, fine. Thank you so much Sir.

Moderator: Thank you very much. We have the next question from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: Thanks for taking my question. Sir, if you could give us some insight on the milk and milk product business which is almost two-third of our business, what are we doing to drive growth in terms of mid to long term? Some sense on the target distribution for the next few quarters? Is rural an opportunity and how much is rural proportion for us in this segment? Secondly, you mentioned about premium in terms of realization of our products, what are we doing to educate the customer in terms of communication, advertising, creating awareness to ensure that this premium does not go away and does not affect demand for our products?

Bharat Kedia: Okay, so let me first talk about the awareness, the brand health, and premium before we go into distribution and rural territory. We, as an organization, are committed to an advertising spend to create the value for our brand. We are the only company in India, in a dairy FMCG space, which has a multiple branding strategy. The brand is the heart of our business and we are moving from a 100% dairy to 100% FMCG in this process. Our awareness indicators reflect that today we have cheese business which is about one-third market share in the country from a place where nine years ago, we were the bottom end of the player. Then we have also our brand health track that perfectly shows that the brand equity and the brand awareness and purchase intent and TOM, all of them are improving with time. We spend significant amount of money. Our advertising spend including promotional expense runs up to about 8% to 8.5% of our revenue which is the largest in the space of dairy companies. Therefore, our commitment to spend, our commitment to invest, our commitment to bring that awareness and building that brand has been high and it is yielding results with our market share that is reflected in business. This continues as a performance parameter while we might come back and explain to you, in the fourth quarter we might have some subdued investment in marketing and advertising spend, but that has been just to optimize the overall scenario rather than cutting down on the cost.

Now coming back to your distribution and rural territory coverage, company continues to try distribution across pan India. Company's presence in the western part of the territory is relatively higher than the other three parts of the territory because it has emerged from the western part of the country. Company's focus and driving distribution in the rest of India is as high as it is in the west. Company's way of driving distribution is multilayer. We have seven vast markets to reach our products to the customers and consumers. Each of them have its own unique and distinct advantages, and the way they are laid out are multilayer. This distribution philosophy has been rolled out about three years ago with our new Chief Marketing Officer joining at that point in time, Mr. Mahesh Israni who comes from Unilever and Pidilite. So, we have got a professional team that is driving this distribution model and has been going very successful in this area and driving our consumer product business.

The question that is on the rural side of it, the business of company, when it comes to ghee and when it comes to UHT, has its presence in the rural part of the territory. For other products, we are predominantly urban and semi urban. We have seen that the growth in the rural territory in the first and the second quarter was subdued. We, in fact, had seen some decline in the growth of some of these products coming out of rural territory. We are happy to explain that in Q3 our growth in these categories have come back.

Prakash Kapadia: What percentage approximately rural has for milk and milk products?

Bharat Kedia: Fresh milk is primarily urban, cheese primarily urban. As I said, in our portfolio it is the ghee and UHT milk which is primarily partially urban and partially rural, and therefore in the overall portfolio of our business rural is not material.

Prakash Kapadia: Okay. On the sustenance of premium, is it not that really bothering you or concerning you because if I look at nine-months numbers, not at the current quarter number, we have seen a 6% revenue growth which would be much lower than what we would have expected as a branded food business player? What is it which is affecting the basic sales growth? It is not the premium what you are hinting at?

Bharat Kedia: In our consumer product business, other than the fresh milk and the commodity, the growth rate for the first nine months is roughly about 6%, the fresh milk has been growing over high-teens in double digits, and the commodity business in the last quarter has really shown a complete growth trajectory. So, let us now come back to the consumer product business, as we explained in the first and the second quarter, our consumer product business relating to ghee and relating to UHT milk had seen subdued performance in the first and the second quarter and that was finally at the back of two things; one was the rural and the second was the price increase that we took in ghee ahead of the market price increases. These two had impacted and therefore we could not achieve the growth plans that we had. Our growth plans in other product categories were in line with our targets. Then coming to the third quarter where we had normalized various things and therefore we were expecting back in situation for the consumer product growth business, this did not come along the path because one week of the quarter we have almost lost sales in this demonetization process, which a week in a quarter is almost about 7% and so while we are reflecting about 6%, we believe there had been slightly different regions in different quarters. We hope that those reasons and explanations are behind us and we are back to the normal stage where we can continue to develop the growth of consumer product in line with the expectation.

Prakash Kapadia: Okay. I will come back if I have more questions.

Moderator: Thank you very much. We have the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good evening. What was the average milk price this quarter?

Bharat Kedia: As I stated in my previous question, we as an organization, we do not track milk price per liter, we track milk prices per solids, what we pay depends on the solid contents in the milk and because we are collection milk from a larger territory, four states and 29 districts, these milk prices vary between districts and states, and therefore any price indication would be very average and composite which would not give a right measurement and therefore we as a company we provide milk price indication in terms of growth in percentages rather than an absolute value, because for us it makes more sense to see what is the price increase or decrease coming in.

Nihal Jham: Sure Sir. I just wanted to know what has been the Q-o-Q increase in milk price, you mentioned 20% is Y-o-Y, but Q-o-Q how has the movement in prices been?

Shirish: There has been increase in price of roughly around 14% odd, if that is what you are referring to.

Nihal Jham: So, Q-o-Q milk prices have increased by 14% you said. If I had to break down our gross margin between our milk products and SMP, I understand some of the gross margin fall that we have seen is because of the increase in SMP contribution. So how has been the movement in the gross margin in milk products specifically? In just looking at some of our competitors also, the gross margin impact has not been as magnified as is seen in our case.

Bharat Kedia: As we stated before, the raw milk prices increased by about 20% last Y-o-Y. Consumer product price increase we have taken in the Q4 rather than in Q3. However, if you look at over a longer period of time, since we have now taken the price increase in Q4. The range of the gross margin for our consumer product is between 25% to 40% depending on product to product. This is not a valid number for Q3, this is a valid number for a longer term. Our gross margin from skimmed milk powder business, the business in which we make the lowest margin, ranges from 1% to 5%.

Nihal Jham: 1% to 5%, okay Sir, and just on the VAT exceptional item, could you elaborate a little more on what exactly the situation was related? Because as I am reading, you have mentioned that there has been a bunch up. So any specific reason why this bunch up had happened?

Bharat Kedia: For the benefit of understanding, let me just go back and explain how things have happened. We, as an organization, as a pan India present company, we have a consumer product which is about two-third of our business we reach with these products across the country. The way we grow our business and our wings into the different states of the country is that we first establish a super stockist in a particular territory, that super stockist has a good distributor and distributor reaches the outlets. As the business grows in a particular state, we then move into opening a depot in that state. So far our wings have increased to 18 different states in which we have our own depots. However, in the remaining states of the country, we are still operating through super stockists. Super stockists are consignment agents of the company. They carry company's product on behalf of the company to the distributors of the company. These distributors then onward **store it** for consumers' access. In this chain some of our super stockists have been observed that they have certain irregularities in their tax payment and these observations by the sales tax authorities of the respective state has come up with that observation. as these super stockists for good reason of their own belief have not agreed with the sales tax authorities in their local state. To correct those irregularities and pay the taxes, the authorities have then approached us. We being the principal under the contract law, we remain responsible for the act of default of any agent. Under that ground, these tax authorities have approached us and explained the transaction as to how it has happened. We have realized that the transactions that the super stockist have performed in these sales and purchases have certain weaknesses in the way they have done it. We have then taken legal opinion and advice on the subject as to how to deal with these transactions and we have concluded that it is far better for us to acknowledge this liability, pay this liability, and recover these liabilities from super stockists as the business come rather than trying to continue to push into a litigation between us, super stockists, and the authorities.

With this act, we have already acknowledged a liability of Rs.16.5 Crores. This liability relates to the prior years. The process in which we operate now is different than the way we used to operate in the past. As the business has grown, we have strengthened a lot of processes and systems. However, the past is still with us and we need to deal with it as it comes. So, in order to fix the past, we have accepted the liability and moved on. We at this stage and as per the accounting standards, as soon as we accept the liability, we have to record that as an expense. We are at this stage in continued dialogue with these super stockists for recovery of these amount. We believe we will not be able to recover the full amount, but a partial amount shall be recoverable over a period of time. As and when we are able to recover these amounts, these would be reported as an income in the financial statements of those particular quarters or year as it comes. We, however, are very ruthless in the way we are dealing with our corporate governance and therefore we are only attempting to get this recovery and not to have a very long-term dealing with these super stockists who have done certain transactions which we believe are irregular. We have further strengthened our super stockist agreements and CFA agreements as part of this process to ensure that going forward we have no loose ends to these transactions.

Nihal Jham: Sure Sir. We do not have any liability possible from any of the other super stockists?

Bharat Kedia: The company has done a hygiene and health checkup of the company's current performance. We have gone through to check if there is anything else that could come. Company is of the belief that what has been found out through these super stockists was the end of it. Going forward, we have further strengthened and therefore there should not be a new liability coming on this account.

Nihal Jham: Thank you so much Sir that should be it.

Moderator: Thank you. We take the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir just wanted to know you said that you have delayed the price increases, instead of Q3 they have happened in Q4, so can you just tell me the quantum of the price increases we have implemented?

Bharat Kedia: The average price increase that we have taken in the quarter on the consumer centric business is 8%.

Percy Panthaki: Okay, but 8% would not be enough to offset 20% milk price inflation right?

Bharat Kedia: Yes. The way we do the consumer price increase is that we do not take a complete price increase in one attempt. At 20% consumer price increase in one go could have a very significant impact on the company's volume and therefore that has been a staggered approach to ensure that a price increase in put in place. As we have only taken 8% price increase, we are looking with a very sharper pin to look at our expenses and costs to manage this situation as we speak. However, we have a good intent that with a break of some more time we should be coming up with a second round of price revision and we would be taking those price revisions to the appropriate SKU. It may or may not be across categories, but we would try and protect the margins of the company in two or three attempts rather than in one go.

Percy Panthaki: Sir, if my understanding is correct, in at least fresh milk, cooperatives are a really big player and their objective is just to pass on the profit to the farmers, their procurement prices and the end product prices, at least for fresh milk tend to move in tandem. So if they are the largest player and they are setting the table, then what is the problem for us to take a commensurate price increase?

Devendra Shah Mr. B.M. Vyas will give a better answer for that, who is the ex-MD in Amul.

B.M. Vyas: We are very clear that Parag Milk Food is a company which has to focus on value-added products and therefore we are developing a portfolio brand and portfolio product, which are genuinely value added, but at the same time, if we have to handle certain volume of milk and be sure that the milk is available. We need cash flow as well as some sort of market for milk simultaneously because milk provides us daily cash flow, vis-à-vis though cooperatives are in volume game we are into milk category in a variety of forms. Instead of looking at milk in pouch as one category you look at the milk as a whole. We are marketing Pride of Cow milk in the form of bottles where we have a highest price. We are marketing milk in the form of UHT milk, which we are distributing in pan India under brand Go. We are marketing milk as a flavored milk in long life ready to drink beverage, and we are also marketing milk as a pouch milk to service the separate segment of consumer demand. For a company which is marketing milk in a variety of areas, it makes sense to be there in the mass market also and that is why we are there in pouch, we are there in bottle, we are there in beverage, we are there in UHT, and we are there in premium milk also.

Percy Panthaki: Understood Sir, so in the pouch milk category, is the price increase substantially higher than 8%?

B.M. Vyas: We are trying to take price increase higher than cooperatives.

Percy Panthaki: So any idea Sir how much would the price increase be in the pouch milk that you have taken in Q4?

B.M. Vyas: We have taken on average of Rs.3 per litre increase in price and many cooperatives are yet to do price increase. It is expected, but we have taken leadership, we have gone ahead. The moment we found that the raw milk prices are going up, we waited for a while and then in spite of the flush season, prices are going up. So we went ahead and we have increased the price of pouch milk without waiting for cooperatives to do that.

Percy Panthaki: That is where I have a confusion. So, if the procurement price is going up for the cooperatives, how are they able to pay the farmers without recovering from the customers because they do not keep any margins for themselves since they are a cooperative?

B.M. Vyas: These are your assumptions. It is not that they work without any margin. They retain 10% of the sale proceed as a bonus which they give at the end of the year. So some pipeline money is always there. Secondly, for a cooperative to do price increase, they are very close to government. So, there will be a concurrence requirement from the political bosses, if there is election they will postpone the price increase, there are many reasons. They will do price increase, but they might take time. As a private sector we cannot afford to do that.

Percy Panthaki: I just wanted to know how much more price increase is required just to offset this current 20% inflation?

Bharat Kedia: As we stated before, price increase is not the only answer for protecting the profitability of the company. We are also looking at managing cost down and we would take the right balance between the two in terms of protecting the profitability of the company. Price increase we have already taken in one go, it is about 8%. We believe in one particular attempt more than that would not have done justification to our product and brand; however, we would give another attempt. We do not know at this stage how much that increase would be, but the increase would be, in order to ensure the protection of profitability for our company.

Percy Panthaki: Thank you very much and all the best.

Moderator: Thank you very much. We have the next question on the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: I have a couple of questions. First of all, if the overall industry was growing, many of the dairy companies, why it made you to not pass on the prices because at the pyramid of the P&L they have grew? Secondly, when the demonetization has taken place across the industry there was cut in ad spends and everything for any of the company. Why we actually exceeded the target rate also? Third question is you have told regarding the product portfolio of whey, UHT products and farm to home product where under the brand name Pride of Cows you would bring the product. Which are the products you might come into new categories going forward?

Shirish: I will take the first part. Regarding first part, in the first quarter we had seen a bit of mute growth and therefore this Q3 contained best season for us in terms of festivals and rest of the things in place, we had in fact planned for chasing growth during that particular quarter and had prepared accordingly. Anyhow, Diwali followed by Christmas and rest of the things happening in that particular quarter, that remains a major portion of our branding activities which are centered around that particular period. So, our branding as always has been quite intensive in that period and that is what we had done in that part and I think Bharat Ji has already clarified that overall expenses for the year in terms of branding would be well within the budget.

Mahesh Israni Regarding the Pride of Cows and Farm to Home business as you know we have an established fresh milk business, which is already there. There have been two or three products which are under R&D at this stage as we talk. Some of them I can state you right now which might see the light of the day in the next couple of quarters and are fresh businesses category which is dahi and yogurt. We are also in process of coming with products while having morning breakfast which will for sure come under the Pride of Cows category which is direct farm to home business for which consumers want a really high premium like ghee is in the next product line that we are thinking.

Rahul Maheshwari: One more, in terms of, if at all, the Pride of Cows milk in the start of the con-call you had told that it has become profitable, now if at all the demand is completely utilized or the capacity utilization increases, so would you go for a major Capex under that premium milk brand?

B.M. Vyas: We have natural growth is there in the farm. According to that, we meet the consumer demand. Capex is not required immediately.

Rahul Maheshwari: What is the capacity utilization right now?

Bharat Kedia: This is a milk business, production of milk is fully utilized. There is no way we can destroy milk that has been produced. The question I think perhaps that you are trying to understand is of the total production of milk from our own cow farm how much of that is utilized for the Pride of Cows. The Pride of Cows is the main part of the utilization of that milk, as the milk production and the demand for the Pride of Cows business they are equating everyday the same. Any excess milk that is left in the farm is consumed in our product in our main core business of Parag.

Rahul Maheshwari: Okay. Thank you so much Sir.

Moderator: Thank you very much. We have the next question from the line of Dhaval Mehta from Emkay Global. Please go ahead.

Dhaval Mehta: Good evening Sir. Thanks for the opportunity. My question is on whey protein, in this quarter you have been launched whey protein for our retail segment and considering that being a niche category we ourselves need to develop the category, we are deciding that we will soften our ad spend in this quarter. So, would not it affect the category per se at the start?

Mahesh Israni: The way we are getting into this product category is from this quarter specifically I will just have about 45 days of the launch and in any of the business if you look at the way businesses are done you would first get your distribution right before you embark on the journey of doing any marketing activities behind the brand, so hopefully I will be able to do so some business in this quarter in the

40, 45 days that I have for the business. After that, whatever marketing budget that we have get accrued is what we would typically attempt to build the brand starting next quarter. A large part of the spend any which ways are going to be through my direct sales channel which is my gym trainers and let us say nutritionist and dietitians. There it is anyway question of incentivizing a person on the sales which will give me that sense. If I get a consumer from a gym trainer I would incentivize him, so that is an incidental spend which happens after I sell the product.

Dhaval Mehta: Okay. Our product size which you had mentioned, how much it is lower vis-à-vis our competitor product or any other product available on this price?

Mahesh Israni A naïve question, I mean there are two or three ways at which you look at the price in this product category and let me give you a slight one minute elaborate answer on this. If you are comparing MRPs, MRPs are comparable to any other product that are available in the market, my MRP is Rs.3200 for a 908 gram pack and for 2.2 kg pack it is Rs.7000. The way the consumer looks at it is what is my cost for scoop and even from there what is the derived protein cost for a gram for protein, in that cost of protein per gram of protein. I am 20% cheaper than the international brands which are available in the market today, that is one way of looking at it. The second is also the quality of protein that you intake what you pay for, so despite being 20% cheaper in terms of the per gram of protein that is consumed, the quality of protein consumed is very high and the primary constituent of protein is BCAA, EAA and glutamic acid. In all these three cases, glutamic acid for example is 50% better than the nearest competition. BCAA is twice than the nearest competition and on the EAA the nearest competition does not claim and I have a certain claim, so being twice and one-and-half times in terms of the amino acids which are required as a constituent of protein it brings in a far better value for the consumer for per gram of protein consumed.

Dhaval Mehta: Okay. Where I am coming from is that Sir ideally if you see, if we compare it with international players we directly have a 40% tax benefit which the international players who need to pay in terms of import duty, so considering the pricing should not it be at a more attractive level just to push the product?

Mahesh Israni: Forget MRP for a moment and this is what the consumer education from our side also will be required. The per gram price is what determines. I am already as I said 20% cheaper than the nearest competition from the international brand, that is point number one. Point number two if I look at the product per se again compared with the nearest competition, my nearest competition for example has 4% sugar, my product is sugar free and we are actually using natural sugar to sweeten the product from stevia. I mean that is the really expensive ingredient in the way you make the product and hence it is in that comparison, if I was to just put an apple to apple would be competitive value for money. I would not go and do a comparison on the price point, it is a far better value for money.

Dhaval Mehta: Okay. Sir my second question is on gross margin. If you see in Q2 of FY17, basically last quarter, our gross margin was roughly around 30.5%. In September we took a price hike of around 5% to 8%, I agree that there was a Q-o-Q inflation of 14%, but even if you see a Q-o-Q gross margin fall, which is more than 8.5% it is quite steep, so is anything apart from mix change to read out over there?

Bharat Kedia: I think we have stated in the previous conversation that there has been an increase in the raw milk price.

Dhaval Mehta: Right Sir, but we had taken a price hike in September of around 5% to 8% across our portfolio?

Bharat Kedia: The price increase that we took in Q2 was only in ghee. Across the portfolio price increase has come in Q4.

Dhaval Mehta: Okay. Are we now low on inventory in skimmed milk powder because of the higher prices which we got in the global markets or is our inventory level is same as it used to be in the previous year?

Bharat Kedia: The overall inventory level of the company is slightly higher than before for two different reasons, (a) The value of those inventory is higher due to increase in the raw milk prices and (b) The quantity of inventory is higher because we have procured more milk in this quarter and therefore the inventory levels are also higher. We do not have a quarterly data to share on product wise inventory level and overall inventory levels have gone up.

Dhaval Mehta: So this mix impact can even be felt in subsequent quarters considering that we are sitting on high inventory of SMP right?

Bharat Kedia: First of all, high inventory of SMP is not bad in a current scenario where we are. As I stated before, the price of SMP has gone up in line with the increase in the price of milk and slightly higher. So, there is no impact of the SMP. I think the price or impact of the margin that you are seeing that is primarily coming from the consumer product business where the increase of the consumer products has taken place only in Q4 whereas the raw milk prices went up already in Q2.

Dhaval Mehta: Okay, that is it from my side Sir. All the very best.

Moderator: Thank you very much. We have the next question from the line of Jubil Jain from PhillipCapital. Please go ahead.

Jubil Jain: Thank you for the opportunity. I have a few questions. First one what is the increase in other expenses which is ad spends for Q3 and nine months?

Bharat Kedia: There are three ways to this. First one is the advertisement expenditure that you just talked about yourself. The second one is the increase in selling and distribution expense, and the third one is increase in factory overheads and I will come to each one of those. The selling and distribution expenses have increased. We have a model whereby we keep increasing our distribution across pan India. This process for increasing our distribution pan India creates an incremental cost for an incremental distribution in early stage of about six to nine months till we stabilize the distributor. This process brings incremental cost to us, however, it does not bring incremental revenue or volume to us in the quarter due to the impact that we have seen of demonetization that has come to us in one week of the 13 week of the quarter and therefore the selling and distribution expenses continue to increase. We also have recently opened three more depots. These would further increase our selling and distribution expenses. These are in line with our long-term strategy of growth, however, they do **impact** on short-term quarters, in which we operate. When we come to the factory overhead, in the past we have had a spare capacity in our southern plant. This spare capacity we use for doing job work for others and temporally fill the gap. We call it as a conversion of other income. The conversion of other income has fallen flat, declined completely as we have started to utilize capacity for our own business. The market is finding it more difficult to get extra milk to give us for conversion and therefore absorption of cost across a larger volume which was being done on a daily basis and these two have impacted our cost.

Jubil Jain: Okay Sir. If we look at the nine-month FY17 growth that has been around 6% and last time when we had taken price hikes in ghee, the overall growth was also impacted. So, do you feel that the growth even in FY18 would be impacted because even now we are taking price hikes of around 8% to 9%, so would you still maintain your growth target at double digits or would you want to scale it down to say mid single digits or slightly lower number?

Bharat Kedia: We as an organization are coming out with an estimated target for projections only when the budgets are presented to the board. I think it is a little bit early for us in this quarter to have that discussion. We believe any call that we would have after April 1, 2016, we would be able to give you an indication of what is our projected growth target for that year.

Jubil Jain: Okay. Lastly, since the milk prices have increased by around 20% and it would take some time for us to take the appropriate price hikes to get the margins back to the earlier levels, do you feel that the era of 30% plus gross margins is over and now probably almost sustainable margin range would be let us say around 25% odd. Do you feel that after a few quarters, we can still go to the 30% gross margin?

Bharat Kedia: In the dairy business, the milk prices have not remained constant in its life. They keep going up and down. Obviously, in this quarter the impact is a little bit more dramatic and therefore the finanicals could not stick up, but we are used to milk prices going up and down. We cannot say that if the milk prices have gone up, we can say the era of gross margin is over. Various times it has been seen. I am certainly saying it has not been seen as dramatic as this time, but it has been seen. The gross margins have gone and come back. This is a business where when you are dealing on one end with the customer product and the other end with the raw milk prices which are dependent on very large scale farmers there will always be some gaps in some quarters and there will always be some opportunities in some quarters. If you look at the long term of this business, this business stands out very well. However, certain times in a short quarter, there are painful events and in some quarters there are very positive events too. So, I think we would not be able to say based on just one quarter performance that the gross margin era would be over.

Jubil Jain: Sir just one last question. You had not mentioned the growth rates for each particular category in milk products, but still can you give some qualitative feedback on what has been the growth in the cheese category? How it is doing and what is the future outlooks for this category because you have spoken a lot on ghee, if you can throw some more light?

Bharat Kedia: Cheese category in India is growing faster. There are a lot of aisles on the growth of cheese. We in fact are increasing as we speak our cheese production capacity from 40 metric ton to 60 metric ton. This is at the back of the continued growth in the cheese demand that we are seeing. We have also done a lot more innovation in cheese as we have come along the path. We have introduced cheese in flavors with Spice-up to try and attract consumer towards our product and create a competitive advantage. Well, once we have launched whey protein into the business in consumer category, we would have a further advantage to drive cheese further because cheese and whey composite margins are going to be far better than they are today. All of these, are actually a very positive indication of cheese business growing and continue the growth momentum for us. We do not see cheese business would have any impact for us.

Jubil Jain: In the last one year, how much would you have gained market share in cheese?

Bharat Kedia: Cheese market shares are determined once in a year. We do not really have a quarterly level data of market share. The last data that we had was at the time of an IPO, which was about eight to nine months ago. At that time, we had determined that the market share is 32%. As the year pass by, we will have a second round of understanding. We believe our market share if anything has not decreased, however we do not have data right now in our hands.

Jubil Jain: Okay, thank you Sir.

Moderator: Thank you very much. We have the next question from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Three questions. First thing was on the price increase, so you have taken an 8% price increase. Just wanted to understand it has been about month and a half, how has competition across categories reacted? Are you still waiting for them to take it up or there has been a price increase from them as well?

Bharat Kedia: Just to give you a comparison on three large product categories. In ghee for example as it was mentioned earlier in the briefing, we are close to about Rs.115 premium to our next biggest competitor and we have not seen anyone in the industry till now taking a price increase, but looking at the situation that we know about the milk business we are sure they are bound to take a price increase. Similarly in the cheese category again there are three large players, we have stuck our neck out and take a price increase both in the institutional business and in the consumer business. In the institutional business, there are figures that the competition also will take price increase because there is a pressure on the margins. Similarly in UHT, when we took the price increase in the month of January there has been a couple of big players who have also taken a price increase, it may not be to the same extent, but they have.

Harit Kapoor: Understood. On the cost front, Bharat you said that it will be a function of price increases staggered as well as focusing hard on driving cost control, so if you could just elaborate what are the thoughts on driving cost control, which lines are you looking at on that front?

Bharat Kedia: We have talked about a few of them already. (a) We have said that in the fourth quarter of this year our advertising expenditures will be brought down. It will be brought down as it was planned before because we still have a full year’s budget that we need to reach. Our expenditure in the first three quarters has been higher and therefore we are going to control it down. This is a plan, so we do not see an issue, it will automatically take care of the cost. We have discussed about the selling and distribution expenditure. We have opened a few depots in the last two quarters. Having said that, as we are now a listed company, quarters are becoming more important and is important for the long-term growth of the company and we are moving in that direction of things. In addition to that we are looking at managing capacity utilization of our production facilities especially in the southern plant. We believe with our own production and our own procurement increasing, our own production may further action in the factory overheads. In addition to that we are actually looking at a lot of administrative expenses. Going through line by line may be very difficult, but we are looking them and cutting down and stopping some of these expenses with a sharper knife, which are more discretionary in nature rather than permanent.

Harit Kapoor: The question was on the regional difference in prices on milk. So, would there have been material differences in inflation in your key market for you which is the West vis-à-vis for somebody else in the North or the South or the East, so just wanted to understand any key trends there that you are seeing which would have impacted you vis-à-vis somebody else?

Shirish: Two things were there. Number one is whatever price increase which happens in one particular region normally spreads around the country, however there might be some lag in terms of a few days, which will take the remaining area to catch up in terms of increasing prices. Obviously in our case the increase was felt post Diwali immediately and slowly it has spread to the remaining parts of the country as well, so those were few weeks which has gone by in between. The second trend which we have observed is that the increase in raw milk price was first felt in cow milk segment and then it later caught up with buffalo milk because typically winter is a flush season for buffalo milk and therefore they were waiting in terms of price increases, but once it started increasing all across it caught up with buffalo milk as well. These were only things that we have absorbed, otherwise this is a pan India phenomena. It is only a matter of few days to be **absorbed by other players**.

Harit Kapoor: Just one follow-up on that, this last season has not resulted in any correction in prices on milk?

Shirish: In fact, that is what we clarified in the beginning itself. Typically, what happens is that the festival season which normally starts from August lasts till Diwali and immediately post Diwali demand goes down and therefore the prices also move down. Also, post Diwali if you look at winter and flush season and because of flush season also there is a pressure in terms of pricing. However, this year situation took a different turn, so instead of reducing post Diwali it started increasing, so that was one particular thing which was there and that was mainly based on the fact that carry forward inventories which were available with dairies across the country were a bit lower as compared to last year, quite lower if you compare with flush inventories which was there last year, and that had an impact and also the prices shooting up also had a spillover affect in India.

Harit Kapoor: Understood. Okay that is it from me. Thanks.

Moderator: Thank you very much. We have the next question from the line of Manish Poddar from Religare Capital Markets. Please go ahead.

Manish Poddar: Can you give me actually the procurement number for nine months FY17 for both Manchar and Palamner in milliliters?

Bharat Kedia: The milk procurement has gone up by about 20%. 1.1 million liters last year to 1.2 million liters this year. This is the total All India

Manish Poddar: Can you give me the breakup for the two plants if possible?

Bharat Kedia: The breakup for the plant level distinctions we are giving annually, so in the next quarter we would be able to get that.

Manish Poddar: Okay and how much SMP share in the last year same quarter?

Bharat Kedia: In the last year same quarter it was about 4%.

Manish Poddar: You mentioned the breakup of other expenses in three parts. Is there a possibility that you could quantify this in three buckets, let us say ad spends I think you mentioned that expenses are at 3%, so how much is the impact of the other two expenses? I am just trying to understand which one is the larger part?

Bharat Kedia: Selling and distribution is the lager part for us in terms of the cost management.

Manish Poddar: So, would we have done a substantial let us say North of 20 to 25 Crores or investment up there?

Bharat Kedia: Selling and distribution expenses for our company runs between 4% and 5% of our revenue.

Manish Poddar: Okay and just to understand on this whey product, you mentioned that online is about 30% to 35% of this channel of distribution. What are the other channels of distribution for this product?

Bharat Kedia: Largely this product gets dispensed from the specific nutritional supplement outlets which are there, which specifically sell whey proteins, so that is the bulk of it and the other bit is gym trainers and gym owners in the smaller towns also sell it directly from their gyms.

Manish Poddar: These seven markets which you have targeted roughly what would be this contribution to the entire category?

Bharat Kedia: This is not a very organized category where we have data for today, so what we know is the broad market per se, but according to our estimates these seven towns will constitute close to about 35% to 40% of the total sales in the country.

Manish Poddar: Okay and is there any color which you can provide probably on the sub segment growth within the consumer business during this quarter, let us say just in pecking order which has done well and which has not done well?

Bharat Kedia: As we stated before the cheese business is doing relatively well for us and it has been growing very well. We believe with the way introduction of consumer products the way it will continue to find that momentum. The ghee business which had some set back in the first and the second quarters due to its rural demand and price increase had come back. Our impact in this quarter is largely because of the week in which almost every product other than the fresh milk had the challenge and therefore it is no longer an impact of a particular product or a particular territory, it is more of an impact of week in the quarter.

Manish Poddar: Okay, fine, that is helpful. Thanks.

Moderator: Thank you very much. We have the next question from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Thanks for the opportunity. I would basically like to know whether this 20 percent Y-o-Y increase in the milk prices was it an aberration or you have an absorbed within the past as well because it is really difficult to imagine that such kind of fluctuations takes place in the market?

Shirish: I would like to say that this is not a normal thing as we discussed. Typically, on account of flush season and also with completion of festival season, milk price goes down in this particular season, but it took a different turn this year and this kind of situation in terms of such a high increase of around 20% more within a period of two to three months is also very abnormal, but I would like to say this may happen at some point of time. What we have seen is that it happens every four or five years also when there is constraint in terms of availability of milk.

Shailesh Kumar: And Sir second thing we have been harping onto our brand, projecting ourselves as a branded player in the diary space, but suddenly from profit we have entered into a loss territory? It was completely a shocker for the investor community.

Shirish: We agree. What we have stated in the beginning itself, you have to understand two things. This is a typical business wherein 70% of the cost is coming from raw milk that is one thing and the since this is a biological product is not under our control in terms of production and it is a highly perishable commodity, so not possible for everyone to store it for a longer period of time. It becomes difficult in terms of judging the production and therefore the pricing and rest of the things which are attached to it. So, we have been stating from the beginning that in our kind of business and of the states in which we are in, it will not be prudent to evaluate our business on a quarterly basis. This has happened with us in the past three to four years and it has happened again and I am not saying this will not happen again in the future. This might happen in future as well depending on how the situation takes a turn. So what we are trying to see is that rather than looking it purely on a quarterly basis we should focus a bit on medium and longer-term basis on how the business is panning out that is one. The second thing is on the branded business itself as we have discussed and as we have also pointed out wherever it was possible we have taken the price increase. The situation was that this was an abrupt increase which started and when we were under the impression that prices are supposed to go down post Diwali, it has increased. So it was a kind of abnormal situation and we were trying to read and understand the situation and look at the sustainability of such abrupt increase and how long it will last and how much it can go. So, the quantum as well as sustainability we were not sure and we were trying to understand that. Market was also trying to take a grip of the situation and therefore it took time for us in terms of realizing that this is a sustainable thing, this is to last for this longer and we have to take countermeasures in terms of increasing prices. We later on increased the prices and as we pointed out in some of the cases where we were flexible enough to increase prices at a much higher level than what was required. So those things we have done, but we have been a bit late in terms of implementing this price increase and this was all because of the fact that this was an abnormal situation.

Shailesh Kumar: Sir I fully appreciate and understand your explanation. The only thing what I find difficult to digest is we are 80% value-added product company. Had it been a liquid milk dominated company it would have been understandable our margin is highly volatile, but when we are having high proportion of value-added product in that case if something like this happens, it really disturbs us as an investor.

Shirish: You are right, but typically what happens you also have to look at two things as we discussed. The number one is volatility which has happened in raw milk prices and whenever there is any increase in raw milk prices, the capability to pass on that increase into the market will vary depending on different categories. Be it a category like liquid milk, the lag between price increase in government (co-operatives) and the price increase that we take in the market is different. In fact it happens almost immediately, but in the case of consumer products, you are dealing into various branded customer goods and you have your own kind of distribution with three different tiers and in terms of determining the quantum and passing that on to the margin takes time. So, there is always a lag of around two to three months in terms of passing on the increase in terms of consumer products. This also we have been discussing since the beginning that in our industry this is how things work and we have been trying to grow in that manner, but as I agreed just now that we have been a bit late in this quarter because we were trying to judge the quantum and sustainability of this increase.

Shailesh Kumar: At last I would like to just give humble suggestion which I have requested from institutional investors with whom I regularly interact with and who hold a stake in the company. Quality of information which is coming from the management on a quarterly basis, I think a lot is desirable in terms of quality of better input, so that at the end of every con-call and every management interaction investor should be a bit wiser about the company, this would be more informed. Hope you will take care of it. Thanks.

Bharat Kedia: Thank you for your advice.

Moderator: Thank you very much. We have the final question from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.

Sangeeta Tripathi: Thank you for taking my question. Just coming back to the margin front, a lot of talk has been done that whether the margin will come back or not. You have also explained in your one hour conversation in Q&A that 7% to 8% price hike has already been taken and you would be taking various steps and cost rationalization efforts to bring back the margin, but are you sure that this margin will come back, I understand that Q4 we will not be able to hit on the same margin right? Is that understanding correct, despite a lot of rationalization and efforts taken on the cost front?

Bharat Kedia: Sangeeta let me put it this way. Part of the margin recovery plan has already been executed that is through the price increase. Part of the margin recovery plan is under way that is with cost management. We agree to your perspective of saying that recovering the full margin loss which has happened in this third quarter, putting that back completely in order for Q4 may be a stretched target to think; however, can it happen? Definitely, it can happen. If it does not happen in Q4, it will happen in Q1.

Sangeeta Tripathi: Okay, thanks for that and the final one on the procurement. The procurement prices in Q3 had increased by 20% on a Y-o-Y basis, so how the procurement price in the current quarter? Have we seen any further hike or it is stable? What is the situation in the procurement price now?

B.M. Vyas: I think the procurement prices are very close to peak. I cannot say strictly that it is past the peak or near peak, but I can say that it is around the peak, so even if it goes up, it will go up by about a rupee or so. The chances of coming down are zero. If at all it may go up by one rupee maximum and then it may remain around so for the next three months or so.

Sangeeta Tripathi: Okay. Finally just one understanding on the ad, you said that you will bring down the target percentage to ad will always come down obviously because in the first three quarters you have already stretched your limits, but with whey protein being launched as a new category, do you think it is advisable at this point in time to bring down the add from a category perspective from building a category?

Mahesh Israni: There are two parts to this answer. One is I think when Bharat mentioned saying that we have scaled down our spends on ALSP. I think A is planned. It is planned that you have the highest peak in Q3 and in Q4 typically we go lull, when I say lull it is not zero. It is substantially reduced. Having said that, the whey obviously is a new brand in my portfolio. To answer your earlier question, the answer remains the same. There are two things. First, I have a 45-day window to get by distribution right before I embark money in the marketing spend around the product category. That is point number one and point number two is in this category bulk of the spends are going to be on the BTL and not on the ATL. So do I have very high spend plan on the product category of Avvatar, no. BTL happens as and when you sell, so it is going to be philosophy of sell first, approve those markets for your sales, and then go and spend it later. A 45-day window is very small in terms of saying will it impact the brand in terms of brand creation, it will go into getting the system right and then we will go on a journey of marketing.

Sangeeta Tripathi: True. Fair enough, I understand. Thank you.

Moderator: Thank you very much. I now hand the conference over to Mr. Aniruddha Joshi for closing comments.

Aniruddha Joshi: Thanks. On behalf of ICICI securities, we thank all participants for being on the call as well as we thank the entire management team of Parag Milk Foods for being on the call and allowing ICICI Securities to host the con-call. Now I hand over to Mr. Devendra Shah for his closing comments. Thanks and over to you Sir.

Devendra Shah: Thank you very much for all of you in participating in this call. We know that this quarter had been difficult for this organization and we understand the patience you as investors have kept with us. We believe with the time coming in, it will heal and we will be back into the place where we are. With this confidence, we move forward and get into the business back. Thank you very much.

Moderator: On behalf of ICICI Securities and Parag Milk Foods that concludes this conference. Thank you for joining us. You may now disconnect your lines.