



“Prabhat Dairy Limited Q4 FY'16 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Prabhat Dairy Q4 FY'16 Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I would now like to hand the conference over to Mr. Jubil Jain from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Jain.

Jubil Jain: Hi, warm welcome to everyone. On behalf of PhillipCapital India, I welcome you all to Q4 FY'16 Earnings Concall of Prabhat Dairy. On the call we have with us, Mr. Vivek Nirmal -- Joint Managing Director and Mr. Raviraj Vahadane -- Chief Financial Officer of Prabhat Dairy. We will commence the call with the management giving opening remarks post which we will open the call for the Q&A session. Over to you, sir.

Vivek Nirmal: Good afternoon, everyone this is Vivek Nirmal -- Joint Managing Director, Prabhat Dairy. I welcome on behalf of the company to everyone on the call, post listing this is the first Annual Financial Results we are announcing. I am happy to share it with everyone.

So past year has been a good year for us, we have seen top-line growth of around 17%. In terms of EBITDA we have seen a 15.5% growth rate from around Rs. 104 crores our EBITDA has grown to Rs. 120 crores.

Overall in terms of milk handling if we see from 8,50,000 liters we have been able to cross around 1 million liters of milk handling per day on an average basis. Last year definitely saw good growth in our value added products. We see that a lot of products including Ghee, Ice-cream, Lassi, Butter, have seen a good growth vis-à-vis other ingredients. And our retail presence also has increased significantly along with the retail outlets and modern trade.

Our milk procurement also had expanded so as our philosophy goes of being partners in progress, from past 85,000 we are associated with more than 1 lakh farmers and we continue to procure milk from Maharashtra region mainly.

So I think that is it, I would request anyone in case of any questions or any questions or any queries for us please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Few questions, if you can update on the average milk procurement price for the quarter and for the full year? Second would be if you can give me the mix of business between B2B and B2C? And the third, basically the pending CAPEX and what would be the FY'17 CAPEX numbers?

Vivek Nirmal: Great, Bhavin. So in terms of milk handling, we handled around 8.8 lakh liters of milk in 2014-2015. In 2015-2016, the average was around 10.23 lakh liters or 10.25 lakh liters, we have crossed around a million liters. In terms of milk pricing particularly, if we see quarter-to-quarter in FY'14-FY'15 our average milk price purchase price was around Rs. 19.80 and right now if you see in the Q4 2015-2016, it is around Rs. 20.66 the average milk price. In terms of CAPEX, we are already in process of implementing the CAPEX which was which has started which is basically our co-generation plant and there are a couple of other technical upgradations as well. So the co-generation plant is going on, I think it is in middle of the completion we had around 18 months of time estimated for completion of that project but I think we will be able to complete it pretty much before the schedule or ahead of the schedule. We expect that plant to get completed and commissioned by Q3 of this year.

Bhavin Chheda: And how much is the FY'17 CAPEX you expect?

Vivek Nirmal: FY'17 CAPEX is the remaining CAPEX whatever has been spilled over from the last year and apart from that we will be doing our regular maintenance CAPEX and some technical upgradations and all.

Bhavin Chheda: And sir, milk price you said is Rs. 20.66 for the entire FY'16, right?

Vivek Nirmal: No, it is only Q4, Bhavin.

Bhavin Chheda: Q4. And full year average would have been?

Vivek Nirmal: Full year average is around Rs. 20.20.

Bhavin Chheda: Around Rs. 20.20 for full year. And the procurement number 10.23 is for entire FY'16?

Vivek Nirmal: Yes, that is an average.

Bhavin Chheda: And what would have been Q4 number?

Vivek Nirmal: Q4 number is around 9,80,000 liters.

Bhavin Chheda: 9,80,000 liters, eight zero?

Vivek Nirmal: Yes.

Bhavin Chheda: Okay. And sir, you missed out on B2B and B2C mix in Q4 and full if you have that number?

Vivek Nirmal: So it would be around 70-30 ratio in terms of B2B and B2C.

Bhavin Chheda: Around 70-30?

- Vivek Nirmal:** Yes.
- Bhavin Chheda:** Okay. And sir, my last question on the Cheese ramp-up plan, how is that plant going on and approving process and all that going on?
- Vivek Nirmal:** The Cheese ramp-up actually if you see Cheese as a product normally the ramp-up is slow, it has been slow in our case as well. We actually expected it to build up faster but it is a bit slower I would say rather than our expectation. The good thing is that we have been approved and we have started supplies with all the key clients in India including all major Pizza chains, major Burger chains and all for products such Mozzarella Cheese, Processed Cheese and Paneer specially. And now the volumes are getting up again, to add quality of our milk is best as we source it directly from the farmer and that also has an impact on quality of Cheese. So our repeat orders are pretty high and I think this year we will be expecting good volumes that is the institutional segment. The second segment is the HORECA segment wherein we see mainly the regular restaurants and catering using our Cheese. For that we are establishing a nationwide distribution network. We have already started West which is mainly Maharashtra and Gujarat which are the largest market for Cheese in India. But shortly, in next quarter we will be also starting South India and North India where we are already in process of appointing distributors for Cheese specially the HORECA segment.
- Moderator:** Thank you. Next question is from the line of Darshan Shah from Prospero Tree. Please go ahead.
- Darshan Shah:** Yes, there has been quite a sharp decline in EBITDA margin in the last two quarters specifically so, from a high of around 11.50-12 we have settled down at 9. So what should we make out of this, like is this a sustainable number or with the capacity utilization improving this number should go up again?
- Vivek Nirmal:** So see in dairy industry particularly I think every quarter should be expected differently specially for example, Q4 and Q1 is mainly summer season so we should be expecting some pressures on pricing at the same time if you see in terms of top-line Q3 is a quarter where we should be expecting higher top-line on account of the festive season and the fresh season wherein you see more incoming milk from the cattle. Now, coming to the numbers of the EBITDA, if you see 9-9.1 or 9.6 while the volume has definitely gone up in Q3 but we also have seen a lot of new plants coming up for example Cheese plant it is a very large plant, large investment which has just started at the end of Q2. So obviously a lot expenditure on Cheese plant including the man power the technical man power and everything. We have seen coming in so that has increased our manufacturing expenditure. Second reason I would say is also the cost of material consumed or the milk price obviously is going up majority of the impact we have seen in the Q4. In Q4 normally you should expect the cost of milk going up for any dairy company, but this time, there has been one more reason which is the drought situation. There have been two consecutive drought situations drought years in Maharashtra that was 2014-2015 and that has really resulted into acute shortfall of fodder and hence, it has also resulted in

acute shortfall of raw milk. So we have to make up powder milk requirements even by getting milk from the nearby states. Definitely that has created a pressure on raw milk pricing. If you ask about how should we be expecting in future? I would say that yes, see post to drought situation there is definitely going to be a challenge in next one or two quarters for procuring right quantity of milk at right price but we are expecting very good monsoons this year so hopefully, in one quarter or two quarters the situation should improve. Another good thing is that last year we have seen a lot of depressed milk prices earnings call globally milk prices were depressed and that also had an impact on India. So most of the commodity prices were low, for example, if we see about milk powder, milk powder prices were low in 2015-2016 compared to 2014-2015. So that prices have started increasing so I think with combination of improvement in price realization and volumes going up for our value added products I think we are expecting a stable growth in 2016-2017.

Darshan Shah:

Okay. And so on this milk prices where you say that because of drought, we may have to source from outside the state so that could have resulted in higher transportation or handling cost and that is one of the reasons for this margin coming down. So can we pass on whatever hike we whatever increase in cost we get or we are generally, it is quarterly contract and we cannot renew for the quarter with our customers?

Vivek Nirmal:

See what happens there are two business segments - three business segments in which we operate. There are a couple of segments which is a cost plus model and in that it is a monthly pass on so, obviously it does not really impact even if you source milk where in you have higher transportation cost it is a pass on. But there are also couple of segments wherein you depend on the market rates there pass on is not possible or there you can see lag effect. And the third segment is consumer. In consumer segment obviously that effect is not immediately is there unless really the market prices start moving that effect is not seen. We expect that effect to be seen in next quarter because last two years if you see the MRPs of maximum products have remained the same, milk prices are same or most of the milk product prices MRPs are same that is why, why milk prices have gone down in last two years but MRPs did not go down. Similarly, when now the milk prices are increasing that is why you do not see immediate shift in MRPs going up.

Darshan Shah:

All right, got it. And lastly, on the working capital front, I see that even this year sir, last year working capital was almost 21% of our sales and this year it is close to 22%. So should we assume that this year should be the peak and from next year onwards the working capital as B2C improves the working capital requirement should stabilize at current levels or may be come down a bit?

Vivek Nirmal:

See in terms of B2C it stood at the working capital cycles are relatively faster. However, we should also consider that we are a new or a relatively new player in the market. We have been quite visible and going good since last two year - three years. But when the product is new obviously the off take from the shelf is lower and there is a lot of stock in the pipeline hence the working capital cycles in the B2C eventually in the future will be shorter but this year I

would not expect them to be shorter enough. And second is even on the inventory levels as Cheese and all grows we would see some higher inventories in terms of Cheese. So I would expect the similar ratio in terms of working capital in the current year as well. Second, what also happens is especially in drought situation you also need to beef up your inventories in terms of milks powder so that you really do not get into a milk shortage situation even if you encounter one you have enough milk stocks lying with you. So I see that this year the working capital would be in the similar range.

Darshan Shah: Okay, thanks. And last one data question, in the short-term loans and advances and long-term loans and advances, what are those advances and to whom are they given for and what is the purpose those advances?

Vivek Nirmal: These advances are basically industrial practice we normally give advances to milk suppliers. If you see the milk supplying farmers most of them are small and mid-sized farmers they do not have access to former banking channel and that is why they depend a lot on the company which they supply milk to. So these are basically advances which are given to them for their daily needs or buying some cattle or milk machine or similar things, it is short-term advances but these are regularly recovered from their milk payments and then further advances are issued.

Darshan Shah: Okay. And do we charge anything to them for these like a bank or we do not....

Vivek Nirmal: No, we do not charge any interest, it is basically it is routine part of the business transaction.

Moderator: Thank you. Next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.

Amnish Agarwal: Yes, my first question is in our subsidiary which is your Sunfresh Agro this company is having some benefits in terms of say some excise related sector so, can you give us some idea about your taxation benefit this unit is having?

Vivek Nirmal: See our Sunfresh Agro Industries Private Limited is a 100% subsidiary of Prabhat Dairy Limited and it has entered into an agreement with government of Maharashtra where it has some tax benefits, it is basically the VAT benefit based on the capital investments it is making. So we have already done the capital investments in Shrirampur, in Ahmednagar district since it is a development zone the government naturally is promoting the investments in that area. Our investments are completed and we have also got eligibility certificate from the Government of Maharashtra. We are right now in process of filing claims in next couple of months and undergoing the audits and all. So once that happens and that goes through may be by end of this year we will start getting the VAT benefits so that is basically the VAT whatever we are paying for the sales in Maharashtra, we would be getting a certain portion of it as a refund from the State Government. So that is the benefit we have.

- Amnisha Agarwal:** So what is the CAPEX we have incurred on this investment and what are the terms that what proportion of the CAPEX we will be getting the refund and in how many years?
- Vivek Nirmal:** This is a scheme based on the capital investment and the criteria is to fulfill at least minimum Rs. 250 crore of the capital investment. We have done that capital investment starting from 2011. In past five years 2011, 2012, 2013, 2014, 2015 cumulative we have invested that much amount in our Cheese plant and the milk powder manufacturing facility and everything at Shrirampur. And now, we will be getting that in the form of refund in the coming year.
- Amnisha Agarwal:** So the refund will be applicable from 2011 or from now onwards?
- Vivek Nirmal:** So that is a discussion which is going on with the State Government, it will be mostly applicable from the past one year or two years, that discussion is going on.
- Amnisha Agarwal:** Okay. And how much because there is usually a cap that for example, if you spend say Rs. 100 crores that the refund will be up to a maximum of this so there is a cap on that?
- Vivek Nirmal:** So there is no cap on that as such, it is about to the tune of 100% of the investments we have made.
- Amnisha Agarwal:** Okay. And the output which is coming out from this unit where you have spent is around Rs. 250 odd crores so how much of that you are currently selling in Maharashtra, any idea?
- Vivek Nirmal:** We have not tracked it as such about much in Maharashtra and how much out of Maharashtra. But lot of projects are new for instance Cheese and all are new projects which have come out of this CAPEX. So in coming days or may be in couple of quarter, we will be able to know that how much of it is getting sold in Maharashtra and out of Maharashtra.
- Amnisha Agarwal:** Okay. What is the VAT rate of our products in Maharashtra, sir?
- Vivek Nirmal:** It is different for different products. For example, for products like Ice-cream and Cheese it is 12.5%, for products like Ghee or Flavored Milk it is around 5%.
- Amnisha Agarwal:** Okay. Sir my second question is that, at the corporate tax level will be at the marginal tax rate?
- Vivek Nirmal:** Will be at the highest tax rate.
- Amnisha Agarwal:** Okay. And sir, my next question is that as a quite a big part of our business is B2B where some of our clients like Abbott, and Mondelez et cetera which are actually for them we are preparing some specialty products. now, with the milk prices moving up and there has been shortage of milk, so are you in a position to pass on the increase in input cost of milk to them? And if yes, is there a time lag or it happens in a seamless manner?

- Vivek Nirmal:** So it is a cost plus model, so the price is a pass on price and that happens on a monthly basis. This is not really a significant time lag.
- Amnish Agarwal:** Okay. So it means whatever the depression in the gross margin it is more to do with the B2C sales mainly?
- Vivek Nirmal:** Yes.
- Amnish Agarwal:** Okay. And sir, what is your outlook on the milk prices in the medium-term both SMP as well as Liquid Milk?
- Vivek Nirmal:** I see the prices remaining tight, because the supplies are short obviously so even while the globally the prices are pretty low but India is insulated since milk is a major product or major commodity manufactured by most of the farmers. So I see the prices remaining quite steep in quarters to come for milk as well as for powders.
- Amnish Agarwal:** Okay. And sir, finally just one maintenance question, we have repaid debt of Rs. 185 crores on a console basis. So what is our net debt now and what is the average cost of debt on this?
- Vivek Nirmal:** The long-term debt right now is around Rs. 38 crores and our cost of debt particular debt is around 10%.
- Amnish Agarwal:** Okay. And short-term debt working capital one?
- Vivek Nirmal:** Short-term debt is around Rs. 200 crores right now.
- Amnish Agarwal:** Okay. And how much is likely interest rate?
- Vivek Nirmal:** Around 10%.
- Moderator:** Thank you. Our next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.
- Saurabh Patwa:** Just one thing which I wanted to understand was related to you explained a bit about the VAT benefit which you are going to get. Just one thing as you mention that by the end of this year is something you will get start to get some idea on how much we are going to get, because I think in earlier calls you have mentioned and in fact as the auditors comment itself some amount has already been accrued. So how the accounting for this will be done? Can you just throw some light on that?
- Vivek Nirmal:** See account amount has been accrued in the sense for example, see if we start getting the VAT refund from 2013-2014 for instance, 2013-2014, 2014-2015 the VAT has already been paid by the company, right?

- Saurabh Patwa:** Correct.
- Vivek Nirmal:** So that gives a reason for the auditors to believe that yes, VAT is paid that means the refund is yet to the refund can kick in. however, what happens is that since it is our first time to get the refund there are lot of formalities to be completed and claims to be filed, the audits to be done and all. And post that we will start getting refund. Once the refund kicks-in the first refund then the next annual refund will be very smooth procedure, since we do not have a clarity on it right now we have not taken it as an income, so we will be taking, we will be booking the income on receipt basis.
- Saurabh Patwa:** Sure. Sir, just get in more clear, so it would be safe in the sense whenever we get it so, the first wherever we start getting the first year in which we start getting this refund the first the amount would be significantly larger and it will be relatively lower than in the coming years?
- Vivek Nirmal:** Not, really. Logically what you are saying is correct because that will be a three years refund and next year it would be annual refund for example but if you see our most the projects have started in last one year or two years. So throughput is increasing so, while yes, we might be having two years - three years of cumulative amount coming in the first year. However, next year onwards the amount also would be equivalent I would say or something similar to that...
- Saurabh Patwa:** Because of the high growth?
- Vivek Nirmal:** Overall throughput will increase.
- Saurabh Patwa:** Okay. And sir, again one thing will we be getting the product wise volumes and value in the Annual Report?
- Vivek Nirmal:** Basically category wise or like the B2B, B2C and all?
- Saurabh Patwa:** No, like the category wise like were given in the DRHP?
- Vivek Nirmal:** All the products are sold in both the categories.
- Saurabh Patwa:** Pardon sir.
- Vivek Nirmal:** All the products are sold in both the categories so normal unit get category wise.
- Saurabh Patwa:** No, that is fine, that is what I asked. So whether in like we will be getting the breakup in terms of volumes and value like Liquid Milk, SME, Ghee, Flavored Milk, not B2C, B2B that is fine, but will we getting the product wise detail in the Annual Report?
- Vivek Nirmal:** No, we normally share it in terms of categories only, it is not particularly it is for a product, for example, if there is PAT Butter, Ghee and all PAT put together in a category or milk powders in the sense you know Skim Milk Powder and that will be grouped over there.

- Saurabh Patwa:** Okay. Because I think in DRHP all these figures are given separately.
- Vivek Nirmal:** The Annual Report will be seeing the same format.
- Saurabh Patwa:** Annual Report will be on the same format, that is what my question was. And we will be sharing both volume as well as value?
- Vivek Nirmal:** Yes.
- Saurabh Patwa:** Okay, sir, and just one thing the CAPEX number you are actually, you gave the details of CAPEX but you are not giving number or is still not finalized yet?
- Vivek Nirmal:** For this year it is not yet finalized, it is noting not any major, no CAPEX or new project which we are undertaking whatever the CAPEX is in process and our routine maintenance CAPEX and all or may be some additions or some packaging lines and all will be seeing this year. But due to this drought situation we are also now expanding into the near-by districts for milk procurement wherein we will also be investing some amount in milk procurement infrastructure. But has not yet been finalized but overall, we are not doing any major CAPEX as such
- Saurabh Patwa:** Sir, just one last question. Sir, what will be your outlook on, we have been hearing a lot like the Mondelez were putting more increasing the capacity of chocolate manufacturing in India and we are the largest suppliers so how would be impacting us? And again, similarly in Ghee since Patanjali is increasing their revenue in Ghee astronomically, so how does it impacts us? Whether are we supplying them as a B2B as a supplier, so if in that sense does it helps us positive and it also impact on our retail sales of Ghee, so if you could just throw some light on that?
- Vivek Nirmal:** See what is happening is in terms of if you see the overall market, I will particularly just give a small background. All segments are growing the confectionary segment is growing, and if you say particularly about the dairy product the powder segment is growing because the confectionary and the bakery and the Ice-cream is growing. The Ghee segment is growing, the Dahi segment or the Cheese segment, most of the segments are growing. We particularly as a policy have decide to not only focus particularly on B2B or B2C but to remain present in most of the segments which are growing. So it is not particularly about what is our share of market. But is that share of wallet we are able to claim by the consumer. So whether you have a Pizza, or a Coffee or a Chocolate somewhere or a Dahi, ultimately you know Prabhat has to be everywhere and particularly on high margin products and high growth rate products with 65% market on urban is getting into organized all the segments are growing. So now, yes, Cadbury or Mondelez also definitely they are putting up new factories anticipating the larger volumes to come so that ingredient business will see a growth. At the same time our other segments are also growing, if you talk particularly in terms of Ghee, our consumer business for Ghee is growing because we are increasing our market presence in terms of number of outlets we were

covering. Earlier, we were covering a limited number of general trade outlet, now you see the products in most of the general trade outlets plus modern trade as well where we were not available. Our largest benefit is that we are a very high quality Ghee in terms of and the Cow Ghee. So our presence is increasing but at the same time we are also benefiting by the overall category growth. For example, Patanjali as you said rightly is growing in a great way so we supply Butter, we supply ingredients to them as well. At the same time also co-manufacture Ghee for say other modern trade player we have recently tied-up with Nilgiris as well for Ghee and other products. So whatever growth you see coming in the market, we definitely get a benefit in one or the other way. Today, particularly in the situation where India is we are fairly unorganized market so, it is too early to say that we really will be focusing only on this segment or that segment. It is important to be present in all the segments and see where you have higher growth rate and higher margin as well.

Moderator: Thank you. Next question is from the line of Manoj Bahety from Edelweiss. Please go ahead.

Manoj Bahety: I have two questions - three questions. First is after seeing the initial results of Cheese is there any change in the plans of Cheese capacity ramp-up? And if you can share the capacity utilization let us say for FY'17-FY'18-FY'19, what you are targeting in terms of capacity utilization of your Cheese plant?

Vivek Nirmal: See honestly, it is difficult to say at this point of time. May be in couple of quarters we should be able to give you more visibility because see a lot of things also depends on the clients whom we deal with. It also depends on their operational performance and their growth plans but tentatively we will be able to see and we operate at least at something like (+70%) capacity in 2018-2019 that is the target. And if you see right now we are in the last year because that has been hardly five months - six months of operational we have been even less than 5% in terms of capacity utilization. So we can assume that starting from 5% I think this year we should be somewhere around 15%-20%. Next year we should be somewhere close to around 30%-40% and the year after we should at least 60% to 70% of the capacity utilization.

Manoj Bahety: And in terms of like at 70% capacity utilization, what kind of margins and what kind of returns you are seeing from this investment in Cheese because I understand that Cheese there is huge difference between B2B and B2C margins and we are I think in the middle of that when we are catering HORECA segment. So what kind of margins and returns you expect when the plants get utilized at 70%-80% kind of level?

Vivek Nirmal: See on an overall basis, we see that in terms of (+70%) to (+80%) capacity utilization we should be in a position to get at least Rs. 250 crores of top-line from the Cheese business. On the margin front, the difference on the B2B or the B2C is there and yes, we are the middle but we are in particular segments where not many players are operating for example, Mozzarella Cheese for the smaller or mid-size Pizza chains there are not too many players including larger players in India. They are mainly focused on their consumer products so this segment is growing pretty well and second, Cheese has a complementary revenue stream of whey. Now in

whey if you are going to add value to whey products, whey and Cheese put together gives a very good margin profile to the Cheese business as such. But you see in next couple of quarters as both the streams ramp-up in terms of Cheese and in terms of how are we able to make the best utilization of whey I think that is when we will be able to get a fair idea about how the margin profiles would pan out in this particular product. Our major strengths obviously remain out of our Milk which we procure directly that is definitely helping us to get better realization for Cheese as well as better realization of whey because even for whey product ultimately the raw milk quality matters a lot.

Manoj Bahety: Right. Any broad range you would like to give like the kind of margins you would be targeting or this is the like the minimum level of margin which is achievable at optimal capacity utilization of the plant?

Vivek Nirmal: Not really, because really the kind of price realization this both segments will fetch that is really determine. Obviously, the margin I can definitely say you that the margins in this product are going to be better than any of the product in which we operate right now including Milk Powders or Condensed Milk or Ghee.

Manoj Bahety: Even it will be better than Curd? Curd is also one of the high margin product, right?

Vivek Nirmal: Yes, of course.

Manoj Bahety: And also like you mentioned that your initial result in case of Cheese is slightly below expectation. So if you can share that what kind of challenges you are facing and what is your strategy to overcome the challenges, which you may be facing, you might have face in the initial ramp-up?

Vivek Nirmal: See challenges are not really internal, what happens is Cheese as a business, if you see there are very-very limited manufacturers of Cheese in India and there is very reason to it because Cheese is not only about setting up a plant. The quality of Milk Cheese require is very really-really very critical and that is why you need to handle at least three - four more tanks of milk than what you require for Cheese so that you can everyday segregate the quantity or the quality of milk which you require for Cheese. Obviously, with the drought situations and all some milk productions have gone down from the area from where we obviously get milk for cheese and all. So there are some external factors. In terms of our internal factors and our technical capability I think we have worked in advance on that technology capability our plant approvals and all. So I think that is why it is pretty stable. I think that is the reason it has been a bit slower than what we expected it to grow.

Manoj Bahety: Okay. Sir, it is mainly pertaining to the drought situation and getting adequate quantity of good quality milk, right?

Vivek Nirmal: Correct. But now we are expanding to the nearby geographies with own procurement model, I think that issue is being sorted out.

Manoj Bahety: Any feedback from the customers which you would like to share like means Prabhat Cheese vis-à-vis like you may be displacing someone, right when your Cheese is being accepted by the customer definitely the other one Cheese is getting displaced. So any feedback which you would like to share good or bad from the customer?

Vivek Nirmal: So, as I said earlier definitely there we have repeat orders from each and every place where we have placed our Cheese and the basic I would attribute it mainly to the excellent quality of raw milk what we have second is our most advanced plant which we have in India. It is a very large plant, capable of manufacturing various kinds of Cheeses so definitely product quality is good for all the QSR chains and the Burger chains. The Cheese quality has passed their requirement. There are two things it is not really that we displacing someone 100%, it is also the growth which they are or new geographies which these players are entering. Apart from that there is also a large segment in India which exist which are not necessarily the I would say the QSR chains, these are standalone QSR restaurants which are using Cheese right now but they might be using it in smaller quantities. We are encouraging them to prepare more Cheese based recipes, we have recipe books, we have Chefs who go and work with them particularly to show them various applications how they can use Cheese and we are also seeing that the consumption or usage is increasing, because we are not a first players in Cheese which we had got an advantage in Condensed Milk on other player. So, we need to have a different style of operating over here and that is why we are targeting the market which is relatively virgin. While we are also targeting the large QSR Cheese, we are also targeting the market which is a market for tomorrow which is the mid-sized standalone QSR restaurants or the Pizza outlets and all. So the response is definitely very good, response is encouraging and right now we have only basic Cheese which is Mozzarella Cheese, Processed Cheese, Cheddar Cheese and all. Now slowly we are also getting into Gourmet Cheese and in coming quarters you will see more Cheese offerings coming from the company.

Manoj Bahety: Okay. Any color on the distribution reach like for 70% of capacity utilization by FY'19, how many states or cities you are planning to penetrate any details you would like to share on that?

Vivek Nirmal: So now micro details as such but as our strategy goes B2B we are national player so, we have our reach in each and every state of India but in B2C we have decided to be fairly regional. We are only going to be in Maharashtra, Gujarat and parts of Madhya Pradesh. Our distribution is pretty much expanding, we have now integrated our cold chain distribution network and our long shelf life product distribution network that has given us very good impact because Prabhat is a very few companies in India which has a very large product basket. Right now in consumer product segment in our B2C segment we are the company who has now Ghee, who has UHT Milk, Condensed Milk, Dairy Whitener. At the same time in the cold chain product we have Dahi, Lassi, Masala Chaas, Paneer, Shrikhand. There are very-very few companies in India really who have such a large product basket and that is why it is giving us very good

impact because in terms distribution reach even in Tier-I towns, Tier-II towns, Tier-III towns, Tier-IV towns we have large basket where in at least in each and every outlet we have something to offer that is helping us to build up our distribution reach as well, but that is for consumer product. For HORECA we will be going national. We are already opening up distribution in Delhi; we are opening distribution in Bangalore and Chennai because for Cheese particularly for the HORECA's Cheese there are very limited players in India and since the product quality is good we are exhibiting in most of the exhibition, we have exhibited in the HORECA Food Service Exhibitions in Delhi, in Calcutta, in Chennai, and we have generated a lot of enquiries and interest from the users. So now in couple of quarter we will be seeing Cheese particularly going through the other states in India as well.

Moderator: We take next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: My first question is as you explained that your EBITDA margin which has gone down to almost 9% in this quarter, is mostly due to the adverse raw material price movement. So how what is your guidance for the coming year, do you see you know this EBITDA margin improvement because of raw material increasing back to the customer?

Vivek Nirmal: Sarvesh, as a policy we do not give any guidance. However, I will definitely help you understand how the seasons move. The Q4 of any dairy company, we should be definitely expecting the pressure on milk prices because we are approaching the summer season unless there are some unusual market conditions so, that is number one. However, we should also keep in view that most of the agri companies definitely are suffering in terms of two consecutive years of drought in Maharashtra, this is a very steep drought which we have not experienced at least in last 25 years to 30 years. In our 17 years of history of this company particularly, we have seen two drought seasons but this is I would say definitely more intense then that because it has been consecutively for the second year and that definitely has an impact on available of green powder and hence the health of animal. So I would definitely see that the coming quarters would be challenging in terms of raw milk availability in Maharashtra. But obviously to tackle that we are procuring milk from other states. so I would be cautious in terms of margins in coming months to come but yes the positive thing is that our volumes are increasing so even in this year we will see some good volumes coming in. our value-added products are increasing like Cheese and specially which has a very good growth margin. Our B2C segment is increasing because while in the procurement area we are facing drought but in the sales or in the metros and the Tier-I cities, Tier-II cities wherever we are present we are seeing a very good off take of the product because our products are unique and the products are very much liked by the consumers. So I would say that yes, in some areas we might be facing some challenges for procurement. But at the same time we also have a lot of positives I think which should be make up in terms of the numbers.

Sarvesh Gupta: Understood. And sir, I think your contribution of repaying through overall sales is around 23%-30% right now, right?

Vivek Nirmal: Yes.

Sarvesh Gupta: And so, when you define your retail does it also include HORECA and all these sales that you are doing to individual restaurants and everything?

Vivek Nirmal: See it is actually a lot of things overlap over there because a lot of Cheese for example, if you say even in other players including the largest players in the dairy segment most of the sales happen through the same distribution channel and through the same retail outlets. So it is really difficult to say that what retail outlet sell the HORECA products and what retail outlet sell the consumer product. If it is a 1kg block of Cheese for example or half a kg block of Cheese, it is consumed in the households at the same time it is also consumed by a restaurant who might be using Cheese for their own preparations, they are not dedicated distribution channels as such, so wherever we are able to track it for example, large institutions it goes into the B2B wherein we supply to the QSR chains and all but when it is small QSR chains or which goes for our retail distribution network it is grouped in the B2C.

Sarvesh Gupta: Understood. Sir, but you know normally in the food products we have seen that there are many brands which cater to all these hotels and restaurants and their proposition to their customers is primarily on the cost rather than the taste. So for example, there are so many brands in for example Ketchup and you will see that those products the brands which are being used such restaurants are not the brands which will be consumed or bought in large quantities by the normal household. So I was trying to assess the percentage of your products which are being bought by the end consumer directly as opposed to you know all these restaurants and people who want to consume in bulk and want to buy it cheap.

Vivek Nirmal: So I think that is a very-very valid thing, Sarvesh. See the only difference if we see is that there are at least (+500) manufacturers of Ketchup in India because it is a very simple product nothing unique about it, it is a very simple manufacturing process. The raw material procurement has not tough and so as the sales. But when you come to Cheese suddenly you identify that there are hardly four players - five players in the entire country and that is why the entire business of Cheese or the manufacturing of Cheese has been very-very limited, because it all starts from the highest quality of milk, the highest technology and manufacturing and ultimately the product quality or the functionality of the product which the consumer gets, in terms of Pizza it is the stretchability, the meltability of the Cheese. In terms of Processed Cheese, it is the shredding of the Cheese which has to happen exactly and the flavor of the Cheese. So there are a lot of technicalities in it and that is why it is very important for a manufacturer to develop these technical advancements in their product, we have been working in this product since a couple of years and that is why we have been able to get that edge and our products are considered to be superior in the market today. Even if you see in terms of the milk powder business which we are in, we only manufacture specialty milk powders not general powder and that is why today Prabhat is considered one of the top players in India for the ingredient business that is the difference in between Cheese.

Sarvesh Gupta: No, I was only referring to the B2C business that you classify, I am not referring to your B2B sir.

Vivek Nirmal: No, I am talking particularly to answer your question, is that why would a hotel consider this quality of Cheese vis-à-vis others. In Ketchup, he has 500 options but in Cheese there are no options, there are hardly two players to three players in the entire country to operate in this segment and that is why this segment becomes very important. The high quality of product becomes important. And that is why it is not only a price game over there. For example, if you see in Cheese even today, our Cheese is not priced cheaper to any of the competition. In fact, our some of the Cheeses like Mozzarella Cheese are priced slightly higher than the competition, but it is ultimately the quality and the functionality that is why I was giving you the example of the Pizza it might be a large QSR chain or it might be even a smaller restaurant using 10 kg of Mozzarella Cheese per day only. But that enhances the quality of their product and they get a very large premium when they use Cheese in their product which is not the case in other products like Ketchup or Condiments and all. That is why, I would say it is not price game the quality is very much respected in this sector and that is the benefit I would say we are getting out of it.

Moderator: Thank you. We take the next question from the line of Shubhankar Ojha from SKS Capitalital & Research. Please go ahead.

Shubhankar Ojha: A couple of them, so if you can give me the number in terms of the CAPEX to be done for FY'17?

Vivek Nirmal: CAPEX in the pipeline they are for the co-generation plant which we was there during the IPO in the RHP that CAPEX is still going on. And for this year as such, we do not have any major CAPEX plan. So we do not have any numbers for this CAPEX. However, as I said, this year due to drought situation we would also be expanding in the near-by geographies in the near-by districts particularly from where we collect the milk where we might have to incur some CAPEX in milk procurement. Right now we are sitting in peak of the summer, the assessment is going on and we will not really be able to give number in terms of the exact CAPEX plan for this year for 2016-2017.

Shubhankar Ojha: Okay. And in terms of the ROE, return on equities right now it is pretty low, I am not, it is low single-digit, what is our target ROE about say four years - five years from now?

Vivek Nirmal: See dairy if you see as such as compare to other FMCG businesses, it is obviously a capital intensive business because there is an investment in procurement, there is investment in manufacturing and there are also investments in distribution. So that is why you see our ROCs or single-digit numbers. But I would say three things - four things which we are doing and that will definitely lead to better ROEs and ROCs in future. Majority of them are we are increasing our consumer business obviously the gross margins are high in consumer business. Second is we are increasing our proportion of Cheese as an overall ingredient business and Cheese is a

very high gross margin business. Third, is our overall capacity utilization which is hardly 60% right now that is improving and in couple of years we will see that capacity utilization to going up to 80%-85%. We are also reducing our utility cost by adding up plans like co-gen and all because in dairy it is a highly utility driven or utility intensive processes. So I think these are three things - four things we are doing particularly. So in coming years we will see a better ROE and ROC.

Moderator: Thank you. Next question is from the line of Sagarika Mukherjee from Antique Stock Broking. Please go ahead.

Sagarika Mukherjee: Sir, I just wanted to understand, why has the growth in fourth quarter come off to somewhere close to 9% in the top-line compare to 20% growth that we have seen in nine months of FY'16? So if you could help me with the volume and the realization growth there and also if you could give me the April-May, milk prices that you have seen?

Vivek Nirmal: See there are one or two reasons Sagarika – one is basically that in Q4 the availability of milk has remained a challenge and that is why if you see our milk volumes particularly are slightly lower than the Q3. Again I would say that is a natural thing as you approach to summer seasons your milk volumes tended to go down, that is number one. Number two, it is not there are commodity prices as well because the price realization has been limited, in terms of overall the prices are depressed, you can also see our inventory levels have gone up. So it is not we have produced a lot but I think we have been able to sell limited number of quantities depending on prices. Now of course the prices are improving so the inventory levels are also getting liquidate. So these the two major reasons I would say that I have seen a less growth in the Q4.

Sagarika Mukherjee: Right. And sir, what has been your exit prices let us say for April and May for milk procurement?

Vivek Nirmal: For milk procurement the prices for Q4 have been around Rs. 20.60 for raw milk procurement.

Sagarika Mukherjee: And for April, May just wanted to check if the trend has been increasing further?

Vivek Nirmal: Yes, so now they are around they have increased by around may be Rs. 1-Rs. 1.5 in the past one month or two months.

Sagarika Mukherjee: Okay. And sir, last question just, what is your cycle for let us say pricing arrangement with all your B2B customers exactly when I mean I feel that there is probably a lag in your realization here we have seen your milk procurement prices going up but your realization is probably seeing a lag effect somewhere.

Vivek Nirmal: There are two models - three models on which we work but most of them work on monthly price rate basis, so it is monthly sale.

- Moderator:** Thank you. Next question is from the line of Shraddha Seth from Edelweiss. Please go ahead.
- Shraddha Seth:** Just two questions, I wanted to understand, you gave a number of Cheese of Rs. 250 crores what we are looking at an optimum utilization. So it is only that Cheese also the way that we are considering along with Cheese?
- Vivek Nirmal:** No, this is particularly Cheese only. Whey we have not considered the only reason being is it is too early for us to predict whey revenues because while we know the quantities of the whey it would be generated after certain production, but it depends on whether we convert that whey, we sell it as a liquid whey, we convert into whey proteins or whey proteins concentrates, or whey proteins powders, we are accessing those opportunities right now and once we start selling whey products I think that would be the right time for us to say that how much will be whey revenues out of it.
- Shraddha Seth:** Fair enough. And just lastly, I wanted to understand in last quarter you had suggested that on optimum utilization of the current capacity we could go to like Rs. 1,700 crores - Rs. 1,800 crores of revenues and procurement needed for that are we on track for that with the current shortage of raw milk?
- Vivek Nirmal:** Yes, we are pretty much on track for that much revenues we will be raising at least 1.4 million liters of milk and this is basically a seasonal factor of drought. Even we might experience some shortages this year but we are expanding our milk procurement to that extent and we are very much track on to get that number.
- Shraddha Seth:** So even further 2017, you would say we are on track for the procurement?
- Vivek Nirmal:** Yes.
- Moderator:** Thank you. We have next question from the line of Jubil Jain from PhillipCapital. Please go ahead.
- Jubil Jain:** Sir, I have two questions, first on what is the proportion of milk which comes from direct procurement and how much is indirect basically directly from the farmers and second how much is from milk dealers? Yes, sir that is my first question. And second, what is the plan on debt reduction for FY'17-FY'18 and what interest cost should be built in basically?
- Vivek Nirmal:** So Jubil, on the first question, around 65% of our milk comes from our direct sourcing which we procure directly from farmers around 25% come from the indirect channel wherein we procure it from the I would say wholesale supplier. And to the second question, I think if you see our long-term debt it is very limited right now. We do not plan to increase anything. This debt would be decreasing in future gradually but we do not have any plans of major reduction of debt in this year as such. In coming years, obviously our cash flows will help us to reduce debt in coming days but this year as such we do not have any plans to reduce the debt further.

- Jubil Jain:** Will we see an increase in short-term debt in case the Cheese manufacturing I mean start gathering pace and the amount of inventory and receivable start increasing, so is there chance that the short-term debt might increase even beyond Rs. 200 crores?
- Raviraj Vahadane:** This is Ravi, so the quarter 3 and quarter 4, finance cost can be benchmark for next couple of years for us.
- Vivek Nirmal:** Yes, because we have reduced most of the debt in Q3. So I think Q3 or Q4, debt number can be a benchmark if you want to calculate the interest cost for the days to come.
- Moderator:** Thank you. We have just one question come up sir, that is from the line of from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Yes, so what are the debt numbers you said because I think the debt numbers are reporting balance sheet, our total debt is Rs. 158 crores, right?
- Vivek Nirmal:** Yes.
- Raviraj Vahadane:** Hi, Bhavin, Ravi here. So short-term debt is around res 110 crores at March-end, around Rs. 37.5 crores is for long-term debt.
- Bhavin Chheda:** So you do not expect this to go up, right?
- Raviraj Vahadane:** Long-term debt we are not expecting to go up, short-term debt is within our range.
- Bhavin Chheda:** Okay. And the annual procurement number you said 10.23 lakh liters right milk procurement?
- Raviraj Vahadane:** Per day, yes.
- Bhavin Chheda:** Okay. So first-half would have been higher at 10.5 liters?
- Raviraj Vahadane:** First-half was a bit higher I think Q3 was also good, Q4 is slightly lower.
- Moderator:** Thank you. That was the last question from the participant, I would now like to hand over the floor to Mr. Jubil Jain for closing comments. Over to you, sir.
- Jubil Jain:** On behalf of PhillipCapital, I would like to thank everyone for attending the call. Karuna you call post the closing remarks from the management. Thank you.
- Moderator:** Sure.
- Vivek Nirmal:** Great, Vivek here, again. Thank you very much, everyone for joining the call. I think it is good marketing supporting us in terms of first year of our listing, I think we have quite exciting future in the years to come especially with all the segments growing in which we are present

including Ice-cream and Infant Foods and Cheese and all. We will definitely see a good growth in consumer products in days to come. In next quarter we will also be seeing a lot of new products being launched in the company in the B2C segment as well as in the ingredient segment. We see that milk procurement might remain a challenge, I think the management is pretty much geared up because our major strength is procurement and we are pretty much geared up for this challenge.

I am happy to share that we have declared a dividend of which is 15% of the net profits of the company for last year and we expect the same support and cooperation and interest from the shareholders in days to come for the company. I think our philosophy of being partners in progress which was limited to our farmers and clients and employees earlier is now also been extended to our shareholders which are the new members of our family.

I think with this, I again thank, everyone to be a part of this call. Best of luck.

Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.