Parag Milk Foods

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Q4FY17 Conference Call Transcript

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Moderator:

Ladies and gentlemen welcome to the Q4 FY2017 results call of Parag Milk Foods hosted by Emkay Global Financial Services. We have with us today Mr. Devendra Shah – Chairman, Mr. Mahesh Israni – Chief Marketing Officer, Mr. Bharat Kedia – CFO and Ms. Natasha Kedia – Investor Relations Officer. As a reminder all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal for an operator by pressing '*' then '0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Dhaval Mehta of Emkay Global. Thank you and over to you Sir!

Dhaval Mehta:

Thanks Vikram. Good evening everyone and welcome you all for Q4 FY2017 earnings con call of Parag Milk Foods. We would like to thank the management for giving Emkay the opportunity to host this call. So from the management we have Mr. Devendra Shah – Chairman, Mr. Mahesh Israni – Chief Marking Officer, Mr. Bharat Kedia – CFO and Ms. Natasha Kedia – Investor Relation Officer. So we will start with the opening remarks by Mr. Shah followed by Q&A. Over to you Sir!

Natasha Kedia:

Hi, this is Natasha Kedia and I am the Investor Relations Officer for Parag. Let us begin with Mr. Devendra Shah, our chairman, who would take you through the business philosophy and the key developments that took place in Q4 and the year gone by. Handing over to Mr. Devendra Shah.

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 fourth quarter of FY16-17 and the financial year as a whole. This has been our first year since the listing on 19th May 2016 and we can proudly say that we have successfully executed our capex plan for FY17 as laid out during the time of the IPO. In line with our strategy of increasing our value added portfolio, we made investments to enhance the capacity for products like whey and cheese and established a fully automated paneer manufacturing facility that improved the quality, hygiene and shelf life of the packaged paneer. We have also expanded our milk procurement through investments in bulk milk coolers, and have enhanced our facilities for milk handling, warehousing and cold storage. Moreover, it was the first time this year in Q3FY17, that our subsidiary, Bhagyalakshmi Dairy Farm turned profitable.

Before we discuss the financial performance of this quarter and FY17, let me quickly go through the business philosophy and provide a brief update on the key developments that took place during the year gone by.

Parag Milk Foods sells 100% cow milk products which are healthy and nutritious. Our integrated business model and strong R&D capabilities has helped us emerge as the leader in innovation. We are continuously trying to increase our share of value added products which will help us improve our operating margins and profitability in the coming years. Under our vision of emphasizing health and nutrition to consumers, we have rolled out several new products last year and the coming year.

On February 1st, we introduced in the market the most awaited product - Whey Protein Absolute under the brand name of “Avvatar”. This makes us India’s first company to launch a sports nutrition protein powder which is a by-product in the production of cheese. So far, all the whey protein supplements in India had been imported. Avvatar is a first Indian whey protein brand that is quality tested at every stage, fresh and 100% vegetarian. It has a higher and better quality protein per scoop and has 24 gm of protein, 7.8 gm BCAA and EAA of 7.9 gm in every scoop. It is gluten free, soya free, sugar free and comes in three flavours double chocolate, vanilla snow crème and café mocha swirl. It is available in packs of 2.2 lbs at INR 3400/- and 5 lbs at INR 6700/. A separate route to market has been established to distribute Avvatar which will be available in gyms, supplement stores and E-portals. Besides entering the segment of sports nutrition protein powder, we also have several whey-protein related products in our pipeline that would specifically target women, children and aged people.

We are also looking at other innovations such as the one in Paneer technology. We have invested in high-tech machines from Germany and New Zealand and have tweaked them to meet the needs of an Indian consumer. Earlier, we were present in limited markets due to the lower shelf life of paneer. However, through our investment in a fully automated paneer manufacturing with capacity of 20 MTD, we were able to drastically improve the quality, hygiene and shelf life of our packaged paneer. After liquid milk, paneer is one of the largest sources of protein and we aim to have a Pan-India distribution and make our packaged paneer a “Rozana ka protein” or a routine source of protein for Indian households.

We also have a unique product in our pipeline called colostrum powder that we are developing at our Bhagyalaxmi Dairy Farm. Colostrum is an immunity building powder made from the first milk of a cow, a few days after the birth of the calf, which is rich in proteins and vitamins. It will be the first of its kind immunity booster in India and will cater to all age groups and specifically helpful for victims of cancer and AIDS. We have successfully completed the pilot testing of the product and have garnered an excellent response in terms of its immunity boosting ability. We have tied up with a Sweden based company for the technical know-how.

We are also driving innovation by converting waste into useful marketable products. At our Bhagyalaxmi Bioscience Division, we have driven the commercialization of cow manure under the brand name Microrich and have converted it into a high value product that is being sold at INR 6/litre from the earlier 60 paisa/litre. The Bioscience division employs several researchers and experts and currently has the capacity to produce 35,000 litres/day. Innumerable farmers are benefiting economically through an increase in soil health, crop yield and lower costs. We have also used bio-gas produced there to partially meet the electricity requirements of the farm. Such initiatives have led to our subsidiary, Bhagyalakshmi Dairy Farm turning profitable for the first time in Q3FY17. While this business is much smaller as compared to total business, we expect good profitability to flow in going ahead.

We have successfully launched ‘Slurp’, a mango drink made from the finest Alphonso mangoes with a dash of milk. With our clutter breaking marketing campaign of “Yeh ‘aam’, aam nahi”, we have strategically timed the launch at the onset of summer to help consumers beat the heat. Slurp was launched across focused markets of Mumbai, Delhi, Kanpur and Chennai in 200ml tetra pack at ₹20. With this offering we have forayed into the over Rs 6,000 crore mango drink segment that is growing rapidly. The roll out of this new brand is a strategic push for expanding our portfolio of value added products, specifically within the beverage category that we have identified as a key growth driver. As per Euromonitor, 100% of the juice market has grown at a CAGR of 25% in volume over the last five years, with the mango drink market comprising 85% of this market. We are entering this segment after conducting research for the last 18 months. Our research indicates that consumers have become health conscious and are looking for alternatives to aerated drinks and are largely moving towards fruit based drinks. Our consumer research conducted through India-net survey has given us huge lead over the key players in the market in overall appeal, taste and thickness of the product. Slurp’s key differentiator is a dash of milk which balances the sweetness of the mango pulp - reminiscent of the golden days where grandma used to mix milk with mangoes. This is our competitive edge over the large brands that rule the category today.

During FY17, we also launched Go Cheese wedges in herbs and spices flavour, Go Badam Milk Instant Mix, and Gowardhan 10 kg curd bucket. We launched a 360 degree marketing campaign for our flagship product Gowardhan cow ghee with a new positioning and tagline "Pyaar ka Rang Sunehra" with the aim to own the leadership position in the ghee segment and change the consumption pattern of consumers from festive consumption to throughout the year consumption. We also plan to enter the niche category of ghee by launching a super-premium ghee called "24 carat ghee" like the position our Pride of Cows brand holds in the milk category. We are proud to say that our flagship brand Gowardhan has been rewarded the "Most Trusted Brand" in the ghee category for the 2nd year in a row in 2017 by the Brand Trust Report. What is more heartening is that we have moved 132 notches up in the overall ranking of brands across categories to 303rd rank which is a very rare phenomenon.

During the year, we also signed celebrity Vir Das in our new marketing campaign to promote our newly launched product "Spice up" available in 5 different flavours of cheese. Spice up is packed into a simple consumption pack with a tiffin to entice school children and youth to consume it directly as a snacks item. We also launched our new brand of dairy whitener, Milkrich with a distinctive and eye-catching packaging.

Inorder to grow at a steady pace, we started creating a base for the same by expanding the milk procurement infrastructure through the opening of new village collection centers and investments in Bulk Milk Coolers. We have also expanded our distribution network by opening new depots, investing in Visi-coolers and strengthening our connect with distributors by organizing events such as "Gowardhan Bandhan", an event that brought together thousands of distributors. This helped us further strengthen our relationship with distributors which would act as a foundation for our future growth.

We have embarked on the journey of TOC (Theory of Constraints) with vector consulting, where the emphasis is on leveraging our existing resources with Freshness as the key parameter of evaluation. This along with enhanced reach and availability will lead to higher market share and healthy profitable growth.

Despite our several successes, we faced challenges like a sharp 20-25% YoY increase in the price of milk in Q3FY17. Milk, being the primary raw material and the largest cost component for the company, we took a temporary setback. The company had planned to offset this increase in milk price by increasing the prices of consumer products post the festive season in Q3FY17. However, due to demonetization, which temporarily dampened demand, the company had to delay the increase in price of milk from Q3FY17 to Q4 FY17. We increased prices in major categories like ghee & consumer cheese towards the end of January. In fact, with the help of our brand power and consumer loyalty, we could take price increases in some cases ahead of competition. With the above price increases that we have taken, we are back into force this quarter.

This year has been abnormal in terms of the sharp increase in milk prices. On the GST front, we feel the impact would be neutral to positive. Keeping that in mind, I would like to emphasize that in the dairy industry, the split between the quarters is not equal due to seasonal variations in milk procurement, milk prices, consumer demand and realizations we get from the market. Hence, while looking at our business and analyzing our results, we urge you to look at us as an annual business that is in it for the long haul, rather than focusing on quarterly trends.

Finally, I would like to end by saying that despite the challenges this year, we have a strew of new product launches and are confident of achieving our medium and long term targets. In line with our strategy of increasing our value added portfolio, we have made investments to enhance the whey, cheese and paneer facilities. We have also expanded our milk procurement through investments in bulk milk coolers, and have enhanced our facilities for milk handling, warehousing and cold storage. In this way, we have laid out a strong foundation for future growth and are left to reap their benefits in the next few years.

Now, I request Mr. Bharat Kedia our CFO to discuss our financial performance during the fourth quarter and FY17 as a whole.

Bharat Kedia:

Good evening ladies and gentlemen. Post an impressive outlook of the business that was performed last year and we continue with the progress, it is time to talk about some of the financial numbers.

Revenue from operations for Q4 FY2017 have grown by 3.4% Rs.428.3 Crores compared to 214.3 Crores in the same quarter of the last year. During this quarter we showed a share of fresh milk increase by 131 basis points, from 19.4% in Q4 of FY2016 to 27.7% in this quarter of FY2017. Also revenue from fresh milk have increased by approximately 10% Y-o-Y from Rs.80.5 Crores in the last quarter of financial year 2016 to the Q4 of FY2017 amounting to 88.9 Crores. This was mainly on the back of improvement in price mix and territory expansion. The share of skimmed milk powder has increased by 550 basis points Y-o-Y to 18% along with an increase in revenue by 49% Y-o-Y from 51.7 Crores last year in this quarter to Rs.77 Crores Q4 of this year, which has meant a better realization in the market in the later end of the financial year.

During the financial year FY2017 SMPs share has increased from 11% in FY2016 to 13% in FY2017. This improvement in the realization of SMP has led to the company to clear its excess inventory procured through an incremental purchase of raw milk. Increase in sale of SMP is considered opportunistic by the company; however, in the long-term strategy of the company the focus continues to stay on milk products per se.

During Q4 of FY17, company has taken an average price increase of >8% in multiple products, which had led to a delayed ramp up in volume of milk product. Milk product category observed a de-growth of 10% from Rs.275 Crores in this year from Rs.295 Crores in the last quarter of the last year. The company has seen a recovery in its gross margin in the Q4 of FY17. The gross margin for the quarter increased by 235 basis points from 30.1% in Q4 FY16 to 32.4% in Q4 FY17. Due to couple of the factors such as, the price hike of average >8% across the product portfolio, better margin realization on sale of SMP, and the stability in the input cost of raw materials.

We have achieved an EBITDA of Rs.51.9 Crores in Q4 of FY17 as compared to 40 Crores in Q4 of FY16. EBITDA margin increased from 9.7% in the Q4 of last year to 12.1% in the Q4 of this year. As mentioned in the last earnings call company has curtailed its Q4 FY17 advertising and promotional expenses and maintained A&P expenditure in line with the annual budget.

In addition to this company is moving in direction of being operationally lean and efficient by systemically reducing administration costs to aid EBITDA margin. These has helped significantly to boost EBITDA margin of the company. Depreciation increased by 15% to Rs.9.74 Crore in the Q4 of FY17 and 79% have reflected in the financial due to carry over effect of the past.

Tax credit stands at Rs.65 lakhs in the Q4 of FY17 due to the benefit under section 80 AI received in the Q4; however, that has been accounted for the full year and this quarter.

Company's net profit has increased by 86.1% from Rs.16.1 Crore in Q4 of FY2016 to Rs.30 Crore in Q4 of FY2017. PAT margin has also increased by 311 basis point from 3.9% to 7%. PAT growth was driven by overall good performance of the company.

To sum up, the results of the Q4 FY17 revenue grew by 3.4%, EBITDA grew by 29.6% and the PAT grew by 86.1%.

With this I leave this call for the floor to raise any questions they have regarding the financial results or the operational performance of the company. Here with me we have Mr. Devendra Shah and Mr. Mahesh Israni and Ms. Natasha Kedia to handle your questions. Thank you very much.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Shera from Lucky Investments. Please go ahead.

Question and Answer Session

Shera:

Sir, just wanted to understand on slide #20 you have mentioned in your guidance for three years in which I did not understand the PAT guidance for three years at 5% plus explain that and second for the year gone by on the milk products side the growth in the Q4 there is a decline of 10% and for year there is a growth of 1%, if you could give some understanding on the product categories within this and which product sales were disappointing?

Bharat Kedia:

Thank you Shera for raising some relevant questions. Let me first come back on the slide #20 which you talked about the guidance over a period of three years. As Mr. Shah have presented in this opening speech this company looks for a longer vision and medium to long-term direction rather than a very short-term direction. We believe the company's performance is more major in a long run performance. So this guidance is about a three-year guidance, as of now we are completing the year with a PAT of 1%. We believe with the outline of the performance that we are looking for ourselves, we should be able to deliver a PAT margin of 5% plus at the end of the third year from now. And we believe the revenue growth at the end of the three-year should be at the CAGR of minimum 14%. This was the expectation with which we are building the business going forward. Coming to your discussion from the past year that has gone by, the performance of the year that has gone by has definitely been subdued in terms of the product milk product businesses; however, we have talked about some of these in the previous quarter and for the sake of repetition please allow me to do that.

In the first quarter we have had certain challenges coming from the rural demand and that had led to some reduction in the sales for us. In the second quarter, we have taken a price increase in our ghee product ahead of the market which lead to further impact on our volume. In the third quarter we were impacted by demonetization. In Q4, due to the financial performance of the third quarter, we went ahead and took a price increase with the leadership in the market in early to mid-January, whereas the competition took those price increases 30 to 45 days later than us, which also put pressure on our revenue growth.

Consecutively from quarter on quarter we had seen certain different reasons that accumulated to our subdued growth in the consumer products this year and that is why we have only seen a one percent growth in our milk products category. In order to chase the cost of increase in the raw milk prices, it was imperative for us to take some of these decisions. We believe these decisions have made us stronger and robust in the years to come because it has brought a financial performance discipline back in place.

With the fourth quarter results we can see that the financial performance is recovered or recovering as we speak and that has been the prime focus. We believe now that the things are behind us. We should be able to drive back to the performance of the three-year target that we are setting ourselves ahead.

Shera:

Sir can you tell us what grew and what did not, cheese ghee, buttermilk if you could give some idea on those product line or let's say what declined?

Bharat Kedia:

We may not exactly been able to have product level discussions right now, we probably would need a separate discussion. If you do not mind you can drop in your contact with Natasha. I would probably have it, so we will be able to share that across. I may not have it right in front of me for the call right now.

Shera:

Lastly just a volume of milk handled on a yearly basis has it grown not grown between 2017 and 2016 and between Q4 of this year and Q4 of last year?

Bharat Kedia:

The procurement of milk has grown over the years compared to the last year and this has been one of the reasons why we had an opportunistic sale of skimmed milk powder in this year. Generally, we are not focused on a sale of skimmed milk powder, we are focused on sale of consumer products and fresh milk. However, this year, due to our continuous effort to build procurement, our raw material purchases saw growth, and we had greater input of raw materials but at the same time we had subdued demand of consumer products. The delta between the two was converted into skimmed milk powder as a commodity and sold. Luckily, in this year specifically in this quarter we have had a reasonably good margin and sale from skimmed milk powder which helped up improve our profitability. However, that is only an opportunistic sale for us and not an indication of our strategic direction.

Shera:

When you give the volume growth in milk handled?

Bharat Kedia:

This year procurement volume growth is about 14% up.

Shera:

This is for fiscal year?

Bharat Kedia:

For the fiscal year.

Shera:

Can you give it for the quarter Sir?

Bharat Kedia:

The quarter was flattish.

Shera:

Thank you very much Sir.

Moderator:

Thank you Sir. We have a next question from Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia:

Could you just explain the increase in the gross margin from Q3 of FY17 to Q4, so broadly the gross margin has increased by around 1250 basis points whereas you have taken only 8% price increase and on top of that there has been a 5% Q-on-Q inflation in milk prices, how could the gross margins have increased by 12% in that scenario and with additionally an adverse product mix from Q3 to Q4 with regard to proportion of SMP?

Bharat Kedia:

Thank you Jasdeep for enlightening up the gross margin discussion. Jasdeep to clarify this you rightly said there has been an improvement in the gross margin driven by about 8% price increase that we have taken in product’s business. Fortunately, there has also been a significant price increase in commodity business just by shear factor that it has been there in this quarter, which has also helped us, and our sale of commodity in this quarter has been up by about 50% compared to last year. So that has helped these items. Third we have had certain interchange of mix within the products category where some of our product which are of higher margin has taken a slightly more improvement vis-à-vis the one which are of the lower margin within the same basket category of product category. These three factors put together has driven about 12.5% improvement in the gross margin compared to the last quarter that we had delivered.

Jasdeep Walia:

So how can increase in SMP sales, it has been increasing gross margins, because SMP gross margin even if there were good substantially lower versus what you make in the other part of the business, so portion of SMP increasing will only depress the gross margin in percentage terms am I right Sir?

Bharat Kedia:

No, so let me explain it this way. You are absolutely right, that SMP gross margins are lower than the product gross margin; however, in this quarter SMP prices have been significantly better and SMP added significant amount of margins for the business. And because SMP had a significant amount of margin on the business it has improved the gross margin. This is not a regular phenomenon, so your question on a regular quarter could be perfectly right, because this is how the business works, but this quarter has been slightly abnormal in favour of the SMP business.

Jasdeep Walia:

Sir but as I understand Sir the gross margin in SMP business varies between 5% to 10% am I correct in that assumption Sir?

Bharat Kedia:

In a regular quarter you are right.

Jasdeep Walia:

So in this quarter they were substantially higher than even 10% at the gross level?

Bharat Kedia:

Yes.

Jasdeep Walia:

Yes, got it. Sir the inventory has increased significantly could you elaborate on that and also your trade payables?

Bharat Kedia:

So inventory increased for two different reasons, (a) we have a higher purchase of raw milk so our raw milk purchases in the year has been about 14% up, while our revenue increase is about 5% up for the year. So there has been an additional procurement, which has been converted into inventory and sitting on our balance sheet. In addition to that we work on a three four method of inventory whereby the purchases of the latest of the last quarter primarily are valued in the inventory whereas the purchases of the last quarter of the last year are sold into this year. And therefore the valuation of inventory goes on the latest pricing of the milk. And that also increases the value of the inventory in an increasing trend of raw milk price. These two factors combined together have increased the value of inventory; however, we believe this increase in value of inventory is temporary. As demand starts to creep in, we would be able to liquidate it fast.

Jasdeep Walia:

So this inventory would be primarily SMP or this will be other value added product like cheese?

Bharat Kedia:

Yes, it will be combination of cheese SMP and other products.

Jasdeep Walia:

Sir but are you holding a significant inventory of SMP as of now?

Bharat Kedia:

Yes, we are still holding a significant value of SMP as of now plus we are also holding a higher cheese inventory as of now. As we are got into whey Avvatar, as we get into the whey consumer protein, the production of cheese has become more important than usual products and we are holding that inventory as of now in order to secure the pricing combination of Avvatar with cheese.

Jasdeep Walia:

Sir gross debt number at the end of the year?

Bharat Kedia:

The gross debt number at the end of the year are lower than last year. As part of the IPO proceeds we have taken 100 Crore from the market to be repaid and that money has been repaid and therefore the debt number has gone down. The recent debt number is 262 Crore long-term and short-term together, sorry working capital borrowing is 162 Crores vis-à-vis 253 Crores that we had last year.

Jasdeep Walia:

Sir what about long-term loans?

Bharat Kedia:

Long-term loans are there. The long-term loan the company has is about 100 Crores which is on it's the repayment schedule slowly and gradually writing out.

Jasdeep Walia:

Okay got it. Thanks a lot Sir, I will come back in the queue.

Moderator:

Thank you Mr. Walia. We have our next question from Sangeeta Tripathi from Edelweiss. Please go ahead.

Sangeetha Tripathi:

Good evening Sir. Thanks for giving me the opportunity. First and foremost I would like to understand that overall the revenue in the milk products are down by 10% despite our 8% increase in the prices so broadly it is around 18% volume drop which we have seen in this quarter, and now we are saying that going forward will return back to normalcy of around 14% to 15% growth so what is giving us the confident in this and already two months have passed for this current quarter so are we seeing on ground that kind of pull-back on the volume front and some understanding on that and on the milk product business?

Bharat Kedia:

Thank you Sangeetha. The challenge that we face in the Q4 of this year…

Sangeetha Tripathi:

Sir I completely understand the challenge I was just trying to understand has everything bounced back that we are saying very confidently that we will be doing around 14% - 15% growth and how has these two months been?

Bharat Kedia:

Sangeetha when we are talking about a 15% growth we are not talking about growth in a month. We are talking over a period of three years, the CAGR growth of 14%. Pipeline of products as Mr. Shah spoke about in his speech have been launched, plus we have few products in the pipeline, we have gone into Bhagyalaxmi Bioscience. Bhagyalaxmi has started to make profitable business. Many things have turned around but they have recently turned around and has not been seriously impacting this year's financial or the results. We believe as they start to cumulate in its growth perspective over a period of three years or 14% growth, it sounds reasonable to achieve and therefore we are confident. Having said so we are not looking for an immediate turnaround in a short-term. The 14% growth as we are giving guidance for is not really a short-term discussion; as Mr. Shah explained this company is here for the long haul and we are more looking for medium and long term target for ourselves.

Sangeetha Tripathi:

Okay fine. On the mango based beverage that we have introduced last year, I was just trying to understand why we went into this kind of a market; I understand it is a big market 6000 Crores market but still it is quite cluttered. Is it there are lot many players out there and we being a diary company why we went into this category?

Mahesh Israni:

To answer your question there is two-ways of looking at this scenario to say that it is cluttered with already existing strong brand and a large number of brands. The other way of looking at it is that it is a large market, more than a market size the growth, I mean the CAGR projected for next five years is in excess of 20%; on a CAGR of 8000 Crores base which is there for the market category today, if it continues to grow it is adding about 1600 to 2000 Crores every year and we would love to participate in that market. That is point No.1. Second point which is more important is I am not straying away from my core philosophy of being a diary company so I am getting into a fruit based beverages market but I am coming with the dash of milk and that is what keeps me within the core of where I am. That is more internal. More external to the market is that I am giving a really differentiated product, in that sense that am I part of the me too in the market, I am not. I will create a new sub-category within the fruit juice market, which are milk based fruit beverages if you want to so call it. And over the period of next three to five years try and create a nominal space for yourself. To do all this I am not adding any infrastructure. I already have existing infrastructure in Palamaner with the UHT technology. I am continuing to use that and to ensure that my Palamaner plant gets to a certain capacity utilization and at the same time enter into a category which is big, which is growing at strong double digits, and come with the differentiated product within the core philosophy with which we came into this category with this brand.

Sangeetha Tripathi:

And Sir this will be in-house manufacture it would not be outsourced?

Mahesh Israni:

Absolutely completely in-house.

Sangeetha Tripathi:

The final question is on this protein-based drink - I mean we understand that whey protein is already been launched in the market and that it is specifically for people who are into muscle building and all. Now there are other protein based drinks which are available in market; Danone, Amway has its own brand Nutralite; do we have plans to enter into this regular protein based drink markets and if yes, how big is that market and what are our plans?

Devendra Shah:

What you asked probably is - are there similar products? But we are specifically in the special milk protein powders only; in this others are mixed with the soya and other things. But we are coming with same protein powder compared to whatever is available in the market.

Bharat Kedia:

Just to add Deven Sir just said, yes, we went with the official launch of Avvatar in Q4. We are getting into a full-fledged commercial launch now. So we now start seeing the benefits of the Avvatar brand actually getting accrued in Q2 as we move of this financial year. On your second question on getting into the category which is similar to let's say a Proteinx, yes, we are looking at this market very seriously, and are looking to get into the mass protein based markets for normal consumers. Again, the big difference will be most of the brands that you see today in this category have either plant based protein or a mix of plant and milk, whereas whatever we get in will be 100% milk protein. So I will get into this category with a pure milk based protein powder. The market size again is big, like we spoke about Avvatar; for this market, that is, the consumer protein market, it is in the range of anywhere between 1500 and 2000 Crores growing at close to about 18% as we speak.

Devendra Shah:

In India, 60% people are vegetarian; 80% protein deficiency is there. Now we have the good infrastructure for the protein and our next focus is on the protein powders and the health based nutritional products.

Sangeetha Tripathi:

Thank you.

Moderator:

Thank you. Next question is from the line of Manish Poddar from Religare Capital Markets. Please go ahead.

Manish Poddar:

Just wanted to get thoughts on the mango drink? What are the margins, which you were looking in this drink, gross margin and EBITDA?

Bharat Kedia:

The way our philosophy works is that for the year of launch, first of all we launch those products in the market with a gross margin that is higher than the gross margin of the company. That is the benchmark we set out for ourselves; however, in the first year we do not really keep the margins back into the pockets, we deploy these funds under A&P spend in order to secure our business and drive the availability and freshness of the product. And therefore we are not looking for the margin to really to sit into our P&L for this year, that would be the next year onwards that we will have the margins to flow into the P&L.

Manish Poddar:

So is there a number to the gross margins, let say, would they be north of 30%? Can you give a number to this segment please?

Bharat Kedia:

A specific percentage if you are looking for I think either Natasha or me will reach out to you after the call and we can discuss that.

Manish Poddar:

Okay. And how much is the sales of Avvatar in FY17?

Bharat Kedia:

FY17 we did not have a sale of Avvatar. Avvatar is just launched; so while it had been launched in the latter part of quarter of FY17, the real penetration of the market has just begun. So you will see the sales in this and the coming quarters.

Manish Poddar:

Okay, the price increase which you have taken would that be fine to offset the cost pressures which we have, so would a margins remain neutral for next year?

Devendra Shah:

Sorry lost the signal please repeat that question?

Manish Poddar:

I am trying to understand the price increase which you have taken in the first half of Q4 would they be enough to offset the cost pressures which we have?

Bharat Kedia:

No, let me explain to you - the price increase that we took in mid of January was a partial price increase, obviously it was substantial but partial price increase, and a FMCG product taking a price increase more than that would have really damaged the brand reputation and therefore we needed to spilt it. We were to come back with the price increase in somewhere later May or early June, that was our original plan. However, GST have given us a new horizon of thinking in terms of how to set the right price increase at the right time and we are right now deliberating the price increase as we speak. Depending on how the GST impact works out for us, we will assess and reconsider the price increase in the month of June.

Manish Poddar:

So we have not, you are trying to say that we have not calibrated the incremental price, which we need to take?

Devendra Shah:

We are right now reworking it based on the GST rate that have come out.

Manish Poddar:

Okay and in your ROCE calculation which you are saying for FY20 the incremental capital investments which you are looking over the next few years?

Bharat Kedia:

Through the IPO the company had raised about 150 Crores in capex, about half of it is already spent, about half of it is going to be spent in the years to come. In addition to that, the company is looking for about 100 to 125 Crore from its own accrued funds, so we see that over a period of next three years, we would be spending roughly 200 Crores in capex.

Manish Poddar:

So let us say right now our capital employed is roughly about 757 Crores and I believe you were looking somewhere around 1150 Crore mark FY'20 end so this 200 Crore, the remaining is working capital is that what you are trying to say?

Bharat Kedia:

Yes, it will be slightly less than 1100-odd Crores that you talked about in terms of the capital employed right.

Manish Poddar:

So then you are trying to significantly reduce the working capital cycle; so I believe there is not much improvement in debtors and payables, in that case would inventory days go down significantly now?

Bharat Kedia:

See when we look at the capital employed, it is more for the year around; the way our business works generally the inventory levels are higher towards the end of the year, because this is the quarter which is a little bit smaller quarter in terms of the sales but not in terms of the procurement, so we generally have a little bit of buildup of inventory at that point in time. But when we look at a ROCE, we are looking at the average of the year. So the inventory levels are already generally lower throughout the year and they would be lower going forward. Further we assume with the built up that has happened this year will liquidate as the demand starts pick up.

Manish Poddar:

Is there a number to number of days, which you are looking up?

Bharat Kedia:

No we are not really going into a number of days because what happens is that the inventory levels in our business are not constant. They are moving little bit up and down so I mean this is generally more in terms of amount of money that we are able to reimburse back into the company.

Manish Poddar:

Thanks.

Moderator:

Thank you. We have a next question from the line of Prakash Kapadia from Anived Portfolio Management Limited. Please go ahead.

Prakash Kapadia:

Thanks. On ghee do you think that value proportion of Rs.560 a kg has you know vanished a bit which has led to tepid sales; and under GST, rates are expected to go up from 5% to 12% so what kind of price hikes are we planning to take and what is the plan to grow the ghee sales?

Bharat Kedia:

See the ghee is cow ghee. Please do not compare with an ordinary ghee in the market, it has a different flavor and different aroma and it is more compared to a traditional ghee made by grandma at home. And people are paying more than us, in fact we are there, because people are paying more for cow ghee in the market and you know there are products available. So I think we believe and we deserve a premium to our product. Having said so as you talked about the GST, GST may have some impact on the ghee. We have to evaluate the overall impact of the GST onto the company and not just ghee because GST also opens the window of opportunity in terms of certain efficiencies that we can drive in our sales point, in our distribution points; some of the opportunities it can bring in terms of input GST or input VAT that we were not able to take, which we would be able to take going forward. So we are going to take a holistic approach of how the pricing is required to be reset and a therefore we are not looking at GST alone. So there is a blend of little bit of a change here and there and we are going to take a holistic picture of it and then try to change pricing if required. But we believe and we deserve a better pricing for our ghee.

Prakash Kapadia:

Sir on cow ghee there are obviously other products also which are at a cheaper price also, so does that also affect sales growth which has been tepid for us over the last few months, specifically post demonetization, or have they normalized and what kind of offtake we are seeing in?

Bharat Kedia:

See price is a relative stand. Higher price does not mean lower sales. If that was the case, then all the premium outlets in the town should have closed down by now. I think it is relative in some sense in that, when there is a price increase, temporarily consumers for some time, it could be week to week or for a month, for some times consumers may have an apprehension to a price increase. However, if consumers love and like that product and they are loyal to a particular product, they come back. So we believe that pricing is not the only criteria under which people make the decision to purchase and therefore if you have the product, which has the quality, if you have a product which has taste and that is able to deliver what you need, then people are willing to pay the price. We are a very small player in the total ghee market of India. The ghee market is 80% unorganized and 20% organized and within that 20% organized we are a very small player right now. Even though for us, ghee is a large share of pie, we are very small in the Indian ghee market and we believe that there is a large room for us to grow.

Prakash Kapadia:

Lastly on the business outlook wherein you mentioned about the 5% kind of a PAT margin over the next three years can you take us through the route of increase in gross margin because without the increase in gross margin, operating profit would not grow and without the operating profit growing, to achieve that PAT margin would be a humongous task so some thoughts on that?

Bharat Kedia:

See the improvement in PAT margin is going to be a blend of various factors. You touched upon gross margin, which is an important factor. We are continuously looking for opportunities for price increase. We have taken the leadership place in price increases and that is evident for the past year. We are working on improvement of mix of the consumer product. We have seen some glimpse of it in the Q4. We are leading with new innovative products which have higher margins; we have already launched Avvatar and Slurp, as Mr. Shah explained, and all of these are going to add to the margin. In addition to that, as the economy of the scale rises, as the business volume rises, some of the remaining unutilized capacity in the company, in the factories, would get utilized which will drive operational efficiency in the company. We would be able to drive some of the positive impact of scale onto the administrative cost to the company. The cost that which we think would not in long-term decline are the Advertising and the distribution expense which we continue to build because we believe the base of our business stands on it. And therefore we see the opportunities are there at various sizes, each of those have been worked out in order for us to quantify a percentage that you think is reasonably achievable at the end of the year.

Prakash Kapadia:

Understood. All the best.

Moderator:

Thank you Sir. We have next question from Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor:

Just couple of housekeeping - to start with, the depreciation for the quarter, is it representative of the number going forward. Also is it that you capitalized large part in this quarter and it is showing as a higher number?

Bharat Kedia:

Depreciation in this quarter has two impacts, very well picked up Harit. First is that we have the spend of IPO - roughly half of the spend has already been capitalized and therefore there has been a cost; but there has also been a catchup cost in this quarter of about 5.3 Crores which is nonrecurring for the year to come. And therefore there was an impact of both in the depreciation that has been seen for the quarter.

Harit Kapoor:

Can you explain the catch-up cost?

Bharat Kedia:

In the wake of Ind-AS that we are going to implement from the next quarter we have to do certain corrections of the past historical accounting so this has been a quarter correct in that, as you are entering into the Ind-AS of first of April we made some of the corrections in this quarter.

Harit Kapoor:

Okay and what is the sustainable tax rate now what is the effective tax rate would be going forward?

Bharat Kedia:

See this particular year we had an added advantage on the tax rate. The tax rate is lower than our usual tax rate. We expect our usual tax rate in the range of 30% to 31%. This particular year we had an unusual advantage and that unusual advantage is because of the deduction that we get under the 80 IB on our newly manufacturing cheese facility that drove a little bit better margin for us as compared to the other businesses with the coupling of the whey that we just brought in. This is again a one time, slight improvement in tax incidence that we have had. We believe that as we go forward, we should be back into a category of about 30% effective tax rate.

Moderator:

Thank you. We have next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi:

Sir just one question on Bhagyalaxmi Diary can you indicate the milk liters sold in 2016 and 2017 also our revenues in both these years as well as the profit?

Bharat Kedia:

See Bhagyalaxmi Diary, the way we are not looking at the liters sold. Honestly speaking Bhagyalaxmi Diary is a precious diamond for us. It is not counted in the volume of liters; it is really counted on the households or the elite class of consumers that we serve. It is a service company for us. We provide a product that is of the highest quality with the highest service. So what we are looking for from a Pride of Cows, from Bhagyalaxmi, we are actually looking at the downstream sales, but on the upstream we are looking at a Bhagyalaxmi Bioscience Division, which Mr. Shah in his opening remarks mentioned, of how we are now getting into products which utilize cow dung, cow manure and slurry; so we have made significant efforts to drive protitability in Bhagyalaxmi. However, it is not yet fully where we wanted it to be. We see this as a golden opportunity for us to capitalize some of the opportunities, for us as well as the farmers of the country, who were looking for such products, which we would be able to make available given that we have a large farm size which is not very common in India.

Aniruddha Joshi:

Okay, but Sir, though you cannot share volumes, can you share the absolute revenues?

Bharat Kedia:

Bhagyalaxmi's revenue is about 45 Crore this year vis-à-vis roughly about 42 Crore last year.

Aniruddha Joshi:

Thank you Sir.

Moderator:

Thank you. We have a next question from Sagarika Mukherjee from Elara Capital. Please go ahead.

Sagarika Mukherjee:

Sir thanks for taking my question, I had just couple of doubts, one is that what is the price at which you could sell your SMP in this quarter price per kg?

Bharat Kedia:

Sagarika if you do not mind would you take this question post the call. The price at which we are selling is competition sensitive information for us; I would prefer a one and one call on this.

Sagarika Mukherjee:

Okay no problem Sir, thanks.

Moderator:

Thank you. We have next question from Avinash Sharma from Dalal and Broacha. Please go ahead.

Avinash Sharma:

Sir, just wanted to know - I heard in the commentary about the recent capacity upgrade in the Paneer and cheese so what is our exact capacity for cheese and paneer and capacity utilization also?

Bharat Kedia:

Cheese we have the single largest cheese manufacturing facility in India which we have done with the help of the IPO proceeds; we have upgraded that cheese production facility from 40 metric tonne to 60 metric tonnes. We also have a separate production facility for paneer of 20 metric tonne. In the past we used to make paneer from the same cheese plant, so now we have actually an 80 MT overall capacity for cheese plus paneer. The utilization of cheese and paneer as it was last year was close to 85% to 89% roughly. But now that we have almost doubled the capacity, obviously we are surplus the capacity; as we grow the business, we do not add capacity year-on-year. We add capacity on a systemic step-by-step process. So right now we would be approximately at 55% to 60% capacity if I put it together.

Avinash Sharma:

Thank you.

Moderator:

Thank you. We have a next question a follow on question from Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia:

Sir the trade payables have also increased significantly in your balance sheet so what is the reason for that?

Bharat Kedia:

The trade payable increase has come because we have had stressed a little bit of our suppliers towards the end of the year in terms of the payment. Generally, we have two set of suppliers, one is the milk supplier and one is the non-milk supplier. In terms of the milk supplier trade, people are generally more conditioned to about 10-15 days depending on territory to territory. But when it comes to the non-milk supplier, that is where we generally find the place to stretch and that is what we have done. This is very temporary I must say, this is just towards the last month of the year that we have stretched. It is already coming to its normalcy right now as we speak.

Jasdeep Walia:

Why did you stretch your supplier?

Bharat Kedia:

See we have implemented something called e-procurement towards the end February. As part of the e-procurement, we were looking at some of the stretched firms as part of the reverse auction that we have implemented and this is the mechanism in which we have gone. However

I must say that this is not something that we are doing long term; that was more experimental where we have time to see how best we can stretch the credit number.

Jasdeep Walia:

Sir in your topline layer one category of revenues called other revenues. These other revenues have gone down y-o-y by 50% what comprises these revenues?

Bharat Kedia:

Operating revenue you mean?

Jasdeep Walia:

Sir this FY16 this number was 43.5 which has gone down into 27.5 Crores this year, if you look at slide #27.

Bharat Kedia:

As you know we have two-production facilities, one in Maharashtra and one in Andhra. The Andhra production facility is not fully utilized as of now; we do some job work to utilize our spare capacity and this other income is a reflection of job work that we do for third party just to fulfill the capacity that we have. As our own business has started to pick up in the Andhra production facility, we have not done enough job work or the required spare capacity was not there for us to do the remaining job work and that is how the other income has declined.

Jasdeep Walia:

Got it Sir. Sir one of your industry players commented that throughout FY17 there were shortage of cow fat in the market and that particular company was not able to meet the demand because it was not able to fulfill procurement; but procurement does not seem like an issue of you in FY17 but still the cow ghee sales which seems have declined this year. First of all is my observation with regard to shortage of cow fat correct?

Devendra Shah:

Overall is there.

Jasdeep Walia:

So in that kind of an environment why were not you able to increase sales of cow ghee Sir where there were shortage in the market?

Bharat Kedia:

See I think there is a slightly different way in which we are looking at this business. We are actually primarily trying to drive procurement of milk rather than purchase of cow fat. That is the first strategy. Wherever obviously we do not have enough milk, we also go out and buy cow fat. It is not that we do not, but this year we had enough growth of our own so we did not go and depend on the cow fat, so we did not see the pressure of cow fat. Yes, as you said we have also seen the market was little bit of stressed with the cow fat availability in the market.

The ghee that you talked about, the growth in ghee that you talked about, I think it is not the cow fat nor the ghee, it is that we have time and again taken price increases on ghee and every time we take a price increase, if the competition does not follow, for some time we do have pressure. This is not a long run pressure that we get, definitely get a short term pressure when people see the difference between us and our competition is large. After sometime competition also taken the price increase and then things come back to a kind of similar scale. And so some of these events happening in Q2 and Q4, were actually the price, not the availability of fat that/ had an impact on our sales of ghee.

Moderator:

Thank you. We have a next follow on question from the line of Sangeetha Tripathi from Edelweiss. Please go ahead.

Sangeetha Tripathi:

Just two housekeeping questions – what is the total A&P spend for the entire year?

Bharat Kedia:

The total A&P spend for the entire year is 8.5%.

Sangeetha Tripathi:

Secondly, the capex for FY18 what are our capex guidance for FY18?

Bharat Kedia:

Sangeetha, we unfortunately do not have an annual guidance for anything. As I have already spoken over the phone, about half of the money that we have raised through IPO is yet to be spent, which is about 76.5 Crores. In addition to that, we are planning for internal accrual over a period of next year to spend about 125 Crores. So the two together is about 200 Crores that we are going to spend over a period of three years.

Sangeetha Tripathi:

Okay fair enough Sir, thank you.

Moderator:

Thank you. We have a next question from Nihal Jham from Edelweiss. Please go ahead.

Shraddha Sheth:

Sir this is Shraddha here. Just one question, could you give your outlook on the cheese segment in light of one of your key customers now focusing on cost control versus store expansions earlier, so you would have seen today that they are reducing their store count drastically so if you could throw some light the cheese outlook?

Bharat Kedia:

Shraddha, we are not highly and not over dependent on one customer and our endeavor continues to be towards growth and marketing focus on both out of home and in-home consumption. Within the out of home consumption, my primary focus is to expand the HORECA business, which is from my distributor model and in fact whatever reliance that we have on one customer, which you just mentioned, we try to reduce our own reliance and we will continue to do our other bit in terms of expansion. So even though they have announced a store reduction, I do not see a major concern.

Shraddha Sheth:

Sure. So if you could just give outlook, you know, will be able to continue to see a double-digit growth in this segment in light of some of the larger players in cheese also expanding capacity; so in light of the competitive intensity how is our outlook?

Bharat Kedia:

Two things – one, we have a larger perspective of the market that it is growing at a strong double-digit growth and it continues to be that over the next five years. Is there a competition intensity, which is going up? Yes, and am I prepared. The confidence that I have on myself and the fact that I have gone ahead and expanded my capacity from the IPO proceeds, from 40 MT to 60 MT and going to 80 MT, speaks about a certain game plan that obviously we have in mind over the next three years to continue a strong double digit growth.

Shraddha Sheth:

Sure thank you.

Moderator:

Thank you. We have next question from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.

Jinal Fofalia:

Good evening Sir. I had couple of questions, Sir first question is, as you said that you are going to launch, I mean you have already launched, or are you going to launch that mango drink what is the brand name of that?

Bharat Kedia:

Slurp.

Jinal Fofalia:

Sir, what is your revenue target that you have from this trend that you have launched for the first year?

Bharat Kedia:

The fact is that I have not even gone with national expansion. I have not even taken the full season. This is just a second month in my launch of this product. It is a fairly new product, and as I said in the beginning, it is a product with milk in it and hence it is quite different from the so-called beverages, fruit beverage market that we have seen or defined for ourselves as marketers. We are currently just about penetrating in markets of Mumbai, Chennai, Delhi and Kanpur and learning from these markets - from a distribution point of view, from a marketer and a product point of view. We have full confidence and we have done our own research and consumer tests. Once I get my distribution foothold in these four markets, I will look at a national expansion over the next six months, starting may be in the next month. Only after we are in the market for about 12 to 15 months will we be able to judge for ourselves as to where we want to look at it. I had said in the beginning we want to be a strong dominant brand in this category. This category today is about 7000 to 7500 Crores and growing at a strong double-digit 20% plus growth. I mean if I look at a long-term horizon, I would like to be a strong, I mean anybody's guess have a strong market share, anywhere between, even if I look at a 2-3% market share in the next five years, it would not be a pretty big number. But as I said, I mean these are just marketing plans and marketing thoughts; the business plan will get evolved only after next 12 - 18 months when I really have a feeling of how we are faring in our distribution.

Jinal Fofalia:

Okay. Number two -as the MD said initially that you guys are going to launch colostrum products with some JV in Sweden, so if you could just highlight on that front and are we going to put up any extra capacity for this or how will that go going forward?

Bharat Kedia:

Colostrum is actually a milk that comes from the first milk that is delivered after a calf is delivered. This is the product that goes through a high technological processing before it gets converted into powder for human consumption. We are already done testing behind this in our production facility in Maharashtra. Once that facility is ready we would be able to bring this product to the market. So this is right now in the pipeline, the product is still not out.

Jinal Fofalia:

So Sir what is the name of the JV that you are going to tie-up in Sweden?

Bharat Kedia:

That is our technology partner. He is not the JV. Earlier I mentioned that they helped with the product development.

Jinal Fofalia:

Thank you.

Moderator:

We have a follow on question from Manish Poddar from Religare Capital Market. Please go ahead.

Manish Poddar:

Hi Bharat, could you just decipher how this 14% sales growth kind of got this number why not 17%, 18% or 20%, because the stuff you mentioned on the call till now, because even if you factor in Avvatar and Slurp being 50-50 Crores, the other categories you are breaking only 12% -odd growth for the next three years which is pretty lower in value so why a 14% number is a question?

Bharat Kedia:

Manish, you guys have taught us to really balance and be willful and thoughtful and predict harder. We have learnt a lot through your processes. So obviously in an earnings call, we are going to give a guidance, which we can achieve with a more reasonable certainty, so think over this. Obviously the ambition of an organization for growth will always be much higher, having said so the growth here is not 14% per month, per quarter, per year, it is a CAGR growth of 14% for a period of three years. That could mean that you may have few quarters up, few years down, and so on. We are not saying that it is a constant growth of 14%. We have to build from where we are we are at a 5% growth. Now we understand that a lot of these things have moved in our favor, yet we have a way to build things a CAGR 14% growth over a period of three years. So hopefully what you are assuming and thinking works out perhaps as well and this is where our thought process would be. Having said so at this stage I think we maintain a prediction of about 14% CAGR growth for three years.

Manish Poddar:

Okay I will take this offline. Just one final bit if I may, among ghee, cheese and dahi could you give us let us say the gross margin and EBITDA margin highest to lowest, just the order among the ghee, cheese and dahi for us let say FY17?

Bharat Kedia:

Manish, as an organization we are looking at business more from a segment perspective than a product perspective; however, if there are something that is specific for us to get sustained profit, we are definitely able to do and for that you need to reach Natasha Kedia in a call and she will be able to get some of the hints that you need.

Manish Poddar:

Sure thank you so much.

Moderator:

Thank you. We have the next question from Alok Rawat from Karma Capital. Please go ahead.

Alok Rawat:

Good afternoon and thank you for the opportunity. What is the current utilization level that you are operating it or what was the level in Q4?

Bharat Kedia:

Sorry we did not follow you.

Alok Rawat:

I wanted to know what is the utilization level for your Andhra plant?

Bharat Kedia:

We look at the utilization in a two angle in diary industry - one is the utilization of input and other is the utilization of output. From an input capacity perspective our utilization is roughly about 60% of the available handling capacity of milk vis-à-vis the milk that we are handling. From an output capacity there will be a certain different output depending from product to product it is very hard for us to blend anything. Our Andhra plant produces almost every product except ghee.

Alok Rawat:

In the 60% how much is the job work portion?

Bharat Kedia:

So job work we only do for the spare capacity, we do not do the job work for our own capacity and sometime we still have the capacity sometimes we do not.

Alok Rawat:

Second question- between your cheese and paneer capacity is there fungibility between the two? Can you say, you use the cheese capacity for paneer because I heard you saying that total capacity now is 80 MT?

Bharat Kedia:

So what we have done is, we have slightly moved away from the fungibility aspects of thinking. We have launched fresh paneer into the market and we are pioneers in this. Our paneer is not like a lump frozen paneer that you would see in the market of the branded category and we have made for further advancement in the paneer product that we have. This technology under which we are now manufacturing paneer is specific technology that requires a specific investments and a specific line and that is the reason we have now come up with the separate production facility for paneer. We are no longer able to subsume one into the other anymore because we have created a product differentiation under the new line.

Alok Rawat:

Thank you.

Moderator:

We have next question a follow on question from Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor:

Two questions, firstly on the inventory you said you have a higher SMP inventory which would possibly clear out in the near term or come at least to lower levels; so just wanted to understand would you still be expecting higher gross margins from the sales of that in the near term, next one or two quarters and will be the same as it has been in Q4?

Bharat Kedia:

See inventory levels are higher in SMP and cheese; if you are talking about SMP we have had a significant share of sale of SMP in this quarter already so the incremental milk procurement that we had is converted and kind of sold. We still, I am not saying we still have a significant amount of inventory on SMP. We are looking to liquidate that in the coming quarter as much as we can and perhaps some of these will also get liquidated in the quarter two of the current year.

Therefore this will continue. Will the gross margin continue at the same level? Definitely in the Q1 they are at, we moving are at the right place, it is very hard for us to predict how they could be in the second quarter.

Harit Kapoor:

Got it. The second thing was on the distribution, so could you just give us a sense on in the value added product business what is the kind of touch points you have added FY17 and what is the three year plan there?

Bharat Kedia:

Harit we do not track outlet expansion every month though we do a half yearly analysis on this and for the year, which ended in March 2017. I would be getting the data point in the next maybe three to four weeks. A rough sense is we would have expanded from about 2.1 lakh outlets that we were directly covering earlier to close to about 2.5 to 2.7 lakh outlets. If I was to look at the three-year horizon there are two things that we are doing - one is this point of sale outlet expansion for value added products which will be a continuous endeavor. The second thing is we are getting into this beverages business so we have now buttermilk, lassi, Topp up and Slurp which are there in the product category; with this we would like to expand our distribution to point of consumption outlets. If I was to add this point of consumption and point of sales outlet, I would say I would want to cross anywhere between 3.5 and 3.75 lakh outlet directly in my distribution over the next three years and look at an indirect distribution as well which is the nature of the business.

Harit Kapoor:

Understood. Last thing Mahesh was that you know A&P spend as you said was 8.5%; I just wanted to understand the context of so many innovations coming up, would you require a larger budget to take this forward over the next one or two years, and would A&P hence be a little higher especially you have a larger product pipeline?

Mahesh Israni:

See as a management committee obviously the CMO and the CFO would always have a tug of war while creating the business plan for the year but collectively all of us are responsible for numbers. Yes, from an innovation pipeline, I have to obviously look at a higher A&P spend; obviously we would have discussed this in the past how it is budgeted between the topline in knock off and the actual A&P spend. What is important and critical to me is the actually A&P which we keep on improving upon. The budgeted allocation for the next three years in terms of the business plan is yet the higher A&P spend in absolute value as we expand our consumer business. The total percentage or the total consumer business percentage spend might keep on going down and that is the endeavor. In terms of absolute value, yes, it will keep on increasing; between the new products and current product how do you manage the allocation and ensure that your newer product pipeline gets a fair share of visibility in the market is what the marketer's task is. So for example if I look at it, one single brand on which we are going to do which will sort of outshine everything is going to be Avvatar, as we get into the market and obviously in the next couple of years we will pick up one or two big ticket items from the new pipeline that we have and spend disproportionately on it and maintain the sustenance brand marketing behind the existing product pipeline.

Harit Kapoor:

Okay great. Thanks and all the best.

Moderator:

We have a next question from Kuldeep Razdan individual investor. Please go ahead.

Kuldeep Razdan:

Thank you. One major question. I am an individual investor. My concern is about the increase I have got in my holding in terms of value over the last one year. I am not getting the confident that two years later I will be in euphoria saying that yes, my investment is right. The one reason that I am saying so is I see that in Q4, that is this quarter, you have taken a reversal of the impairment charge to the extent of 7.3 Crores and if you remove this, I presume this is sitting in the other cost, and if you remove this reversal, your margin, which you said earlier in this quarter and year-on-year, has gone up, but has come down dramatically at least by 1.7% when I calculated. If we remove this reversal which is because of some different reasons that you are saying, you have done something else like introduced products made from cow urine and manure, so the margin has not yet increased. If I see earnings per share, that if I see for first two quarters and third quarter, if I reverse the negative minus 4.69 because of multiple reasons and substitute it by the Q3 of last year, it is 2.03; the total is that was the case the earnings per share would be only 8.8 not significantly more than 7.2. Now the earnings per share will drive the market capitalization, and which is now happening in our case with respect to the margin will go up or the revenue will go up, only that will drive the earnings per share and compared to this I do not see the competition a big competition like say Hatsun Agro, they say they can be very comfortable, they have driven their earnings per share doubled from 4 to 8.78 so we are not able to replicate this when I invested in Parag. I did compare everything and now I see that we are talking about three years and people like me will look at clear if one year is far better. So do you think that you are going to drive earnings per share a 20% increase, 30% increase of this sort? We already are just significantly higher in the IPO price so most investors have not made much, and therefore I am not sure as an investor whether I can hope for something better; can you give me some confidence that is all I am saying. I invested in large hope and that is why I have come on the call to ask you this. Every time when I see the price is fluctuating and I am getting doubts in my mind whether this is the right thing?

Bharat Kedia:

Kuldeep, I think in a way you are looking at is there have been some fluctuation in the price and that is driven by the financial performance that we released at the end of the Q3 which was a difficult quarter for us. We have been able to take some steps in the right direction, which is why we were able to deliver better results in Q4. We can see that from the results that has come. We are not claiming and speaking that we are out of the woods, everything is hunky-dory, things have come back. It is a hard call for FMCG company to really bring back the growth and the profitability momentum together. While we have been able to deliver a better profitability we are still working towards a delivering the better growth momentum as well. So as an individual investor we would say be patient. This company is here for the long-term. If you are looking on a quarter-on-quarter, high fluctuation in terms of either profitability or growth to drive the momentum into the market, I do know whether we are in that industry to be a right place to be. We are consistent about our delivery in the long run. So if you would have asked me this three years down the line, I think I would have said look at the past, but today we are only one year into this listing businesses and probably we need to be a little more patient to answer your question.

Kuldeep Razdan:

Sir, okay I get your point, what you are saying is you are very confident and I need to hold my patience. That is good. The other thing that I pointed out is in this quarter the margin, that in the initial speech you said has gone up by over 2%, but actually if you reverse the impairment charge that you have taken a reversal on that I presume it was sitting in other costs then the margin will just vanish because the reversal is purely accounting decision that you have taken, is not it, am I right or am I wrong?

Bharat Kedia:

You are absolutely right, so the PAT margin at the end of the last quarter was -8.5%. The PAT margin at the end of this quarter is +7%. There is a swing of 15.5% in the PAT margin obviously the reversal of the impairment does not account for 15.5%. It may account for about 3% that is true; so we still have a performance improvement which is significant.So I think we need to look at breakdown of this performance to understand what is it driving, yes, you are right, the way it looks a 7% PAT margins for the quarter if you start to eliminate the impairment of the cow certainly it will come down. But it is still far better than what we have delivered in the last quarter.

Kuldeep Razdan:

Sir in Q4 of last year there was no impairment charge; and in FY16 you had taken 4.2 and in Q1 FY17 you have taken 3.1, totally 7.3 which you reversed only in one quarter that is Q4 FY17. So year-on-year, I am saying I am comparing Q4 last year, and if compare Q4 FY17 and Q4 FY16, then the margins are not very different, hardly any improvement, am I right?

Bharat Kedia:

If you look at year-on-year and if the margins are not very different, it is a very good news. The reason why it is very good news is that the cost of milk has significantly increased year-on-year and if you are able to combat that cost, and if we still able to deliver and sustain the margin levels, we would say this has been a good year for us. Because this kind of increase in the raw material cost that we have seen is abnormal; we hope that it can only get better from where we are and it gets better going forward and we have better room for opportunity.

Moderator:

Thank you. I now hand the conference over to Mr. Dhaval Mehta of Emkay Global. Over to you!

Dhaval Mehta:

Thank you. Sir couple of questions. Starting with Slurp, what was our thinking behind having one more brand rather than we could have leveraged our existing Go brand itself with the mango-based drink?

Bharat Kedia:

So there are two points here- one, I could have gone with my mother brand of Go, it is not Gowardhan, couple of my other beverages are in that line which is lassi and buttermilk; the reason for going with the different brand is that if you look at it from a retailer lens, if I was to go with a Go brand, he would have typically associated me with the milk category because Go is synonymous with milk. I want to participate in the fruit beverages market and hence we thought it apt that we will go with a newer brand and ensure that there is no lineage of milk in this and hence participate in a larger market. Just to put it in perspective, the milk beverages market will be one-third of the fruit beverages market and I want the retailer to stock me in his mind in his shelf next to the fruit beverages brands which are there in the market. Yes, there will be a tough endeavor on our side to ensure that we establish the brand, which will be a task. Mentally we are prepared for it and over the next 36 months you will see a lot of, shall I say, marketing initiatives behind the brand; once we establish the part of the pudding, and through our distribution model, we are currently testing now in the four cities which I mentioned.

Dhaval Mehta:

Okay that is helpful Sir. My second question is on whey protein what is the strategy on whey protein especially for brand Avvatar so are we planning to launch a bouquet of products over here?

Bharat Kedia:

bouquet of products means?

Dhaval Mehta:

Like similar to health drink like products like a Protein shakes?

Bharat Kedia:

Let me put this in two parts, one the Avvatar brand is in the sports nutrition arena where I am currently getting in with this whey protein, which is absolute 100% whey protein. I have built an infrastructure which has a five-year horizon; once you get into a category you will obviously look at two things, one is expanding your product offerings in the category where we are getting into, and the second thought which we have is as we expand ourselves and as we get into this market place, there will be other formats of delivery as well. So what you are seeing today is the powder product which is the whey protein powder that we are getting in; there will be expansion within that format of delivery and we will also look at other formats of delivery so there could be various options - there could be sports drinks, there could be a nutrition & energy bars, there could be cookies, there could be a plethora of products - they are currently under R&D.

Dhaval Mehta:

That is helpful Sir. Thank you very much. I do not see any further questions in the queue. Thank you Sir once again for the opportunity to host this call. Would you like to make any closing comments?

Natasha Kedia:

I would like to thank everyone for joining us on this call. Thanks to the management - Mr. Devendra Shah, Mr. Mahesh Israni and Mr. Bharat Kedia; and Mr. Dhaval Mehta for hosting this call through Emkay. Please feel free to contact me for any further clarifications. You can find my coordinates in the Invitation or on the last page of the Q4FY17 results presentation uploaded on the stock exchange and our website.Thanks.

Moderator:

Thank you members of the management. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
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