



“Parag Milk Foods Limited Q1 FY19 Earnings Conference Call”

August 07, 2018



MANAGEMENT:

**MS. NATASHA KEDIA – HEAD INVESTOR RELATIONS
- PARAG MILK FOODS LIMITED**

**MR. DEVENDRA SHAH - CHAIRMAN AND FOUNDER -
PARAG MILK FOODS LIMITED**

**MR. VIMAL AGARWAL - CHIEF FINANCIAL OFFICER
- PARAG MILK FOODS LIMITED**

**MR. SHIRISH UPADHYAY –ADVISORY - PARAG MILK
FOODS LIMITED**

**MS. AKSHALI SHAH – VP (STRATEGY SALES &
MARKETING) - PARAG MILK FOODS LIMITED**

**MR. AMARENDRA SATHE – CHIEF COMMERCIAL
OFFICER- PARAG MILK FOODS LIMITED**

**MR. VINAY JAIN – HEAD (SPORTS NUTRITION) -
PARAG MILK FOODS LIMITED**

**MR. VPS MALIK – HEAD (INSTITUTIONS HORECA) -
PARAG MILK FOODS LIMITED**

**MR. DEEPAK JAIN - SENIOR MANAGER (FINANCE) -
PARAG MILK FOODS LIMITED**



Parag Milk Foods Limited
August 07, 2018

Moderator: Ladies and gentlemen good day and welcome to Parag Milk Food Limited Q1 FY19 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 date of this call. These statements do not the guarantee future performance and involve risk 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 this conference call, you may signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Natasha Kedia – Head Investor Relations from Parag Milk Foods Limited. Thank you and over to you madam!

Natasha Kedia: Thank you. Welcome everyone to Parag Milk Foods Q1 FY19 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, our CFO, Mr. Shirish Upadhyay – who is an Advisory to the Team, Akshali Shah, who is our VP Strategy, Marketing and Sales, Amarendra Sathe, who is our Chief Commercial Officer; we also have with us the Head for Sports Nutrition, Vinay Jain, Head for Institutional and HoReCa, Mr. VPS Malik; and a Representatives from Vector. I also have in the call Deepak Jain, who is the Senior Manager in Finance and myself Natasha is along with our Investor Relations Advisor, SGA.

I hope you have all got a chance to look at our financial results and presentation that was uploaded in the stock exchange as well as on our company website.

Let me start with an update on the overall dairy FMCG sector. India’s dairy FMCG sector is valued at \$110 billion, which is largely driven, by rising urbanisation, changing consumer lifestyle, higher disposable income and growing youth population. We have seen the emergence of two structural themes, which will drive this multiyear growth in the industry. The first one is the shift from the unorganized to the organized market and the second is the consumers changing habits.

In the organized sector, Parag has achieved significant success in value added products, a segment that the unorganized players cannot compete with in terms of quality and range. Furthermore, we are expecting FMCG demand to pick-up on the back of good monsoon, government schemes to boost rural demand and stability post GST.

The trend is also shifting towards health and nutrition as consumers are now becoming health conscious. This is leading the people consuming more milk and milk-based products especially products made from 100% cow’s milk. We being the only company in India with 100% cow’s milk products are set to benefit the most.



Parag Milk Foods Limited
August 07, 2018

Moving on to the company's key update. As you all know, innovation has always been a part of our DNA and it has been our constant endeavor to find new ways to meet the ever-changing needs of our consumers. To ensure that our momentum of enhancing the value-added product portfolio continues, we have launched several products recently.

Parag has announced the launch of Gowardhan Mishti Doi, a premium product under the fresh product category. The launch of Mishti Doi is an effort to expand the Gowardhan portfolio into new product categories like desserts and expand our fresh product portfolio. This product is available in modern trade and general trade outlets in all metros in an 80 gram pack.

Parag has also launched a new variant in whey protein called Advanced Muscle Gainer under the brand Avvatar. The product is specially designed to support lean muscle gain with controlled fat levels. The product is available in the flavors of rich chocolate and in pack sizes of 3.3 lbs, 6 lbs and 10 lbs. With the launch of this product, we have moved one step forward in establishing our product portfolio in the health and nutrition segment.

Further, Parag has also introduced Go Colo Power, the first 100% natural immunity booster in the health and nutrition segment. This product has made from Colostrum, which is the first milk of a cow when she gives birth to a calf and it is rich in immunity boosters. We have collaborated with ColoPlus AB a Swedish research organization to launch this product under their patented recipe. Colo Power will be available in e-commerce platforms and in all metro cities in a 200 grams pack.

We have also strengthened our cheese category with the launch of Go Chocolate Cheese under Cheese Slices. The product is mainly targeted towards kids and it is available in retail and modern trade outlets in India. It will be promoted by a 360-degree campaign that will commence shortly. In this way, we have maintained our momentum of enhancing the value-added product portfolio.

I would now like to hand over the call to Mr. Devendra Shah, Chairman of our Company to share his thoughts in 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 evening and a warm welcome to all the participants.

We have started the new financial year on a positive note by achieving strong numbers, which was driven by growth in our consumer products segment. This is an indication that we are on a track to achieve our Vision 2020 of topline of Rs. 2,700 to 3,000 Crores, EBITDA margin of 11% to 12% and ROCE of 18% to 20% by FY20.



Parag Milk Foods Limited
August 07, 2018

We are very happy to announce that in our efforts to expand our geographical reach in the north and the east of India, we have commenced our third manufacturing facility in North India post acquisition of the facility from Danone Manufacturing Foods and Beverages in Haryana in Sonipat. We have completed all regulatory requirements and have commenced the supply of fresh curd to the nearby markets in Delhi NCR. We will be closer to end consumers and will be available to cater to their requirements with better offering of their choice. We are also looking at expanding this facility further by adding a few more products lines.

Several initiatives are being taken to improve our distribution Pan India in general trade, modern trade and institutional markets and I am sure this will bring substantial improvement in our sales growth. We did a pilot project and we have seen a significant improvement on all parameters like number of the outlets billed, higher range of the products sold and repeat orders by the outlets. We are on track to implement this project in all major metro cities to boost sales.

Few updates on the industry that concerns you all, we are focusing on the value-added products, which comprises 2/3rd of our turnover and are working on strengthening our brands. We are extremely proud of the strong relationships that we have developed with the farmers over the last two decades. They have continued to be loyal to us and the current requirements of milk is adequately met.

In another development, the Government of India both central and state are supporting the dairy industry, directly & indirectly to the farmers through companies like us. In particular, the Government of Maharashtra has fixed the procurement prices of milk at Rs.25 per liter, which is a win-win situation for both farmers and us. This recent policy by Maharashtra government will also help to improve the overall quality of milk available.

The government has also announced that they will be providing a 10% subsidy on the export of milk and milk products. We believe that this move will boost dairy export from the India which has dried up in the past due to suppressed global prices. Parag is well placed to benefit from the same which will lead strong double-digit growth in exports. Government of India should explore and further increase such benefits to support the industry.

Lastly, I would like to thank to entire team of Parag for their commitment towards building this company into a FMCG Company. On back of all the above initiatives and support from the team, I once again reiterate that we are on track to achieve the guidance as per our vision 2020.

Now, I would request Mr. Vimal Agarwal, our CFO to discuss our final performance for the quarter ended June 30, 2018.



Parag Milk Foods Limited
August 07, 2018

Vimal Agarwal:

Thank you Devendra Sir. Good evening ladies and gentlemen. With respect to the company's financials, please note that the financials are prepared in accordance to the Companies Rule 2015 that is Ind-AS prescribed under Section 133 of the Companies Act 2013.

Now I will take you through the financial performance for quarter ended June 30, 2018.

Consolidated revenue from operations for Q1 FY2019 stood at Rs.5,494 million as compared to Rs.4,129 million for Q1 FY2018 representing a growth of 33% Y-o-Y. Growth is primarily driven by categories like Cheese, Ghee, Paneer and others.

Revenue from our milk products in Q1 FY2019 was Rs.3,632 million representing a robust growth of 41% Y-o-Y as compared to Rs.2,578 million in Q1 FY2018. The share of milk products for Q1 FY2019 is 66% of total revenue while the share of liquid milk is 19% of total revenue. Share of SMPs for Q1 FY2019 is 13% of overall revenue.

EBITDA for Q1 FY2019 stood at Rs.597 million as compared to Rs.285 million in Q1 FY2018 resulting in a growth of 109% Y-o-Y. The EBITDA margin stood at 10.9% for Q1 FY2019 due to operating leverage and high capacity utilizations.

PAT for Q1 FY2019 stood at Rs.283 million as compared to Rs.105 million in Q1 FY2018 recording a growth of 169% Y-o-Y. The PAT margin stood at 5.1% for Q1 FY2019.

In this quarter, we have endeavored to improve our working capital through continued focus on all key levers associated with inventory and debtors. With all these efforts our working capital has remained in check.

This is all from our side and now we can 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. The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar:

My first question is pertaining to the topline growth. The Sonipat acquisition that we did, does that get factored into the current quarter reported number?

Vimal Agarwal:

The current acquisition, which we have done of Danone facility in Sonipat, has started commercial production from July 2018 and to that extent Q1 numbers does not include any revenue from this facility.

Nitin Gosar:

And what is the reason for the quarter-on-quarter dip gross margin Sir?



Parag Milk Foods Limited
August 07, 2018

- Vimal Agarwal:** The dip in Gross Margins is not significant if you notice and that is largely driven by our focus on driving the value-added product business apart from expanding in all key categories. You will observe that the revenue is at an all time high of about Rs.550 million and one of the key driver is the investments which we have done in trade, which has led to some dilution in percentage terms so far as gross margin is concerned and otherwise in terms of absolute rupees I am sure you would have seen that the numbers are looking very strong.
- Nitin Gosar:** I am just trying to understand that the gross margin percentage wise Q-on-Q dip does it anyway gets captured because of higher margins due to the trade channel over here?
- Vimal Agarwal:** Not really. The overall margin, which we pass on, is the base margin, and then over and above Parag or any other company runs lot of trade promotions and offers to boost the volume and that will continue. For example, you had investments in big days coming in August, and those kinds of promotions will continue to be operated in key channels like modern trade across all important categories for us.
- Nitin Gosar:** This trade promotions, which we are running over and above the normal margin are they getting deduced from the topline and then you are reporting the topline is this correct understanding.
- Devendra Shah:** That's absolutely right.
- Moderator:** Thank you Sir. The next question is from the line of Dhruv Agarwal from Crescita. Please go ahead.
- Dhruv Agarwal:** Good afternoon Sir. Congratulations for good set of numbers. Sir my question pertains to the interest and depreciation expenses, year-on-year they have increased by more than 25%-30% so the quarterly run rate, which we see for the first quarter for interest and depreciation is that expected to continue for the remaining three quarters or will it increase going from here?
- Vimal Agarwal:** If you look at the last four quarters trend, overall interest has been in the range of about Rs.100 million or say Rs.10 Crores and that is not expected to increase as we go into the subsequent quarters. In fact, if you refer back to the earning call, which we had last time we had talked about the key reason or the rationale for increase in this expenditure last quarter versus the Y-o-Y tend, I do not think that is going to go up. Now on depreciation standpoint, for the next one and a half years our guidance is that we are not going to invest in capacity expansion and that guidance stays. Having said that last year there were few investments, which were made during the year and the depreciation increase, which we are seeing right now is more of a catch up versus that on a lower base, that is the second point. The third one is only investment which we are now making is one is Sonipat plant and a maintenance capex but no capacity enhancement outside of Sonipat plant.



Parag Milk Foods Limited
August 07, 2018

- Dhruv Agarwal:** The Rs.30 Crores capex which you were supposed to do in Sonipat has that been completed.
- Vimal Agarwal:** It had two parts. See one was the acquisition from Danone that is absolutely completed, the second one was that we are looking at the opportunities in Delhi NCR and then investing the balance amounts. We are making few a investments and as we complete our research in that geography we will go ahead and spend the balance. So about 60% has been invested till now.
- Dhruv Agarwal:** So out of the 30 Crores, 18 Crores is you are saying is what is invested till now.
- Vimal Agarwal:** Yes.
- Dhruv Agarwal:** Sir one last thing on the tax front. For full year FY2019 what will be the tax rate accruing to the company.
- Vimal Agarwal:** It should be closer to the number, which is in the range of 26% to 28%.
- Dhruv Agarwal:** Thank you so much.
- Moderator:** Thank you Sir. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir on the interest part with that what would be the debt number on Q-o-Q basis?
- Vimal Agarwal:** Our debt number will be closer to 260-270 Crores.
- Pritesh Chheda:** This is net or this is gross.
- Vimal Agarwal:** It is the gross.
- Pritesh Chheda:** Has it increased on Q-o-Q basis because interest is up, so I am just wondering?
- Vimal Agarwal:** Not really, Rs. 5-10 Crores here and there but not really.
- Pritesh Chheda:** On the volume growth side if you could share what would be the volume of milk processed in the quarter and versus the same quarter last year, which will give some indication of volume growth?
- Vimal Agarwal:** The overall milk, which we would have handled and processed broadly on an average will be closer to 12.5-13 lakh liters a day and I think last quarter-on-quarter we were about closer to 10-10.5 lakhs.
- Pritesh Chheda:** Quarter-on-quarter means Y-o-Y right same quarter last year?



Parag Milk Foods Limited
August 07, 2018

- Vimal Agarwal:** Yes right Y-o-Y.
- Pritesh Chheda:** On the gross margins side, Sir we have a whey, which has also got added in the revenue numbers and when I look at the mix on Q-o-Q basis it is more towards value add. So then what explains the 200 basis point reduction in gross margin?
- Vimal Agarwal:** So far as the whey is concerned so we continue to do well and build that category and we have already given our guidance that we will be closer to **7% of overall sales in the health and nutrition category by FY21 which will not be a challenge for us.** So far as gross margins on whey as a category is concerned, that is above our average. So that also is not an issue and to that extent this category is not impacting gross margins for us.
- Pritesh Chheda:** It should improve right. Why should the gross margin on Q-o-Q basis, reduce by 200 basis points?
- Vimal Agarwal:** So what happens is your mix of whey in the overall portfolio is very small so irrespective of whether the margins are high or low, at this stage or in this quarter it will not have a significant impact on the gross margin at an organization level.
- Pritesh Chheda:** Even your value-add products portfolio on Q-o-Q basis is higher, so despite that the gross margin is lower. So is there any other observation on it?
- Devendra Shah:** The key aspect is really the money **you have invested in trade to build the overall distribution** that is the key driver.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir my question is on milk pricing because recently government is trying to lift up the prices by export subsidy or there have been talks that some MSP sort of mechanism may come in. So what are your thoughts and will it impact our procurement costs?
- Devendra Shah:** This situation is only there in Maharashtra for the next few months. The Government is taking positive steps towards the industry by offering Rs. 5 incentive to farmers through manufacturing companies like us. This will help the farmers to increase their milk production and provide stability in income. This will in-turn benefit the overall industry and consumers. **The central government is also giving a 10% export subsidy for export of milk and milk products.**
- Dikshit Mittal:** So the Rs.5 is being given by the government from its own budget.
- Devendra Shah:** **Yes for next three months.**



Parag Milk Foods Limited
August 07, 2018

- Dikshit Mittal:** Okay and any MSP kind of thing happening in the near-term?
- Vimal Agarwal:** From MSP standpoint we have not seen any guidance and we do not expect any guidance to come in so far as the Maharashtra state is concerned.
- Dikshit Mittal:** Thank you sir.
- Moderator:** Thank you. Next question is from the line of Mehul Desai from IDFC Securities. Please go ahead.
- Mehul Desai:** Thank you for taking my question. My first question is on the revenue front when you say the milk products have grown by about 41% and it is largely driven by cheese and ghee is it fair to assume that cheese and ghee, which are your major contributors have also grown at the similar rate or is there any other product line which has grown much above 40%?
- Vimal Agarwal:** There are two key categories; one is ghee and cheese where we have seen very strong growth then there are smaller categories like paneer and whey where the growths are extremely high and those were also contributing in this growth.
- Mehul Desai:** Sir what are the others in this the fourth segment which you have?
- Natasha Kedia:** Others are largely the conversion charges and some other revenues, which we generate from Bhagyalakshmi Dairy Farm, like cattle feeds, manure sale etc.
- Mehul Desai:** Just lastly on this topline growth that you have achieved in your sense how much of this has come from your own internal initiatives in terms of portfolio and distribution expansion and how much would you attribute to actual improvement in the demand environment?
- Amarendra Sathe:** Basically we have improved our distribution across India, so you can say maybe 30 - 35% of the total growth has come from the distribution expansion, 65-70% is because of the improved demand from the market as we have our brands already established in the market. We have just started our distribution expansion, so I think in coming two quarters the result will be more because of the distribution.
- Mehul Desai:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Anirudha Joshi from ICICI Securities. Please go ahead.



Parag Milk Foods Limited
August 07, 2018

- Anirudha Joshi:** Just one question, regarding this subsidy mechanism of Rs.5, so how it will be calculated because we source the milk based on the fat content and the subsidy is based on the number of milk liters so how are we going to do the accounting for this?
- Vimal Agarwal:** The subsidy of Rs.5 is based on 3.5% fat and 8.5% SNF. And that is the key criteria, which will be used. Any sort of lower quality then they the stated standards will lead to reduction the way it has been done in the past. So Rs.5 is on 3.5%, 8.5% criteria.
- Anirudha Joshi:** So if I understand correctly so we would be paying Rs.25 to the farmers and then the government will give us Rs.5 so net-net we would be procuring at Rs.20 is it correct?
- Devendra Shah:** Earlier we are paying around Rs.22 to Rs.23 and now with this Rs.5 subsidy we will pay minimum Rs.25 to the farmer.
- Anirudha Joshi:** So what would be our procurement price means it will be Rs.27 and then we would be getting Rs.5 refund from the government.
- Devendra Shah:** Yes but we are paying to farmers minimum Rs.25.
- Anirudha Joshi:** So this is only for a period of three months?
- Devendra Shah:** Three months.
- Vimal Agarwal:** I think the key point to note here is that subsidy is not for the entire procurement.
- Devendra Shah:** It is only for the value-added products, which are made in Maharashtra.
- Anirudha Joshi:** So pure milk business there will not be any subsidy.
- Devendra Shah:** No, but everyone have to pay Rs.25 to the farmer.
- Anirudha Joshi:** But then those who are in pure milk business they will be still have to pay Rs.25 but they will not get the Rs.5 benefit from the government.
- Devendra Shah:** Yes absolutely.
- Anirudha Joshi:** So Sir this is clear advantage for the product companies like Parag?
- Devendra Shah:** Yes for companies who are focusing on Value-added Products. It will definitely benefit Parag as well.



Parag Milk Foods Limited
August 07, 2018

- Anirudha Joshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** Congrats on a good set of numbers. How is the growth trajectory going across in the next nine months? Is it similar to what we have shown? And second is that sir from the Danone facility what kind of revenues are you expecting for this year and the next and what is the distribution model like for Danone?
- Vimal Agarwal:** So far as the overall volume growth is concerned I request you to refer back to the early investors presentation where we had said that we will target to achieve Rs. 2700 to 3000 Crores over the next two years, that guidance stays. As far as our Sonipat factory is concerned, we right now are building up overall distribution network where our distributors are being appointed, sales people have been hired, mapping has been completed we are waiting for the products to get launched and subsequent to that we should see revenues starting picking up from Sonipat plant. Yogurt or cup curd facility for which the plant was acquired that manufacturing has already started and we are distributing it through our existing GT and MT model.
- Dimple Kotak:** Fair enough. So to this year what is the potential of revenues from this facility from the cup curd and whatever operations we are doing from the Sonipat plant?
- Devendra Shah:** We should be able to generate around Rs.60 – 70 Crores.
- Dimple Kotak:** Rs. 60 to 70 Crores okay Sir sure. And Sir one more thing colostrum it is there online but there is a lot of unorganized market also like Keva is there and iHerb is there few more are there which are available on the online platform. So what is the kind of competition from colostrum and I know it is very nascent stage but still your thought process on this?
- Shirish Upadhyay:** As of the colostrum, we have developed and launched the product into the market is based on a patented technology and recipe wherein we get 100% absorption of the nutrients which are there and also the nutrients remains intact during the processing stage and that is comparatively a much superior product than what is available anywhere in the market.
- Dimple Kotak:** How do you, I mean, to the customers how do you justify that sir, because there are other products also on the platform.
- Dimple Kotak:** Let there be other products on the platform - you will always find two extremes which will be there.
- Dimple Kotak:** Thank you so much sir.



Parag Milk Foods Limited
August 07, 2018

- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** Congrats on a good set of numbers. Sir my question is that now we have seen couple of products being launched in last six months, some are launched under Go or Gowardhan brand, and some were launched creating a newer brand. So what is our philosophy of doing this because now we have seven brands, Slurp also was a separate brand and now Avvatar. So how do we justify volumes on niche brand? So advertising and distribution, how do we justify a launch of new brand how do we create than the mind space of the new launch?
- Akshali Shah:** Our branding strategy is very clear. If you see most all our traditional products are branded under the brand name of Gowardhan that products which are a little bit more western centric are under the brand name Go. And Avtaar is completely different category, which is the health and nutrition segment that we are trying to meet. So, we have done our strategies saying that we meet all strata's of consumers. Somebody who is consuming traditional food they would be having products from Gowardhan. Somebody who is more on body building we want to keep it separate because the consumers are very different from different segments.
- Amish Kanani:** So in that context, the Slurp and Avvatar, which are relatively small size brands, if you can just give us your marketing strategy and how do you take that brand to say reasonable size where our advertising is supported?
- Akshali Shah:** Advertisement and Marketing would be around 8-8.5% of Sales where ~6% is used at the trade level and 2.5% is used for the direct A&P spends. Avvatar is a niche category and we spend a lot on influencers and social media and the amount is small. The target audience can be easily captured through Gyms and selective websites. When it comes to slurp, we wanted to keep the brand completely different from milk. The perception of a Mango drink is supposed to be refreshing. We have created premium brands for the milk category and by combining different products in one brand we don't want to have a rub off effect on our products. For Slurp we do a lot of outdoor and trade related stuff and it is helping us in distribution of our other milk-based beverages like ToppUp, buttermilk and lassi.
- Amish Kanani:** And is it possible to give us the within the guidance of Rs. 2700 to 3000 Crores how big is these two brands can be just is it possible to breakup that of how did that these two brands can be?
- Akshali Shah:** So we do not give out break-ups brand wise.
- Amish Kanani:** Okay no issues, thanks a lot and all the best.



Parag Milk Foods Limited
August 07, 2018

- Moderator:** Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.
- Pragya Vishwakarma:** Sir my first question is on the procurement side what was the average procurement price for the quarter? I understand that the government has introduced that Rs.25 minimum price but for the entire quarter what was your average price?
- Vimal Agarwal:** Basically the only point on the procurement price is it really varies and that is why I will not be able to share one number we have got two manufacturing sites and four states from where we are procuring and the quality of milk players a critical role in arriving at the price. So the range it will vary anywhere between Rs. 21 to 24 and it has gone as high as Rs. 26, 27 so not possible to share one number on the procurement side.
- Pragya Vishwakarma:** My next question is on working capital side so as you said that 30-35% of the revenue growth maybe attributed to the increase in distribution so like going ahead do you see your working capital increase in next one to two years as you go heavily on increasing your distribution and pan India presence?
- Vimal Agarwal:** The endeavor is to ensure that the working capital does not grow at a pace at which we have seen our revenue grow. When we talk about distribution from inventory standpoint, we do not carry any inventory at the distributor point and that should not impact us and that is how we are working. We should see working capital growth at a pace which is much lower than the revenue growth which we are seeing right now.
- Pragya Vishwakarma:** Sir my last question is that we are doing a pilot project, in new areas you are applying the TOC model so what is the progress. And in the next one to two years how much of benefit do you think will come to distribution and because of this entire project?
- Amarendra Sathe:** We have just started a pilot in one area of a metro and that pilot has shown us a very good growth over last quarter in the absolute volume as well as coverage. So obviously we will extend this pilot to another distributor in maybe new areas and then definitely scale up to the major cities.
- Pragya Vishwakarma:** Thank you. That is it from my end.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Sir in case of accounting for subsidy of Rs.5, how have you done in quarter one results?
- Vimal Agarwal:** Bhavin the subsidy has been announced with effect from August 1, 2018 and to that extent the quarterly results does not capture any subsidy portion.



Parag Milk Foods Limited
August 07, 2018

- Bhavin Chheda:** And just to understand from the earlier replies what you gave. So your accounting would be, you would be procuring at a higher price and then later on you would receive Rs.5 from the government right?
- Vimal Agarwal:** Yes in terms of functionality, you are absolutely right. In terms of accounting we need to really sit down and understand how the overall mechanism will work. So we will take probably few days before we really finalize the overall modalities on that account.
- Bhavin Chheda:** And you said this is only for three months of procurement from August 1 to October?
- Vimal Agarwal:** Yes, see the announcement has come post deliberations and discussions with industry representative including Parag. Input from government right now is that the subsidy is for three months, but indications are that it is expected to be increased to subsequent quarters as well.
- Bhavin Chheda:** And second question what was your milk procurement number for the quarter?
- Vimal Agarwal:** When you say number you are referring to the quantum?
- Bhavin Chheda:** Yes liters per day.
- Vimal Agarwal:** It should be closer to around 12.5-13 lakh liters a day.
- Bhavin Chheda:** This is including the outside fat procurement, or you are saying 13 lakhs is now a direct number?
- Shirish Upadhyay:** No this is the direct procurement, raw material is separate.
- Bhavin Chheda:** And last question is on how much would be Avvatar sales in the quarter roughly?
- Devendra Shah:** Our Health and nutrition segment in the last financial year was closer to 2.5% and we have said that we will endeavor to reach 7% by FY2021. The health and nutrition segment includes Avvatar and couple of new products which we launched in this quarter.
- Bhavin Chheda:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Varun Ghia from Equitree Capital. Please go ahead.
- Varun Ghia:** Sir my first question is if you could provide the breakup of how much percent of revenues come from beverages?



Parag Milk Foods Limited
August 07, 2018

- Shirish Upadhyay:** In terms of beverages it is difficult to give separate figures so I am sorry we would not be able to give you those figures.
- Varun Ghia:** And percentage wise how much they contributed in value added products and something?
- Devendra Shah:** No, so it is part of value added product portfolio, which contributes around 66% of our business.
- Varun Ghia:** And how do you see the growth in the flavored milk segment? Who are the competitors?
- Shirish Upadhyay:** Yes flavored milk there are lot of competition across the country so there is one national brand Amul and as well as regional brands who are competing into different regions so we are trying to differentiate ourselves with our pure cow milk offering as well as innovations in terms of flavors and packaging and other things as well and that is how we are differentiating ourselves.
- Varun Ghia:** So in value added products, where do you see the major portion of growth coming from, only cheese or any other products?
- Shirish Upadhyay:** So Ghee and cheese have been our growth engines for last three years and will continue to remain so. Going forward there are three major categories that we have been banking on - fresh product is one, health and nutrition portfolio is another and products like beverages, UHT are the third category. So these are the categories which are going to provide higher growth and give us sustained growth going forward.
- Varun Ghia:** And currently the market size of this flavored milk is how much?
- Shirish Upadhyay:** Flavored milk is a huge market. It will be difficult to give you exact figure as of now.
- Varun Ghia:** Okay no problem, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Charandeep Singh from Girik Capital. Please go ahead.
- Charandeep Singh:** Congrats for good set of numbers. I wanted to ask what is your total debt figure at the end of the quarter please?
- Deepak Jain:** Rs. 264 Crores.
- Charandeep Singh:** And what was it again the last quarter.
- Deepak Jain:** Roughly the same, around Rs.5-7 Crores here and there.



Parag Milk Foods Limited
August 07, 2018

- Charandeep Singh:** And what is the average cost of borrowing?
- Vimal Agarwal:** Our cost of borrowing really varies for example there are loans from world bank which closer to 6%-6.5% and then there are other loans which will be close to 10%-10.5% as well.
- Charandeep Singh:** So what is the average cost?
- Vimal Agarwal:** It would be about 9.5%-10%.
- Charandeep Singh:** Does this include your working capital limit and term debt also?
- Vimal Agarwal:** It includes both.
- Charandeep Singh:** Okay thank you.
- Moderator:** Thank you. Next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Sir in an answer to a question earlier on the call you said that you are going to expand distribution aggressively this year. So can you give us some targets that you have set for yourself as far as distribution expansion is concerned?
- Vimal Agarwal:** We as of now are covering approximately 2.6-2.7 Lakh retail outlets and our target is to add about 9,000 to 10,000 outlets a month on distribution front.
- Jasdeep Walia:** Sir this Rs.5 of subsidy, which is to be paid by the government as we have seen in other sectors this subsidy payments are delayed for a sometimes six months. So can that kind of payment cycle happen in your case also?
- Devendra Shah:** They have committed to us that as soon as we pay to the farmers every 10 days they will reimburse their share back to us. If they don't pay to us, we could possibly stop the Rs. 25 payment to the farmers and the agitation might start again. So to control their own interests the government we are confident that they will pay to us on time.
- Jasdeep Walia:** Sir how the receivable days moved in the first quarter, have they increased because of this high growth in sales or have they remained at par with last year's levels?
- Vimal Agarwal:** It is largely at par with last year level.



Parag Milk Foods Limited
August 07, 2018

- Jasdeep Walia:** Sir just wanted to find out what is the value of SMP inventory that you are holding right now and how have we valued the inventory, is it valued at global prices which would mean that you incur a loss possibly on every kg of inventory?
- Vimal Agarwal:** As far as the valuation is concerned we have gone by the accounting principal which is that your cost of production or the entry level value whichever is lower so that we have stayed with that principal on the inventory valuation.
- Jasdeep Walia:** Because as of now realization is lower so your valuation of inventory will be below cost?
- Vimal Agarwal:** Not really there are actions being taken for example quite a lot of our components gets supplied to key clienteles or institutional parties, so to that extent we are pretty much safe. Shirish you want to add anything to that.
- Shirish Upadhyay:** Yes so there is two things, one is in terms of SMP obviously since there is a lower realization which is there in the market, that was the reason the milk prices were down and that is the reason the whole subsidy game came into play. Therefore effectively because of lower procurement price the realization of SMP was lesser. But nobody would like to sell it as a loss and in this particular dairy business it becomes impossible. In terms of inventory, we already clarified earlier it is very difficult to arrive at a particular figure for a particular product segment.
- Jasdeep Walia:** So what is the SMP inventory that you are holding right now?
- Shirish Upadhyay:** We won't be able to give that to you separately
- Jasdeep Walia:** Got it sir thank you, thanks for taking my questions.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Just one clarification on distribution expansion you mentioned that you are adding almost 9,000 to 10,000 stores a month.
- Vimal Agarwal:** Right yes.
- Nitin Gosar:** Right now we are having touch points of 2.5 lakh retail outlets is it right and effectively that means we are adding up to 1 lakh to 1.2 lakh a year?
- Amarendra Sathe:** That is right. We are currently available in 2.5 or 2.6 lakhs outlets and we will add around 1-1.2 lakh outlets this fiscal year..



Parag Milk Foods Limited
August 07, 2018

Amarendra Sathe:

Nitin Gosar: Sir second question is with regards to ROCE, I think you mentioned your ROCE target of around 18% to 20% but you also mentioned that you are not getting into aggressive capex mode and your working capital is going to be at the lower run rate and number two our revenue growth and if it could across the math our ROCE has to shoot upwards of 20%?

Vimal Agarwal: As of now our guidance is around 18%-20% and our efforts are being made to ensure that the guidance is met and if we deliver more than that we will be more than happy.

Nitin Gosar: Okay that within your working capital or within your capex, is there something which is not going to allow you to go upwards of 20%?

Vimal Agarwal: As far as the next six quarters are concerned, there is no capacity expansion which we plan to do outside of our Sonipat plant which means that from capital intensity point of view there is no change and this is the first quarter post our guidance let us see how the next two quarters go and if any guidance is to be revised of course we will go ahead and do that.

Nitin Gosar: Thank you.

Moderator: Thank you. Next question is from the line of Nilesh Maurya from Asian Market Securities. Please go ahead.

Nilesh Maurya: Sir congratulations on a great set of numbers. Sir my questions are two, one is Sir when we are talking about these good healthy growth numbers, how easy it is to actually ramp up your production in terms of procuring the milk from the farmers, so that is the first one, and second is that is it possible for you to give me the breakup in terms of the margins on your product categories like milk product, skimmed, liquid milk and others?

Natasha Kedia: In terms of our product categories, our milk Products category overall would be between 28% and 40% gross margin, skimmed milk power would be anywhere between 5% to 7% and liquid milk is anywhere between 10% to 12%.

Nilesh Maurya: On the procurement strategy, so because when we are adding all this distribution network we will have to ramp up our procurement of the milk because there is competition as well so are you going to pay higher to the farmers what is the strategy there because we will have to have more input?

Shirish Upadhyay: Yes so it is very, very difficult to increase your procurement and paying a little bit higher here and there is not going to work in this business. So we have to work intensively in terms of opening new village level collection centres, interacting with new farmers and bringing them on



Parag Milk Foods Limited
August 07, 2018

board, and fortunately we also have a legacy of last two and a half decades and around 2 million plus farmers whom we have been dealing with and that itself is growing at around 6% in terms of absolute production. The marketable surplus within that the market has been increasing by around 8% to 9% and we are looking at the annualized growth of around 10% in terms of procurement. So we rely on our existing set of farmers to increase their procurement and also go on increasing geographical coverage with newer farmers, newer villages and that is how we try to keep pace with the growth that we are targeting.

Moderator: Thank you Sir. The next question is from the line of Jayant Mamania from Care Portfolio Managers. Please go ahead.

Jayant Mamania: Sir with present quarter our operating margins are around 11% and the share of value added milk products is on the rise so what type of target you have set for operating margin for the current year and the next year?

Vimal Agarwal: The guidance for operating margin is to reach 11%-12% by end of FY20.

Jayant Mamania: Sir can you tell us top five value added products in descending order, which have contributed to value-added milk product sales?

Shirish Upadhyay: Our top two categories are cheese and ghee followed by other categories like fresh products, beverages, and UHT milk, etc.

Jayant Mamania: So which are our products are sold at national level?

Vimal Agarwal: All except liquid milk and pride of cow, everything is sold across India.

Jayant Mamania: Thank you.

Moderator: Thank you. Next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you for the opportunity Sir. Sir given that the procurement price is now fixed at 25 would it be safe to say that our effective procurement price will increase by at least 15% in this quarter compared to the previous quarter though there is a subsidy mechanism but still effectively we will be paying 15% on an average more to the farmers, which will be of course be reimbursed through the subsidy but that payout will happen to the extent of 15%?

Shirish Upadhyay: Realization to the farmers has obviously increased. The farmer who was earlier getting say Rs.18 to Rs.20 a litre is now getting an assured Rs.25 a litre. As far as we are concerned as Mr. Shah was earlier stating we were already paying around Rs.20 to Rs.22 a litre and now we are paying



Parag Milk Foods Limited
August 07, 2018

whatever subsidy government is giving as an additional thing to the farmers. So for us there is no effective increase per se in terms of rates.

Kaushal Shah: Sir from Rs.22 to Rs.25 so there is an effective of about let us say roughly about 15% increase for us in terms of our base procurement price, which would be obviously reimbursed through the mechanism or whatever comes into play?

Vimal Agarwal: We do not expect any incremental P&L charge in our books, just to clarify.

Kaushal Shah: So and the next question was Sir any tangible impact which you can share with us from the Vector Consulting initiatives which we have taken over the last three months?

Amarendra Sathe: This is just a pilot and it is just few months old.

Akshali Shah: In Vector we are actually focusing on expanding our reach in both reaching more outlets and reaching outlets with more products and range. So as I said, we are working on the pilot right now for the tangible impact to come, I think we should wait for another year's time to see the results.

Kaushal Shah: Thank you. That was helpful.

Moderator: Thank you. Next question is from the line of Nidhi Agarwal from Angel Broking. Please go ahead.

Nidhi Agarwal: Thanks for taking my question. I have a question on exports, how much was the exports last year and this quarter?

Shirish Upadhyay: Exports are around 3% to 4% of our topline and it has remained almost in similar range.

Nidhi Agarwal: So do you expect any increment in that because of export incentive?

Shirish Upadhyay: Yes with the new the subsidy in place we look at some increment in terms of our export business going forward.

Nidhi Agarwal: So could it be like 5%, 10%?

Devendra Shah: It is difficult to quantify at this point of time but obviously there will be a significant increase that we will be able to see.

Nidhi Agarwal: What kind of products will we be exporting? Milk Powder or Value added Products?



Parag Milk Foods Limited
August 07, 2018

- Devendra Shah:** No, for us we have been always focusing on cheese, ghee, Paneer, those kinds of products and that is what we would be continuing.
- Akshali Shah:** Export would be more of B2C and directly branded products that we send across in different countries and goes in consumer packs and not in bulk.
- Nidhi Agarwal:** And how will this 10% incentive on exports work, on MRP or on Costs?
- Vimal Agarwal:** So it is basically based on the FOB value of exports that we do and it comes in form of duty free.
- Nidhi Agarwal:** How has been the payment in this to date?
- Vimal Agarwal:** No we immediately get the duty script and we can either redeem that duty script against statutory payments or sell it into the market.
- Nidhi Agarwal:** That answers my question. Thank you.
- Moderator:** Thank you. Next question is from the line of Akash from Marwadi Shares. Please go ahead.
- Akash N:** Good evening. First of all many congratulations for generating good results. My question is about getting this sales distribution plant wise that is what is the percentage sales for Manchar and what is the percentage sales for Palamaner for FY2018?
- Shirish Upadhyay:** We do not do it plant wise. Ours is an FMCG company so irrespective of what plant manufactures what product, it is all sales driven company.
- Akash N:** Sir can you give us some sense in terms of capacity utilization for both the plants for FY2018?
- Natasha Kedia:** Overall capacity utilizations are in range of around 60%-65%.
- Akash N:** So this would be 60% for both the plants 60%-65% for both the plants.
- Natasha Kedia:** Yes.
- Akash N:** But we will not be able to give individually for Manchar and Palamaner.
- Shirish Upadhyay:** Both are running at a two-third, 65% sort of utilizations.
- Akash N:** Sir also can you please guide us what was the per day milk procurement for FY2018?
- Deepak Jain:** FY2018 it was around 12 lakh liters per day.



Parag Milk Foods Limited
August 07, 2018

Akash N: Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will be taking the last question is from the line of Rahul Kumar from AA Investments. Please go ahead.

Rahul Kumar: My question is on Avvatar whey protein. For new product line Avvatar whey protein is priced around Rs.6,000 for 5 pounds while optimum nutrition which is considered best in the class called somewhere around Rs.5,700 for the same weight. Other foreign brand see there is an import duty, which increases the cost, so what is the reason that we had kept such a steep pricing?

Vinay Jain: Basically how we are priced in the market is that we are about 5% to 10% lower than the imported one's despite the fact that we are offering equally good or even better products and we are about 10% more than the Indian brands so that is the way we have priced our products. Now specifically to ON, so ON's MRP for 5lbs profile will be at least Rs. 7600 and we have priced at Rs.6800 so about 10% lower than ON and the same is the case with other products too.

Rahul Kumar: And how is the market acceptance and what are your marketing plans to make it popular?

Vinay Jain: Our market acceptance so far has been really good. We tested the product in western region and in some of the key metros in south and now we are expanding the products to other regions and other parts of the country. We are getting repeated demand of the products wherever we have placed the products across the stores so that is a sign of early success and we are continuing to add more products to the portfolio and we are expanding channels.

Rahul Kumar: Okay so there are new upcoming products in the lines right?

Devendra Shah: Yes.

Rahul Kumar: Thanks for the answer.

Moderator: Thank you. I now hand the conference over to Ms. Natasha Kedia for closing comments.

Natasha Kedia: I would like to thank all the participants for taking their time out to join us. Please feel free to get in touch with me or SGA who are our investor relation's advisor for any questions that you may have. You can find my coordinates at the end of the Q1 FY19 result update presentation, which is uploaded both on the stock exchange and the company website. Thank you for joining us.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Parag Milk Food Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.