



“Parag Milk Foods Limited Q3 FY18 Earnings Conference Call”

February 9, 2018

**MANAGEMENT: MR. DEVENDRA SHAH – CHAIRMAN
MR. VIMAL AGARWAL – CFO
MR. B. M. VYAS – ADVISOR
MR. SHIRISH UPADHYAY – ADVISOR
MS. NATASHA KEDIA – INVESTOR RELATIONS OFFICER
MR. DEEPAK JAIN – SENIOR MANAGER, FINANCE**



*Parag Milk Foods Ltd.
February 9, 2018*

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Parag Milk Foods Limited Q3 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements do not guarantee future performance and involve risks and uncertainties that are difficult to predict. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Natasha Kedia – Investor Relations Officer at Parag Milk Foods Limited. Thank you and over to you, Madam.

Natasha Kedia:

Thank you. Welcome to Parag Milk Foods Limited Q3 FY18 Earnings call. Let me begin by introducing the management participants for today's call. We have with us Mr. Devendra Shah – our Chairman, Mr. Vimal Agarwal – CFO, Mr. B. M. Vyas – our Advisor; Mr. Shirish Upadhyay – our Advisor; Mr. Deepak Jain – Senior Manager (Finance), and me, Natasha. I hope you have got a chance to look at our financial results and quarterly results presentation that is uploaded on both the stock exchanges as well as on the Company website.

I would like to start with an update on the budget highlights for the dairy sector:

- The Government has given great importance to increase the milk production in the country, and for this purpose, it plans to register 40 million milch animals with UID and the issuance of health card to 40 million milch animals which will lead to 20% increase in milk production by 2020.
- The Government has also planned to allocate Rs. 200 crores in FY19 for the establishment of 20,000 plus self-employed dairy units, provide training to 4,000 multipurpose artificial insemination technicians, and to introduce sex sorted semen technology of 1.5 million doses to increase the availability of high genetic merit heifers to increase milk production and profitability in dairy farming.
- The outcome of these factors and of these efforts of the Government would increase the value of output of milk by Rs. 15,000 crores along with additional employment to 1 lakh people and increase in artificial insemination by 15% over the medium term.

I will 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 on financials and then Q&A from our participants. Over to you, Sir.

Devendra Shah:

Thank you, Natasha. Good Afternoon and warm Welcome to all participants. Before I give you the brief business update, I would like to introduce the new addition in our management team:

- Mr. Vimal Agarwal – our CFO is a CA and MBA by qualification. He brings with him 18 years of rich experience in Financial Planning, Strategy and Controls in the leading FMCGs with his latest stint in PepsiCo India Private Limited.
- We also have on our team, Mr. Amarandra Sathe – as Chief Commercial Officer or CCO. Mr. Sathe has over 24 years of experience in new product launches, brand management, sales promotion & distribution management. Prior to joining the Company, he was associated with Kimberly- Clark Lever Limited as Director Sales - India & SAARC.
- I would also like to welcome on our team, Mr. Harshad Joshi – Chief Operational Officer (Plants). Prior to joining the Company, he was the CEO of Maahi Milk Producer, in Gujarat. He has previous experience at Bharti-Walmart India, and Amul. He is a Dairy Technologist with 26+ years of experience in Procurement, Production, Quality Assurance, Logistics, Merchandizing, Operations, Sales and Marketing in Dairy and Retail Industry.

As you can see, we have consciously strengthened our top management keeping the long-term horizon in mind. They bring with them rich industry experience which will be instrumental for the next leg of growth of Parag Milk Foods.

I will start with the update on the overall dairy FMCG sector:

The dairy FMCG sector in India is witnessing a huge boost from the increasing urbanization, changing consumer lifestyle, increasing income and increase in youth population. Moreover, consumers are focusing on goods that offer health, wellness, and the convenience. Overall, FMCG demand has seen an improvement due to recovery in the rural market on back of good monsoons last year. We expect the demand scenario to remain robust in both urban and rural markets due to market sentiments showing signs of revival backed by stability post GST.

Although, India is the largest producer and the consumer of the milk products, it's per capita consumption is lower than the developed countries. The consumption of milk and milk-based products among Indians have started increasing as they are now becoming health conscious. They have started consuming more protein-based products especially products made from 100% Cow's milk which has lower fat content and is easier to digest. We being among the very few players to have 100% Cow's milk and milk products, we are set to benefit from the same in the coming year by focusing on improving our business mix towards value-added products.

Moving on to some updates on our Nutrition-Based Value-Added products:

As all of you know, we have launched Avvatar - India's first 100% vegetarian Whey protein recently. In the third quarter our efforts were focused on creating greater awareness and distribution of our Avvatar brand. We have done a mix of various media & promotion campaign for Avvatar. In the third quarter, we have participated in the International Health, Sports, and Fitness Festival (IHFF) in Mumbai and "The Fit Expo 2017" in Kolkata. These events attract

among the India's top health and wellness personalities, experts and enthusiasts along with Fitness clubs, gyms & wellness institutes. We also continued to run various print media and social media campaign for 'Avvatar'. Our focus in the medium-term in to increase our protein portfolio by adding new variants, flavor, and formats of Whey protein powder.

We also launched Gowardhan Ghee Print Campaign on the occasion of Diwali festival in various leading newspapers like the Hindustan Times, Bombay Times, Delhi Times, Bangalore Times, Dainik Bhaskar, The Indian Express, and Loksatta. The campaign also helped us to promote the health benefits and nutrition from the Cow's milk.

The Company has launched Gowardhan Fresh 'n' Thick Dahi in Delhi made from 100% fresh and pure high-quality Cow's milk. This marks our entry into the northern region which contributes ~33% of the curd consumption in India. Delhi has always been an important market for us and we already have a very good consumer base for our Ghee, Cheese, and other products. With Gowardhan Curd, we continue to adhere with Company's mission for providing the health and nutrition to consumers across the country. To create awareness about the brand, we opted for 360-degree approach in our communication strategy.

We are also driving innovation by converting waste into the useful marketable product at our Bhagalakshmi Dairy Farms. We have introduced several products like organic manure, cattle feed, and fertilizers. Such initiatives along with our milk are sold under the brand name of "Pride of Cows" have led our dairy farm turn profitable. While this business is much smaller as compared to total business, we expect good profitability to flow in going ahead.

Finally, to combat the volatility faced in the sale and realization of SMP, we have made investments in quality enhancement and focused our efforts to develop speciality institutional business by signing long-term contracts with leading FMCG and companies selling High-end Nutrition products.

We continue to focus on developing a new setup for value-added products as well as increase sales and profitability from existing set of products which has not been the fully realized yet. The strong pipeline for future will help us achieve the sustainable long-term business strategy. As you are aware, we have integrated our business fully and are ready to capitalize on growth and utilize the strength of new additions to the management team.

Now, I would request Mr. Vimal Agarwal – our CFO to discuss our financial performance for Q3 and nine-month ended by December 31, 2017.

Vimal Agarwal:

Hi, everyone. I will first take you through the financial performance for the quarter ended December 31, 2017. The financials have been prepared as per the Companies (Indian Accounting Standards) Rules 2015, i.e. Ind AS.

Moving onto the quarterly financial performance,

In Q3 FY18, the Company registered Revenue of Rs. 5,192 million, a growth of 16% from Rs. 4,461 million in Q3FY17.

Consumer product Revenue in Q3 FY18 was Rs. 3,411 million, a growth of 16% year-on-year as compared to Rs. 2,953 million in Q3 FY17. The share of Milk Products for Q318 was 66% of total revenue, Liquid Milk was 18% of total revenue, and SMP or Skimmed Milk Powder was about 14% of total revenue.

EBITDA for Q3FY18 stood at Rs. 588 million as compared to a loss of Rs. 183 million in Q3FY17. The EBITDA margin stood at 11.3% for Q3FY18 driven by improved Gross Margins and Operating Cost efficiencies.

PAT for Q3FY18 stood at Rs. 254.8 million, which is 4.9% of net realization for Q3FY18.

Moving onto financial performance for the period ended nine months of Financial Year 2017-18:

Consolidated Revenue for 9M FY18 stood at Rs. 14,367 million as compared to Rs. 13,024 million for 9M FY17, which represents a growth of 10% year-on-year.

Gross profits for 9M FY18 was Rs 4,211 million as compared to Rs. 3,337 million in 9M FY17 signifying a growth of 26% year-on-year. The gross profit margin came in at 29.3% for 9MFY18.

EBITDA for 9M FY18 stood at Rs. 1,382 million as compared to Rs. 479 million in 9M FY17. The EBITDA margin stood at 9.6% for 9M FY18

PAT for 9M FY18 stood at Rs. 609 million, which is 4.2% of net realization for 9M FY18

That is all from my side and now we open the floor for Q&A. Thank you.

Moderator:

Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda:

Sir, my question is first on SMP and its contribution to gross margins, if there is any extraordinary contribution to gross margin on account of SMP for both, Quarter-3 and nine-month, that is first question? Second question is if you could give some color on the milk processing in volume terms for Quarter-3 and nine months and how does it compare on growth, and my third question is what is the cash flow from operations for nine months?

- Shirish Upadhyay:** Let me take the first two parts and then maybe Vimal will take you through on the third front. As far as milk procurement and SMP is concerned, let me clarify that SMP prices have also moved in line or in fact have moved ahead of the decrease in terms of milk price, and therefore, gross margin or realization in terms of SMP are in the similar range that we were getting earlier as well, so it is hardly 5% or so which is a traditional margin that we would have generated for this kind of commodity product.
- Pritesh Chheda:** 5% gross margin?
- Shirish Upadhyay:** Yeah, there is no material change in terms of the color of the margin that is generated there. In terms of procurement or processing, YTD, our procurement levels are almost similar as compared to last year, so there is not much of change in terms of the volume handled by us.
- Vimal Agarwal:** To answer your third question, overall cash flow position is pretty strong - this is the second quarter where our PAT is almost touching 4.9% and given that the overall gross margin and EBITDA numbers are looking good, the cash flow position is also pretty strong.
- Pritesh Chheda:** If you could tell, if you have generated in nine months an EBITDA of let us say Rs. 138 crores, what would be the corresponding cash flow for nine months from operations?
- Vimal Agarwal:** While we share the details overall, I just want to add that the numbers are looking pretty robust and if you look at the depreciation and all these are in line with what we have seen in Quarter-1 and Quarter-2 as well. From that perspective, our cash flow situation is pretty good.
- Moderator:** Thank you. We will take the next question from the line of Nirvi Shah from NS Limited. Please go ahead.
- Nirvi Shah:** Sir, I have two questions, one question is I just wanted your view on Danone's exit from India, which we recently heard sometime in January. And my second question would be how are you looking at your current quarter, since now we are in mid of Feb, so how is your Jan and Feb business been, can you just throw some light on that front, so how would this quarter be?
- Devendra Shah:** Danone International is a very good company; they are trying very seriously to perform in India, but India's distribution and procurement model is different, that is why they have planned to move out from the fresh dairy product. With regards to fourth quarter, we are doing good as almost one-and-a-half months have passed and we are seeing the performance during the period is good.
- Nirvi Shah:** Last quarter Q3, you will replicate that?
- Devendra Shah:** In the current quarter we are doing well, the performance has been good for last one month or so.

- Nirvi Shah:** I just wanted to know on going ahead as you said in an earlier con call and also the presentation that you are moving towards more value-added and given some growth strategy, can you just give some more colors on it, how you are planning to get this 13% to 15% of CAGR of topline?
- Shirish Upadhyay:** We have been trying to add value to whatever portfolio that we have and also move up the value chain in terms of categories that we are present in, so just to give you few examples, in Bhagyalakshmi Dairy Farms we have tried to convert waste into value added products and created a range of fertilizers and feeds specifically tailored for different needs and requirements and generated lot of value and in fact Bhagyalakshmi Dairy Farms is now not just profitable, but deriving much higher profitability as compared to the overall business. Similarly, in terms of commodity like SMP also we are getting into more specialty products and trying to add value into this kind of commodities as well.
- Moderator:** Thank you. The next question is from the line of Abhishek Singh from Birla Sun Life Insurance. Please go ahead.
- Abhishek Singh:** Sir, just wanted clarity on one number, your interest expenses for the current quarter has gone up significantly, so one, what is the reason for the same and should we put a similar number going forward?
- Vimal Agarwal:** The driver for this cost going up is that till September '17, we had NCDs which we have now converted into unsecured loans and that is driving up the finance cost.
- Abhishek Singh:** Does that mean that we will see similar expenses going forward also, an expense of approximately Rs. 10-11 crores every quarter?
- Vimal Agarwal:** Thereabouts in that range, I will not say Rs. 10-11 crores every quarter, you will see some reduction hopefully, but the sales are going up, and working capital requirements will continue to go up and we will find ways and means to ensure that our finance costs are range bound.
- Moderator:** Thank you. We will take the next question from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** Just couple of questions, firstly on the SMP part, so if you could just give a sense on the source of growth because in the base quarter also, you had seen a 50% growth in SMP and here you have seen a 34% growth, so was the thought process to unload the SMP as you could as the prices were falling or what was the thought process behind that?
- Shirish Upadhyay:** Here SMP being commodity, so the quarter is not the right measure in terms of looking at volumes that we do, because it all depends on market conditions and in a particular time, we may sell higher quantities as compared to another period, so right measure in terms of SMP is to look at annualized business and I think in terms of annualized business, we are restricting commodity as roughly 12%

to 13% of our business and we are not trying to increase volumes or value so that it is part of the strategy and we are trying to focus on that only.

Harit Kapoor: The other thing was on the pricing, so if you could just help us with your procurement price overall for milk, last quarter versus this quarter to get a sense of what is the extent of benefit that you have got on the cost front, which has led to this gross margin improvement?

Shirish Upadhyay: There has been slight benefit in terms of pricing which was there and we had discussed this in last call as well because we had started realizing benefit during Q2 and that benefit has continued, and hopefully, for another quarter or so that benefit would largely depend on the current situations which are there. But you also need to consider that being in this part of the business, large part gets diverted in terms of either promotions or passing of the price reduction into the market in terms of categories like liquid milk or commodities, so a large portion of expansion of Gross Margin is mainly coming from value added products and cost optimization that we have been trying to make.

Moderator: Thank you. We will take the next question from the line of Rahul Maheshwari from IDBI Asset Management. Please go ahead.

Rahul Maheshwari: I have two questions, first of all in milk products; can you give breakup of Cheese and Avvatar or mainly on the Cheese front or what was the growth kind of thing and the margins that you have been enjoyed?

Shirish Upadhyay: We do not provide separate breakup in terms of product wise volumes or value, but overall as we had discussed earlier, we have seen quite a good growth in consumer product business and products like Cheese, Paneer, etc., have done quite well and being our focus products have been going above average and driving the growth.

Rahul Maheshwari: Category enhancement or any pipeline into these products like Cheese, Paneer going forward, you are expecting?

Shirish Upadhyay: We go on rolling out newer products and SKUs into the market, so that is an ongoing process and we will be rolling out few more products in this category.

Rahul Maheshwari: Currently, what is the procurement from farmers, the percentage right now, is it 100% because earlier you were at something less than 70% kind of thing?

Shirish Upadhyay: Earlier it was 80% sort of procurement which was directly through farmer then remaining was mainly opportunistic purchases, we used to make it during seasonality and depending on our own requirement. As of now, that is not an issue, so it is all farmer procurement.

Rahul Maheshwari: We have reached 100% direct procurement from farmers or still 70%?

- Shirish Upadhyay:** It was never 70%; it was around 80% which we were having traditionally. As of now, as I told you since the requirement and the milk that is coming from the farmer is well balanced, so most of the milk is coming from the farmer, but on an annualized there might be some instances where we take something from traders or aggregators, so on an annualized basis there will be small percentage of milk that will be from our side as well.
- Rahul Maheshwari:** Any capacity expansion, what kind of average procurement per day we are doing at any 1.1 million liters per day, any rough estimate kind of thing and any going forward are you what is your estimate to increase it to by FY19-20 any guidelines on that?
- Deepak Jain:** If you see our procurement, last year we have around 11.8 lakh liter per day, so in this year also we are in the same level. And whenever we require, we directly procure butter and commodity from the markets, so depending upon the mix of the products, we are increasing our procurement as well as buying from the market..
- Rahul Maheshwari:** Next going year for any guideline you want to maintain that, you would be increasing this 11.8 lakh per day to what kind of capacity, that is the main thing?
- Shirish Upadhyay:** Basically, we have given a guidance in terms of top line growth and that is the value growth that we are targeting and volume growth obviously would be in line with that value growth guidance that we have given.
- Moderator:** Thank you. We will take our next question from the line of Maulik Maniyar from Citi Group. Please go ahead.
- Maulik Maniyar:** One of my question has been answered on interest cost, the second question has been on Avvatar, can you just quantify like how big is the opportunity like in-terms of the market size and when do you plan to launch in full scale?
- Vimal Agarwal:** Interest one we have already answered, I will request Devendra Sir to respond on Avvatar, Nutrition, and the protein opportunity.
- Devendra Shah:** We have launched Avvatar recently and is accepted very well by the market in the consumer segment specifically in the sports nutrition category. Our products are available online with Amazon and other online platforms where we have received a very good response. We launched this product initially in Mumbai and Kolkata and now we are distributing the same in, Bangalore, Chennai, with establishing a Pan-India presence. The total market size is around Rs. 1,500 crores to Rs. 2,000 crores and we are the first Company to introduce 100% Vegetarian Whey Protein. This is the first Indian whey protein powder which is pure vegetarian and is derived from milk protein only and is soya free and sugar free. It is available in 2-3 flavors currently and we are planning to add some more flavors in future. The Government wants to promote the local Indian protein manufacturers as earlier there are lot of Whey protein products which were imported. But

now Government is coming down on them with very strict regulations as the unauthorized protein is imported into the country and the source of protein is not specified and that is why this Avvatar is well accepted in the country and is why we are growing very fast.

Maulik Maniyar: It is safe to assume you are the first player, right; there is no other domestic player in this space?

Devendra Shah: We are the first player in the Country with a fully integrated manufacturing capacity.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna: Your milk products division saw good growth; could you break that up in terms of Paneer, Cheese, and all like how much growth those individual products saw?

Vimal Agarwal: For value-added products, our growth has been 16% and as far as Cheese and Paneer are concerned, they are upward of 16% year on year.

Kaustav Bubna: What about Ghee?

Shirish Upadhyay: Ghee numbers again we have discussed this many times earlier, Ghee has lot of seasonality into play and it all depends on the Festival season exactly when it comes during Quarter-2 or Quarter-3 and accordingly quarter on quarter and year-on-year number may fluctuate somewhere here or there, so better is to look at annualized growth in terms of category like Ghee and it is in line with the growth in consumer products, so that is what we can say.

Kaustav Bubna: But what was the biggest laggard, in your milk products which was the biggest laggard?

Shirish Upadhyay: There is nothing like laggard, all the categories have been growing, so there is nothing like laggard per se.

Kaustav Bubna: One more question on Avvatar, just wanted to know by 2020 what would you estimate the market size to be and how much market share would you want, I mean realistically like how much market share do you think you can have?

Devendra Shah: This segment is growing very fast, particularly the Sports Nutrition. Today, this market is around Rs. 1,500 crores to Rs. 2000 crores. Whey is the byproduct of Cheese so the Whey manufacturing capacity will depend on Cheese manufacturing capacity. In the next couple of years, our target is to capture 3%-5% of the market.

Kaustav Bubna: Okay, 3% to 5% market share, but at what rate will this market grow for the next five years?

Shirish Upadhyay: Around 20% plus.

- Moderator:** Thank you. We will take the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddh Joshi:** Just one question, we have launched Dahi based on Cow's milk so actually this ingredient based strategy, Cow milk or buffalo milk it has worked in either milk or it has worked in Ghee, but nobody has ever tried it in Dahi, Buttermilk, flavored milk, Paneer, and I guess when we had discussions last time that time also you had indicated that cow milk turns yellow, so generally those who want pure white products like Dahi or Mitai etc. they do not generally prefer Cow milk-based products, so how do you see our positioning and growth path on this product?
- Devendra Shah:** Consumer experience is not so much different in the Cow milk product segment. If you consume curd made from Cow's milk, it is lighter, it gives a good aroma and it is very good source of protein. With regards to its color, sometimes there might be a little bit of tinge but that is the natural process. When we launched the Dahi in Delhi, it was well accepted within the initial few days itself. From the health and nutrition point of view, the products made from cow's milk are better and people are preferring these products more.
- Aniruddh Joshi:** Lastly, whether compared to our peers, we have not yet introduced aggressively the products like Greek Yogurt or Mishti Doi or even other food based flavored yogurts, any plans to launch them in this year or FY19?
- Devendra Shah:** We have few products in our innovation pipeline. Product innovation is DNA of our Company. First, we will penetrate the market with regular products and then we will launch new innovative products in those markets.
- Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar:** What is the number of retail outlets that we have added during quarter and last nine month?
- Natasha Kedia:** The rate at which we are currently going, we are looking at adding approximately 9,000 retail outlets per month.
- Shailesh Kumar:** What is the quantum of NCD which has been converted into unsecured loans?
- Deepak Jain:** It is approximately Rs. 18 crores.
- Shailesh Kumar:** Looking at the current raw material price scenario, are we still contemplating taking a price hike in Q4 as we have discussed in last con-call?
- Deepak Jain:** In this quarter also, we have not taken any price hike and looking at the current milk prices, we are not expecting any price hike on the consumer products as of now.



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- Shailesh Kumar:** At least, we would be sustaining the margin, nine-month EBITDA margin what we have done, we would be sustaining for the full year?
- Vimal Agarwal:** We will be sustaining the margins which we achieved YTD for the full year basis as well.
- Moderator:** Thank you. Our next question is from the line of Praveen Shah from Edelweiss. Please go ahead.
- Praveen Shah:** Sir, I have one question related to the procurement price, how was the procurement price for us for the last quarter and how is currently going on?
- Natasha Kedia:** The procurement price this quarter is almost similar so QoQ has been more or less flat.
- Praveen Shah:** It is currently continuing at the flat rate?
- Shirish Upadhyay:** Yeah.
- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Shubhkam Ventures. Please go ahead.
- Dixit Mittal:** Sir, my question is on this Government incentives that Maharashtra Government had announced, so how much it is included for this quarter and for nine months?
- Deepak Jain:** This PSA incentive scheme which is basically provided by the Maharashtra Government to the Company on the basis of infrastructure and employment generation at the Manchar plant, so whatever the benefit we receive from the Maharashtra Government, it is already built in at the pricing and passed on to the consumers. So if we see this quarter, we received on similar lines to last quarter..
- Dixit Mittal:** Sir, can you quantify how much quarterly you are getting?
- Deepak Jain:** Better if you see it as an annualized number which is reported in the annual report, so based on that you can quantify the quarterly amount.
- Dixit Mittal:** I think Sir it was Rs. 280 crores for eight years, so we can divide that evenly in quarter?
- Deepak Jain:** Yeah, more or less.
- Moderator:** Thank you. Our next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.
- Tushar Sarda:** I wanted to understand since Avvatar is made from Whey, what is the maximum production that we can do?

- Shirish Upadhyay:** Maximum production of this kind of product actually is linked with Cheese production that we do because Whey is a byproduct of Cheese.
- Tushar Sarda:** Exactly, that is what I wanted to know what is the maximum turnover based on current Cheese capacity that you can reach for Avvatar?
- Shirish Upadhyay:** We do not look at Avvatar individually, it is the entire Whey portfolio that we look into and over a medium term we are looking at making the Whey portfolio roughly around 7-8% of our total business, so we are targeting that only.
- Moderator:** Thank you. Our next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.
- Megha Hariramani:** My question is on the cash, what is the net cash as on December 2017 on the balance sheet?
- Deepak Jain:** These are the numbers are not required by the regulators, so these numbers will be reported in the March balance sheet.
- Megha Hariramani:** But the unutilized amount that we have shown in the presentation from the IPO proceeds how do we intend to use that?
- Deepak Jain:** These are as per what we have mentioned in our RHP objective clause. This will be utilized basically more towards ETP project, Whey project and some of the retention money which will be utilized based on completion of the projects..
- Megha Hariramani:** On the working capital days, what is the current number as on quarter and vis-à-vis same quarter last year?
- Deepak Jain:** Working capital number on quarter on quarter would be difficult but if you see on an annual basis, it could remain within the same range.
- Moderator:** Thank you. Our next question is from the line of Percy Panthaki from India Infoline. Please go ahead.
- Percy Panthaki:** Sir, just wanted to know your thoughts about and your plans of the UHT segment because it is a very fast growing segment and I would assume that margins are better than pouch milk and the benefits of low working capital which you get in pouch milk would also more or less be similar to UHT, so whether these assumptions are correct and your general comments on how you look at this segment and your plans for the next three to four years?
- B. M. Vyas:** UHT is a technology and when you use UHT technology it extends the shelf life of product to almost a year, so whether you market milk or cream or beverages, it enables you to extend the

shelf life and distribute the product on an entire country like India and it has a great future in time to come, and therefore, we have a portfolio of product like Buttermilk or Lassi or plain milk, cream and we are going to promote this and distribute this product as widely as possible.

Percy Panthaki: Sir, any targets that you can share on this?

B. M. Vyas: It would be difficult to put a target because these are seasonal products also, they are products like Buttermilk which sells more in summer and plain milk which would sell round the year, so putting any specific target would be difficult, but the portfolio is great.

Percy Panthaki: My second question is on Avvatar, you have mentioned the market size but if you could also give an idea about the competitive landscape in terms of who is the largest player and approximately what market share the largest player would hold and then what is the extent of fragmentation like the Top 5 would collectively hold what market share, so something on these lines and also if you can give an idea on what approximately would be the gross margin is that you would look for this product?

Devendra Shah: All leading international players like Glanbia are leading in Indian market as well, and then there are rest of other players. Competition also depends on the import policy. Basically, traders import this product and then sell in the markets. We have introduced Avvatar and we are the 1st Company to introduce and distribute the product like an FMCG product whereas rest all other players market these products as commodity, they import these product and sell. Our product is freshly manufactured, 100% Vegetarian, Soya, Gluten and Sugar free and is continuously available in the market, that is the difference between us and all other international players.

Percy Panthaki: Margin, Sir?

Devendra Shah: Margins are very good.

Moderator: Thank you. We will take the next question from the line of Mahesh Bendre from Karvy Equity. Please go ahead.

Mahesh Bendre: Sir, on the business outlook you have provided guidance for 13% to 15% sales growth over next three years, so what kind of volume growth out of this will be?

Shirish Upadhyay: You remove the inflation and remaining would be the volume growth, would be roughly 4% to 5% sort of inflation, which you need to adjust out.

Mahesh Bendre: So volume growth will be 6% to 7%, Sir?

Shirish Upadhyay: Yeah, somewhere around that line, it would be bit higher, so that is roughly around 8% odd.



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Mahesh Bendre:

Sir, we are entering into new geography. We are introducing new product categories and so on, so our advertisement, marketing, and distribution cost will be high, so when do you think that will stabilize and that will start influencing our operating margins because the long term guidance we have given for EBITDA margin is between 10% to 11%, but what we have seen in the last quarter is we have already touched 11.3%, so what is the view on this?

Shirish Upadhyay:

I think you need to consider three things, number one, we are an FMCG Company and being an FMCG Company, marketing and advertisement remains an important part and some portion of your spend needs to be dedicated for that purpose and we are seeing that we have been able to do a good job in terms of balancing the total advertisement costs that we are dedicating out of line as of now. So we think as the business grows as a percentage of business, I think advertisement cost would remain in a similar range. However, what happens is we have been discussing this over last few con calls that we have two components in this, there is one component wherein we provide in-store promotions and other BTL activities which are netted off from the top line and there is another component like advertisement and mass promotion activities which are part of the P&L. So what is happening is gradually there is a decrease which is happening on the BTL front and that is what is driving some increase which you will see at say growth level, but there is also an increase overall happening in the advertisement spend which is getting netted off, so I think overall this is just a shift happening from BTL to ATL, but overall as a percentage of sales, our advertisement cost would remain more or less in the same range.

Mahesh Bendre:

If you keep growing with the double-digit rate and we have achieved the margins what we have been indicated so with the strategy of the Company that we will see the margin in this band irrespective, the incremental benefit will get out of scale, we will spend on distribution and marketing at new geographies and new product side?

Shirish Upadhyay:

Yes.

Moderator:

Thank you. The next question is from the line of Kaushal Shah from Thanki Securities. Please go ahead.

Kaushal Shah:

Sir, the question was that over the last six to seven quarters, we were looking at the growth in our milk products, the value-added segment and we realized that the growth has remained in single digit just around 4% or 5%. In fact, this is the first quarter that we have posted a 15% to 16% growth, so there were two questions, Sir, one is that despite having very, very good products are we lacking somewhere in terms of marketing etc., and it is not translating into sales and the second was now that we have posted a good double-digit growth, what is the outlook from here on?

Shirish Upadhyay:

I think outlook we have already given a guidance of roughly around 14% to 15% kind of top line growth over the medium term and we are on track in terms of delivering that. As far as your contention regarding slower growth in consumer products is concerned, I do not think that is the case, and is not an issue. Third also let us clarify again that we are looking at value addition so we

look at getting higher value and profitable business out of whatever categories that we do, and therefore, we will not chase volumes like any other player in the market.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Sir, I just want to know the procurement prices, I have heard that the earlier comment that it has been flattish quarter on quarter, so what is the exact price?

Natasha Kedia: Procurement prices are actually competition sensitive, so we cannot give that information.

Runjhun Jain: The average procurement prices, Madam, that has always been available and discussed.

Devendra Shah: No, as a policy we cannot give out the price at which we procure as it is competition sensitive for us.

Runjhun Jain: Just one thing, year on year, can you just tell me that it has declined then if it is then how much percentage wise, do not give me the exact amount?

Natasha Kedia: There has been a slight decline of around 5% to 7%.

Runjhun Jain: That is it, year on year?

Natasha Kedia: Yes

Moderator: Thank you. We take the next question from the line of Dhaval Mehta from Yes Securities. Please go ahead.

Dhaval Mehta: My question is that if you see the procurement price has declined by around 21% to 22 odd percent from stock which was in around Jan-Feb of 2017, so at what level you feel that you need to pass on some benefit to the consumer because we have not taken any price decline per se in our consumer product portfolio, so at what level you feel that we will need to pass on some benefits to the consumer?

Shirish Upadhyay: Dhaval, in this particular business what happens is while we may not decrease the MRP per se in to the market as far as consumer products are concerned, but we need to pass on higher incentives and increase promotions into the market which effectively translates into lower realization and which are matching or similar to the drop that we have seen in terms of raw material prices. In terms of commodities, it is almost immediate and happens almost the same.

Dhaval Mehta: Basically, am I right to say that it also depends a lot on how the competition is doing especially a bigger player like Amul, if they pass on the price decline then we will also have to do the same?



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Shirish Upadhyay: Not necessarily, it all depends on what category that we are focusing on and where we want to chase volumes, so it all depends on that.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the floor back to the management for closing comments. Over to you, Ms. Natasha Kedia.

Natasha Kedia: Thank you. I would like to thank all the participants for taking the time out to join us. Please feel free to get in touch with me or SGA, our Investor Relations Advisors, for any further questions. Our coordinates are provided at the end of the Q3 FY18 Earning's Presentation which is uploaded on the stock exchange as well as the Company website. Finally, I would like to end by saying that we are well poised in our Strategic Growth journey and our on course to becoming an FMCG Dairy Company with a focus on Health and Nutrition. With a pan India distribution network, several strong brands, a pipeline of value added innovative products, and a unique positioning of 100% Cow's milk, we are confident of a sustained mid-term and long-term growth. We look forward to your continued presence and confident that we would present strong performance in the coming quarters. Thank you.

Moderator: Thank you members of the management. Ladies and Gentlemen, on behalf of Parag Milk Foods Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.