"Parag Milk Foods Limited Q4 FY2019 Earnings Conference Call"

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MANAGEMENT:	**MR. DEVENDRA SHAH - CHAIRMAN - PARAG MILK FOODS LIMITED** **MR. VIMAL AGARWAL – CHIEF FINANCIAL OFFICER - PARAG MILK FOODS LIMITED** **MS. AKSHALI SHAH – VICE PRESIDENT – STRATEGY (MARKETING & SALES) - PARAG MILK FOODS LIMITED** **MR. AMARENDRA SATHE – CHIEF COMMERCIAL OFFICER - PARAG MILK FOODS LIMITED** **MR. SHIRISH UPADHYAY – ADVISOR - PARAG MILK FOODS LIMITED** **MS. NATASHA KEDIA - HEAD INVESTOR RELATIONS - PARAG MILK FOODS LIMITED** **MR. DEEPAK JAIN – FINANCE - PARAG MILK FOODS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Parag Milk Foods Limited Q4 FY2019 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Natasha Kedia, Head Investor Relations. Thank you, and over to you, madam!

Natasha Kedia: Welcome to Parag Milk Foods Limited Q4 FY2019 Earnings Call. Let me begin by introducing the management participants for today's call. We have with us our Chairman, Mr. Devendra Shah; Mr. Vimal Agarwal, our CFO; Ms. Akshali Shah, VP, Strategy, Marketing and Sales; Mr. Amarendra Sathe, Chief Commercial Officer; Mr. Shirish Upadhyay, Advisor to the company; Mr. Deepak Jain from the Finance team; myself, Natasha Kedia; and our Investor Relations advisors, SGA. I hope all of you were able to go through the Financial Results and the Investor Presentation that is uploaded on the stock exchange as well as our company website.

I would like to now provide you with some recent updates on the company. In the quarter gone by, we have launched a new variant under the Avvatar brand called 'Isorich', which is 100% whey protein isolate. Each scoop of this product contains 29 grams of protein, which is one of the highest in this category. Avvatar Isorich is ideal for people who have a high protein need, but are low on their carbohydrate requirement. Given that the product comprises largely whey protein isolates, it gets rapidly absorbed in the digestive tract, which allows for the quick delivery of protein. The product is available in packs of 2.2 pounds and 4.4 pounds in chocolate and cardamom flavors. With this launch we have completed the range of products of whey protein powder under the Avvatar brand.

As you all know, each region in India is different when it comes to consumer taste and preferences. To address this, we have now launched Gowardhan Swarna Ghee, which is a sub-brand of Gowardhan Ghee and especially designed for the southern region. The product is different in terms of its packaging, method of preparation and aroma, all of which are specifically catered for this region. The southern region of India is the largest market for Ghee consumption followed by the northern region, which is why the introduction of Swarna will increase our presence in the five southern states. The product will be available in packs of 1 kg, 500 grams and 200 grams with a shelf life of 12 months and is manufactured at our Palamaner plant in Andhra Pradesh.

In order to penetrate the ready-to-eat Indian Desserts consumption market and capitalize on the "Gowardhan" brand, the company has also ventured into the Indian sweets category. We have launched 2 new products, Gulab Jamun and Rasgulla made from pure ghee and cow milk. The Indian sweets market is approximately Rs. 7,000 Crores to Rs. 8,000 Crores in size and while we have introduced these two products in a measured way, we plan to gradually scale up their presence across India.

In addition, we have introduced our premium milk brand, Pride of Cows in the Delhi / NCR region. With the objective of providing farm-fresh experience for the consumers in Delhi NCR, the company is airlifting the milk from our dairy farm located in Manchar near Pune. The milk is available on a subscription basis and is priced at Rs.120 per liter or per bottle. We have introduced this service in South Delhi and Gurgaon and will soon expand to the entire Delhi NCR region.

Let me now take you through some of our key marketing campaigns for the quarter. We continued our radio campaign for Gowardhan milk in Delhi NCR after it was first introduced in Q3 FY2019. The purpose of the campaign was to increase consumer awareness of the benefits of cow milk as well as increased brand awareness. The campaign ran across all popular radio channels in the country. A full-fledged TV campaign was carried out for Gowardhan Paneer on one of the most popular news channels, Aaj Tak highlighting the importance of paneer as a daily face of protein. We also conducted a print media campaign for Gowardhan Paneer in Navbharat Times and Loksatta in popular cities like Pune and Delhi. In order to expand our reach in the north and east regions of India, we ran outdoor media campaigns in several towns and cities of those regions. Products such as Gowardhan Ghee and Go UHT milk were the major products that were promoted. We ran several campaigns for Pride of Cows in digital platforms during festivals like Gudi Padwa and Easter as well. We continue to invest in building our whey protein brand Avvatar, which we regularly promote on several digital and social media platforms.

Let me now hand over the call to Mr. Devendra Shah, Chairman of our company to share his thoughts on the current business, which will be followed by an update of financials and Q&A from our participants. Over to you Sir.

Devendra Shah: Good evening and warm welcome to everyone on the call. I am happy to inform you that we have delivered as per our commitment. The Parag team had made a commitment and we have worked hard to deliver the performance for this financial year. On the back of this robust performance, we are well on course to achieve our vision 2020, which is we had outlined in our analyst meet to achieve topline of Rs. 2,700 -3000 Crores, EBITDA margin of 11% -12% and an ROCE of 18% -20%. As of FY2019, we have achieved full year revenue of Rs. 2,396 Crores, which signifies a growth of 23%, full year PAT of Rs. 120.7 Crores, which signifies a growth of 39%; and ROCE of 17.6%.

Talking about the overall industry landscape, in the recent times we are seeing a lot of activity in the Dairy space where large Indian companies as well as MNCs are evaluating to invest into the Indian dairy space or have already done it. Earlier the industry was dominated by the cooperative players; however, the landscape is fast evolving and is witnessing a shift as many new players are finding this space attractive and lucrative. We believe that this is a good sign and will help expanding the organized segment as well as keeping the growth moment at healthy levels.

It is a general belief that when milk prices are subdued all organized dairy players should benefit. However, this has an impact on the procurement of milk as the farmer incomes are affected and they are discouraged to make investments in adding cattle or increasing animal productivity. On the other end, there is an inflow of many unorganized players who enter the market with throw-away pricing when they find an opportunity in the form of low milk prices. Such a behavior of market participants, although temporary in nature, tends to disrupt the market dynamics and make organized players tweak their strategy.

Having said that, the ongoing year looks well balanced with limited milk availability in few parts of the country coupled with lower inventories, keeping the raw milk prices firm through the year. A good monsoon shall also play a beneficial role in keeping farmers happy.

Now I will take you through some of our key achievements during this year. As Natasha mentioned earlier, we had launched the Avvatar brand last year. This product is a niche product and requires a very specific route or channel for its sales & distribution. Over the course of the year, we have worked to establish a strong sales team and have developed a strategy for increasing our presence across all distribution channels. We have penetrated close to 21 states of India and have managed to establish Avvatar as well-accepted product with a strong brand re-call. We have also launched a protein-based consumer product for mass consumption, Go Protein Power. This product has one of the highest protein content amongst similar products and is currently available in 1,500+ outlets across Mumbai. We are planning to launch this in other markets soon.

The work we are doing towards building brands like Avvatar & Go Protein powder will help us expand our health and nutrition portfolio to 6-7% of our total portfolio in the next two years.

As you are all aware, last year we made a strategic acquisition of Danone’s plant, in the north region at Sonipat, which is now running at optimum utilization. We have started the supply of the fresh products such as liquid milk, cup curd, pouch curd from the Sonipat plant to the Delhi / NCR regions. This facility allows us to be closer to the local market and allows us to provide fresher and a larger variety of product offerings.

Moving on to our distribution initiatives, this has been the largest focus area for us in FY19. We have expanded our overall retail presence from 2.5 lakh outlets in FY18 to 3.75 lakh outlets as on date. This was achieved due to our efforts to expand our presence in the Northern and Eastern parts of India.

We have developed a unique TOC model based on which we will be able to increase our retail presence and expand the range of our products across existing retail outlets. This has progressed well and we have covered major parts of Mumbai. Through this model, we have almost doubled our retail presence in Mumbai and have witnessed a significant improvement in sales from this geography. We have also started ground-work in the Delhi/NCR region in terms of mapping the retail outlets and we plan to roll this out in Delhi post implementation in Mumbai.

We have introduced our Premium milk brand Pride of Cows in the Delhi / NCR region. At our Bhagyalakshmi Dairy Farm, the number of cows is organically increasing at a significant pace every year. With this increase in production, we can reach out to more households across the country. Going forward, we aim to almost double the Pride of Cows revenue over the next two years and we are planning to expand the product portfolio by introducing new variants under the Pride of Cows brand. To meet these growing demands, we are also looking at expanding the farm further. Milk procurement is another area where the company continues to remain strong. We have built healthy relationships with the farmers over the last 2 decades. We are currently in the process of a setting up milk procurement network in the northern region to cater to our Sonipat plant.

On the Brands front, in key categories such as cheese, ghee and paneer, our products continue to have a strong brand re-call. As we had mentioned in our last quarterly call, marketing spends are increasing on account of a heightened focus on brand building initiatives through investments in ATL and BTL activities. Hence, going ahead we expect our A&P spends to account for 3-3.5% of overall sales.

Finally, I would like to say that we have taken a lot of new initiatives during this year which will bode well for us in the coming years. The dairy industry in India provides a great opportunity for growth and Parag is best positioned to benefit from the same.

Now I would request Mr. Vimal Agarwal, our CFO to discuss our financial performance for Quarter and year ended 31st March 2019.

Vimal Agarwal: Thank you, Devendra bhai. Good evening, ladies and gentlemen. I will discuss the financial performance for the year ended March 31, 2019. Consolidated revenue from operations for FY19 reported a growth of 23% Y-o-Y to Rs. 23,957 million as compared to Rs. 19,545 million in FY18. The growth was driven by increase in revenue from milk products by 24% Y-o-Y to Rs. 15,846 million. The share of milk product for FY19 is 66.1% of total revenue while the liquid milk it was 17.7% and the same for skim milk powder was 14.3%.

Gross profit for FY19 recorded a growth of 26% Y-o-Y to Rs. 7,383 million as compared to Rs. 5,866 million in FY18.Gross profit margins improved by 80 bps Y-o-Y to 30.8% as compared to 30.0% in FY2018.

EBITDA for FY19 grew by 16% Y-o-Y to Rs. 2,235 million as compared to Rs. 1,933 million in FY18. EBITDA margin for FY19 stood at 9.3% after making robust investments in talent acquisition and development, sales and distribution, marketing spends and futuristic infra investments to improve reach and range.

PAT for FY19 recorded a robust growth of 39% to Rs. 1,207 million as compared to Rs.871 million in FY18. The PAT margin further improved from 4.5% in FY18 to 5% in FY19.

EBITDA percentage for the quarter was at 6.5%. The drop in EBITDA margin is temporary and will be restricted to this quarter. The same is driven by 2 key factors like lower gross margins by 240 bps primarily driven by higher SMP sales at 19% versus 14% in Q4FY18 and also the lag effect in passing on the increased milk prices to the trade. Secondly, other expenses have increased due to increased marketing expense, higher variable expenses driven by volume growth and onetime provisioning for Government PSI Scheme and incremental ECL provisioning. We are confident that the long-term trends on profitability will stay intact in the quarters to come.

On the balance sheet side, we have improved the overall working capital cycle and the same is now at 68 days in FY19 from 72 days in FY18. This improvement is largely driven by higher throughput and much stronger discipline followed across all working capital components.

The debt has come down to Rs. 2,144 million as on March 2019 as compared to Rs. 2,637 million in March 2018. With this, debt-to-equity ratio is at 0.26 times vis-à-vis 0.37 times in the previous year. The overall focus on working capital improvement and enhanced operating performance has also led to higher ROCE, which stands at 17.6% in FY19. We also reported a free cash flow of 640 million as on March 31, 2019. Additionally, we have received 250 million in April 2019 related to milk subsidy, which was announced by the Maharashtra government earlier. That is all from our side and now we can open the floor for 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 Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Two questions. One is which are the areas where we can highlight the investment that happened over last one year via P&L and if you could quantify the amount that you have overinvested in the near term, but will over a period of time rationalize and that is why the EBITDA guidance was still around 11-12%, which you are confident of?

Vimal Agarwal: Nitin, can you repeat the second part once again?

Nitin Gosar: What is giving the management confidence of 11-12% kind of EBITDA margin right now the delivery is around 9.5, so which are the cost areas, which you believe can rationalize over a period of time?

Vimal Agarwal: Yes, on full year this year, we are at about 9.3% EBITDA margins and there are two key levers on which we have made investments in the past and we will continue to see those investments in the next few quarters as well. One is more topline focused, which is our investments on building the brands and that is the reason Devendra bhai highlighted earlier and talked about making substantial investment in brand building and therefore bringing consumer affinity to the brands. The second one, which is critical, is the investments or the intervention we plan to make at the middle of the P&L i.e. the cost lines. Just to take an example, other expenses right now are looking pretty high and that is temporary, which means that you will have to make those interventions upfront. In Maharashtra the total per unit cost of power today stands at about Rs.7.70 per unit, we are right now doing two collaborations through SPVs, whereby in another six to eight months' time we should be able to generate power through captive or group captive and we expect the power cost to drop by almost 35% in Maharashtra. Similarly, packaging material, right now, we buy it from a vendor, which means that he is making money on conversion as well as the profitability of all the investments he has done. We are expanding ourselves to ensure that we move to conversion model. These two things are coupled with a lot of cost efficiency programs, which we are running and that should give us good upsides to deliver EBITDA upwards of 10.5%-11%. During the year we have made significant investments across cost lines, but two investments which I would like to call out are as follows. First is our expansion across India. Earlier we were more West and south focused about one, one-and-a-half years back, we had made this conscious call that we will develop our infrastructure Pan India. Today we have got 19 depots, we are opening up few more depots in the next couple of months, which means that we are investing and developing the infrastructure. We are making investments and ensuring that our third party transporters have got good quality vehicles so that our Cold Chain is absolutely of high quality. The second one, is the investments we have done in the talent that the company has. About two years back, the number of people which we had, has undergone a change that means that we have invested in paying out fixed component to some extent, but variable component to a very large extent. This has been done so that you can set up a good base and you can develop an internal talent pipeline where you do not have to hire people from outside at a higher level. So these two are the key ones, which we have done in the last two years. Nitin does it answer your question, or you want me to add anything?

Nitin Gosar: Yes. With Vector program, where are we in terms of the journey, how much we have squeezed out in terms of working capital, how much more can be still brought under control on working capital? There is some ground-level feedback, where there is still a disconnect between what they recommend and what actually gets implemented maybe because of sales pressure or something. But where are we in terms of journey, how long do you see the disconnect can persist?

Akshali Shah: On the Theory of Constraints (TOC) or the Vector program, we started the entire program and set up new norms firstly at the plant level and then at the 19 depots that we have. This has helped us improve availability of our products across all locations. Thereafter, we set up a pilot which we did a year back in Mumbai city and currently we have finished the rolling out of this program in the city. This has helped us in adding more retail shops and our range has expanded along with inventory going down at the depot level. Plus, we have also set up norms at the distributor level, which has decreased their working capital as well.

Nitin Gosar: Great and where do you see this working capital now stabilizing, right now, inventory days around 71, debtor days around 43, where do you see this number now stabilizing?

Vimal Agarwal: So overall, our inventory days have gone down from 82 days in FY18 to 71 days in FY19, I think that we should continue to see a similar improvement in the next few quarters as well. While the depots are largely done, there are opportunities on the back-end side and if you can get the recipient, the overall production process right, we will see some improvement there as well.

Akshali Shah: But you will also have to consider the fact that a large portion, more than almost 50% of our cheese business is coming from QSR where most of the out-of-home cheese consumption is happening. There is a requirement of working capital, but yes, we have started the journey of improvement. So yes, we have been getting better over time.

Nitin Gosar: Okay. So next year, we should be seeing further 5 to 10 days improvement in this working capital?

Vimal Agarwal: We should see an improvement for sure.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Congratulations for a better year. Just on the volume growth side and the volume of milk processed for FY19, if you could give some colour?

Vimal Agarwal: In terms of milk processing, we should be about 14 to 15 lakh litres per day in FY19.

Pritesh Chheda: And what is the volume growth?

Vimal Agarwal: Volume growth is closer to 25% on a full year basis.

Pritesh Chheda: Secondly, you gave some comments on the other expenditure line. Just wanted to know, there is this onetime provision for government schemes if you could quantify and if you tell us which heads went up as a percentage of sales?

Vimal Agarwal: Yes. Couple of points here. On the overall other expenses and this is similar to the commentary or the discussion we had in the last quarter earning call as well. In terms of the one-offs, in the year 2017, when GST had got rolled out, we had assumed and a lot of other companies had also assumed similar things, that the VAT components and the earlier way of getting the money will continue, which means that the SGST as well as CGST component will be counted to arrive at the figure, which needs to be refunded to the company. There is lack of clarification and we expect that it will come in maybe in the next quarter or maybe this quarter itself whereby we had assumed that the CGST portion of 2017 will be refunded. However, given the lack of clarity in all of this, we have gone ahead and reversed that receivable in our books.

Pritesh Chheda: What will be the amount related to this?

Vimal Agarwal: It should be about Rs. 6-7 Crores roughly.

Pritesh Chheda: It will come in Q4 itself?

Vimal Agarwal: Yes, it is a onetime. Then there are other incremental provisions across line items, which we have taken in Q4 is about Rs. 8-9 Crores which again should not come in from Q1. The second one is our marketing expenses. As Devendra bhai was saying earlier, usually, the guidance till previous year, our intent was to keep the marketing expense closer to 2.5-3%. That number we expect to be higher and that is how it has been in Q3 & Q4 of FY19 where the full year number is about 3.5%. We expect that number to continue in FY20 as well. The third point is really the other expenses, a lot of this is variable and as your volume moves, the other expense also grows.

Pritesh Chheda: Sir, just to clarify, one-off in the quarter was Rs. 9 Crores plus Rs. 7 Crores, which is Rs. 16 Crores?

Vimal Agarwal: Right, yes.

Pritesh Chheda: If you could just give what is the capex spend for FY19 and what it will be for FY20?

Vimal Agarwal: FY20 and FY21, we expect it to be closer to 2% to 2.5% of our revenues, which is about Rs. 60 Crores or Rs. 65 Crores per year. This year our total capex was about Rs. 80 Crores. This has largely got three important components, first is the IPO money which was around Rs. 30 crores which we have now fully invested, second was the Danone plant which had costed us around Rs. 22-23 crores including the expansions that we have done at the plant and the remaining is the maintenance capex or compliance capex.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: Congratulations team. Very good set of numbers. Two questions. So one got answered in the previous question relating to the one-offs in the other expenses line. Could you also explain what is happened on the tax line because the tax provision seems to be quite low and second question I had was that part of the margin weakness that we saw in Q4 seems to be coming, one, from SMP; and second seems to be coming from Bhagyalaxmi Farms, where the margins have dropped significantly and that I am assuming is happening because you are airlifting the products from Pune to Delhi. Is there any plan to sell Pride of Cows from the Sonipat plant or set up another farm close by to Delhi because otherwise the Bhagyalaxmi Farm margins will continue to look poor or how do you think about it?

Vimal Agarwal: Let me just request Akshali to respond on the Bhagyalaxmi one and then I will take the balance question.

Akshali Shah: The overall margin in Q4 is not coming down because of the airlifting because if you see, we are charging the customer for that. same. The price per bottle in Mumbai is Rs.90 while the same in Delhi is Rs. 120. Also the entire concept of farm to home is something that the Pride of Cows stands for, so we do not see any setup that will come in from Sonipat. Nowadays with logistics becoming efficient and easily doable, we will continue to send Pride of Cows from our own farm across the country.

Vimal Agarwal: Second, coming to your point on the gross margins, I will call out some numbers and then we can talk in detail. Gross margins for Q4FY19 was 29.6% versus our previous quarter margin closer to 32.2%, so there is a gap of about 2.5% broadly. Now this 2.5% has got two key aspects. One is SMP sales, which is higher than average and where our gross margins are lower than the reported company level gross margins. That impact is about 1.5% because the SMP mix is about 19%-% of sales in the quarter. The balance 1%, is on account of milk prices going up. We have started doing the corrections on trade at the channel levels, but we have not seen the full impact of that. Having said that, as we get into the April month, all those impacts have been fully baked in and therefore my sense is that you will not see the margin dip on account of milk price not being passed on to the trade. So far as the tax rate is concerned, see, the effective tax rate last year as well as this year is about 23-24%. The only additional part is that there were few provisions we had created in the past and in this quarter the assessments of those years have got completed where we have got a write-back based on those assessment orders. This, along with whatever deferred tax has been created, is bringing down the tax rate for this year. Having said that, we expect the tax rate again to be closer to 24%-25% in the coming years or FY20 and the subsequent year.

Aswini Agarwal: So just thinking through this, if bulk of the 250 basis points of contraction in gross margin is temporary and the middle of the P&L work that you will do through 2020 fiscal year, we should be back at EBITDA margins of close to whatever 10%, 10.5%, 11%, somewhere there and with the tax rate being normalized for the full year your net margins in the current financial year should still be well in excess of 5% would that be right?

Vimal Agarwal: Yes, Ashwini, that is correct, very well articulated.

Aswini Agarwal: Okay. Thank you so much. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: Team, this is Percy here. Sir, the SMP sales have really increased this quarter, in rupee terms Y-o-Y the increase would have been like around Rs. 50 Crores and if I see your inventory in the balance sheet September versus March, it has gone up Rs. 67 Crores. So in spite of a lot of inventory of SMP being liquidated, the inventory on the last six months basis off Rs.67 Crores, so if I adjust for actually the SMP sales, the inventory is up like close to Rs. 120 Crores or Rs. 110 Crores, so just wanted to understand the reason for this move.

Shirish Upadhyay: Yes, very good question and in fact we have been trying to clarify this since last many quarters, that ours is a typical business where there is some element of seasonality involved. Therefore, this may not be the right company to monitor performance on quarter-on-quarter basis and expect every quarter to deliver a similar kind of performance. The best way to look at this kind of company is to look at the annualized performance, which is being projected and against that what is being delivered. Just to explain to you, SMP is part of the commodity business and typically if you look at the seasonality which is involved, SMP gets manufactured during flush season and the stock is being carried forward to lean season or some of that gets liquidated by end of last quarter depending on market situation. Hence, it is fully an opportunistic business. So, it all depends what is the market situation and how good the conditions based on that liquidation happens. Secondly, coming to the point of inventory levels, comparing inventory level of September with March would also not be the right way to measure because September is typically festival season wherein milk availability is lower however, the sales are much higher into the market and therefore lot of liquidation of inventories happen during that particular season. Typically, March is the season where you try to hold more inventory to carry forward during the summer and festival season for next year and therefore the right way to look at inventory movement is March-on-March and how inventory has progressed.

Percy Panthaki: Yes, I understand, Sir. I was just saying that the amount, the quantum looked a little high. Moving on to the next question. Sir just wanted to understand this launch of a different ghee brand for South India why do we need a different brand, why can we just not use Gowardhan to go into South India?

Amarendra Sathe: See, it is Gowardhan only. The sub-brand name is Swarna. South Indian's have a different taste palette and they typically require high aroma and high granular products. So, we were selling our own brand for many years, and the response from South consumer was they wanted to have a typical south Indian flavored ghee. Moreover, as you are aware, South Indian people love their own languages. So, we have put in all the South Indian languages also on the pack. Basically the new product is for the aroma and the taste. So, it is a little different from our regular product.

Percy Panthaki: What is the price point, Sir for this?

Amarendra Sathe: At premium, it is around Rs.605 for a 1 litre jar.

Percy Panthaki: Okay. So it is slightly higher than Gowardhan?

Amarendra Sathe: Yes, it is higher than the regular product.

Moderator: The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Sir, you mentioned that there was Rs. 6 Crores to Rs. 7 Crores one-off on account of receivable write-off pertaining to PSI scheme, so what was the balance Rs. 8 Crores to Rs. 9 Crores, is it possible to clarify?

Vimal Agarwal: So, the major portion of this will be the ECL method of accounting where we will need to look at receivables and if there is anything to be provided for, that we go ahead and provide that will be the major portion.

Bhargav Buddhadev: Secondly, Sir, is it possible to know what has been the Y-o-Y revenue growth across paneer, ghee and cheese?

Akshali Shah: We do not give product wise breakup.

Bhargav Buddhadev: And lastly, is it possible to know what is the sale of Avvatar and how is the response over there?

Vimal Agarwal: Let me tell you the overall health and nutrition segment numbers. Last year we had started off, but we had exited at a revenue mix of about 2.5%, that mix is now upwards of 3.5% and this includes Avvatar. We have seen Avvatar progressing on a month-on-month basis because of newer variance and addition of new geographies. We are closer to our target of exiting Avvatar with a run rate of about Rs 4-5 Crores per month in FY20.

Bhargav Buddhadev: Thank you very much for the clarification.

Moderator: Thank you very much. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir what are the outstanding from the government both on the raw milk subsidy side and on the PSI incentive side?

Vimal Agarwal: See, when we had started the year, we had an outstanding of about Rs. 62 Crores from the government on account of PSI incentive. This includes a smaller portion of export as well. On March 31, 2019, the Rs. 62 Crores had come down to Rs. 52 Crores that is one part. Second is milk subsidy outstanding as on March 31, 2019 was about Rs. 40 Crores. Majority of that, we have received in April. So possibly we would have got everything by now. In April we had received I think about Rs. 25 Crores.

Jasdeep Walia: And Sir the government subsidy scheme is still on or has it been stopped on the raw milk side?

Vimal Agarwal: It has been on and off for the last three to four months. Till 31st January, 2019 it was Rs.5 per litre, February there was a lot of confusion and hence farmers were not paid anything. March, they came out with a subsidy scheme with 40% reduction which was Rs.3 per litre. As we speak we do not have any clarity. The scheme seems to have been taken off.

Jasdeep Walia: Okay got it. Thank you Sir. That is all from my side.

Moderator: Thank you very much. The next question is from the line of Amish Kanani from JM Financial Limited. Please go ahead.

Amish Kanani: Congrats on a good set of numbers as well as improvement in the cash flow. Sir, my question is on the SMP part, which we have sold. Is it sold in the export market and we have received some incentives.? The second is on the whey protein, if you can give us some color on your 3-year plan, what kind of market share vis-à-vis the total market and some stuff like that?

Vimal Agarwal: Yes. First is SMP exports, there were subsidies, which were available till mid-January so we were able to export Milk powders and get the subsidy benefit. So, it is part of the Q4 financials. Whey protein per se, our guidance is to touch health and nutrition turnover of about 6-7 by FY2021. So, we will want to stay with that guidance at an overall level.

Amish Kanani: Okay, thanks and all the best.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, you mentioned that Rs. 62 Crores was the PSI incentive, which was outstanding from government at the start of the year, which has come down to Rs. 52 Crores now by the end of the year. What was the PSI incentive accounted for the entire FY19, so that would have added to the last year Rs. 62 Crores and now Rs. 52 Crores is the outstanding, so you must have received during the year also?

Vimal Agarwal: Out of Rs. 62 Crores which was the opening balance, we received around Rs. 30 Crores during the year. We have accrued another Rs. 20 Crores during the year. So the closing balance is close to Rs. 52 Crores.

Bhavin Chheda: Okay. You have accrued Rs. 20 Crores for the year. So this Rs. 20 Crores for the year is net of 9 Crores, I think, what you said is that reversed during the quarter?

Vimal Agarwal: That has been shown separately. It is not part of it.

Bhavin Chheda: Sure and now what annual run rate of PSI we should expect?

Vimal Agarwal: Yes, anywhere between Rs. 20 Crores and Rs. 25 Crores.

Bhavin Chheda: The milk procurement number I missed. If you have shared for the quarter and for the year, what is the run rate currently in terms of milk procurement and milk processing if you are giving separately.

Vimal Agarwal: Milk procurement average for the year was around 14 -15 lakh liters on a daily basis.

Bhavin Chheda: Okay, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: My first question is on milk price increases that had happened in March and April. Could you just give us the quantum of the price increase as compared to Q4 of last year? What are the steps we taken to offset this milk price increase? Similarly, do you think Q1 and Q2 of this year could be a bit soft because of maybe a bit of time lag to pass on or would you say that would not be a problem?

Shirish Upadhyay: Yes. let me split the response in two parts. The quantum of increase that was there in Q4 was roughly around Rs.1-Rs.1.5 per liter. As Vimal had explained earlier, there were some lag in terms of passing on that increase; however, that has been covered now. In terms of going forward, as Mr. Shah mentioned in his speech as well, last year milk price was quite low and further there were subsidies as well in few parts and therefore the realization of farmers were down. Now, there is lower availability of milk, which is being seen and therefore the overall milk pricing seems to firmed up. We see some further increase and milk price stabilizing somewhere around Rs. 26 to Rs. 27 a litre on an annualized basis. We already captured that in terms of the price working and as the increase happens, accordingly, the steps will be taken to pass it on into the market.

Akshay Bhor: Understood. Second question on working capital. You have seen some marginal improvement this year, what will be the levers that you could tap into to drive further improvement that you are talking about?

Vimal Agarwal: More specifically Akshali in the beginning of the call talked about the Vector norms and all. My feel is that we will continue to see upside on account of Vector, so far as back-end production process and depot inventory is concerned. Secondly, TOC model is still getting expanded, We have majorly completed the scale up in Mumbai and execution should be done by end of May or beginning of June. We should see that upside on the receivables to some extent. Further, data analytics, where you look at the data as to what all can be optimized and where all can we reduce the overall holdings or improve the cash conversion cycle. So these things are the key action points, apart from the revenue leverage we should get on working capital.

Moderator: Sorry to interrupt you, Mr. Bhor. I request you to come back in the question queue. Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Going forward, what kind of SMP liquidation do you see at your company level and if you can just give some industry perspective as well?

Shirish Upadhyay: See SMP inventory for us has gone down a bit if you compare with last year. However, as we were discussing earlier, since this being a commodity business and completely an opportunistic business, it is very difficult to predict the seasonality and arrive at some figure. Typically, we hold almost around four months kind of inventory on a normalized basis.

Pragya Vishwakarma: Particularly, this quarter, we were impacted because of higher SMP sales, but do you see it going forward as well that we will be more opportunistic and selling more of SMP in the coming few quarters?

Shirish Upadhyay: So let me again clarify what we were discussing earlier as well. See, SMP remains almost 13%, 14% of our total business and it remains in that range only, we are trying to bring it down as far as possible. This is a business, which is not done on a quarter-to-quarter basis. It all depends how is the season and what are the opportunities available and therefore we do not see any possibility of higher liquidation, say in Q1, but it may happen later on. So, it is all depends on the market situation.

Pragya Vishwakarma: Okay. Just a follow up on that. Earlier in one of the concalls we indicated we are doing some customizing for Nestlé and alike, which is probably higher value-added kind of a product in SMP category so where are we on that and how big is that in overall scheme when we see just the SMP?

Shirish Upadhyay: We are working on that only and that is the way going forward for us. Currently, around 60% of our total SMP business comes from customized products for MNCs like Abbott or Nestlé or Unilever or Mondelez. So, these are the major customers to whom we provide customized products as per their requirement and that is the bulk of our business as of now as well.

Pragya Vishwakarma: Okay, great. Thanks, that is it from my end.

Moderator: Thank you very much. The next question is from the line of Shailesh Kumar from Sunidhi Securities & Finance Ltd. Please go ahead.

Shailesh Kumar: Thanks for the opportunity. I just want to know, I mean, what kind of average procurement we are expecting for FY20?

Shirish Upadhyay: Yes. We are looking at increasing procurement by roughly around 6%-7% over the current year.

Shailesh Kumar: Okay. And in Q4 your depreciation and amortization numbers have gone down significantly. I mean if you could throw some light on that?

Vimal Agarwal: So that is a onetime correction based on the auditors calculation, but you may want to stay with the full year number and that is how the trend will also continue.

Shailesh Kumar: Okay, thanks.

Moderator: Thank you. The next question is from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.

Sangeeta Tripathi: Thanks for giving me the opportunity. I would just like to understand what was the average milk procurement price, and at what price did we exit the year?

Shirish Upadhyay: Milk procurement price average was around Rs. 24 to Rs. 25 litre for the entire year.

Sangeeta Tripathi: And our exit price?

Shirish Upadhyay: It is very difficult in terms of computing exit price because we have different geographies and we also have a mix of commodities as well as fresh milk. So providing a specific exit price would be difficult.

Sangeeta Tripathi: But you said that there is further chance of increase in the prices. The milk procurement price is likely to increase and it should settle at the range of around Rs. 26 to Rs.27 a litre?

Shirish Upadhyay: Right, yes. That is annualized for the next year.

Sangeeta Tripathi: Okay. So this is for the entire year FY20 you are talking of?

Devendra Shah: Yes.

Sangeeta Tripathi: Another thing is like, we have been seeing, I mean, the company is doing phenomenally well. Everything is happening the right way as per what we have planned on, so why there has been increase in the pledging of the stock from the promoter level, if I look at the pledging that has increased almost 14% to 21.5%, so what has been the reason for the same, if you can throw some light on this?

Vimal Agarwal: It was largely to have the arbitrage and the interest. That is why we changed and moved from one financial institution to the other one, because the arbitrage and the rate which we got, and that is largely driven by promoter's actions and last time when they have taken the loan in fact the overall promoter shareholding was also increased.

Sangeeta Tripathi: Sorry, sir, can you just repeat? It was not clear for me why we have increased it?

Shirish Upadhyay: Sangeeta, the promoters have just changed the financing institution, which relates to some change in the number and also the interest rate is lower than the previous financial institution.

Sangeeta Tripathi: Okay, okay. We have changed so the haircut has been higher?

Vimal Agarwal: Yes.

Moderator: Ladies and gentlemen, due to time constraints, we will take the last question from the line of Mehul Mehta from SPA Securities Limited. Please go ahead.

Mehul Mehta: Thanks for taking my question. Can you please share revenue contribution from Danone plant for the quarter and for the year as a whole?

Vimal Agarwal: See, overall, as per the last discussion which we had, we had said that we will see a contribution of about Rs. 90 Crores to Rs. 100 Crores from Danone plant and right now the performance or the response from Delhi our market has been pretty good, but we expect to exit this year with a run rate of about Rs. 7 Crores to Rs. 8 Crores per Month.

Mehul Mehta: 7 Crores to 8 Crores per month?

Vimal Agarwal: So that will make it about say Rs. 100 Crores for the year roughly.

Mehul Meheta: That you are talking about FY20, I believe?

Vimal Agarwal: Yes.

Mehul Meheta: So, what would it have been during Q4 and for FY19 as a whole?

Vimal Agarwal: See, we started production somewhere in August and right now our run rate will be close to Rs. 4 Crores, Rs. 4.5 Crores per month in Q4.

Mehul Meheta: So, if I take for the quarter, it should be about Rs. 12 Crores to Rs. 15 Crores?

Vimal Agarwal: Yes.

Mehul Meheta: Alright. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, I will now hand the conference over to Ms. Natasha Kedia for closing comments.

Natasha Kedia: Thank you all for being on the call. Please feel free to get in touch with me or SGA our Investor Relations adviser for any further questions. Our coordinates are provided at the end of our results presentation, which is uploaded both on our stock exchange and our company website. Thank you very much.

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