



“Prabhat Dairy Q1 FY17 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Prabhat Dairy Q1 FY17 Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Ms. Shradha Sheth from Edelweiss Securities Limited, thank you and over to you Ms. Sheth.

Shradha Sheth: Thank you Riyo. On behalf of Edelweiss let me welcome you all to the Q1 FY17 Earnings Call of Prabhat Dairy. From the management today we have Mr. Vivek Nirmal – the Joint Managing Director and Mr. Raviraj Vahadane – the CFO of Prabhat. Without further ado I will hand over the call to Mr. Vivek Nirmal for his initial comments post which we will open for floor for Q&A, thank you and over to you, Sir.

Vivek Nirmal: Good morning everyone. I am Vivek Nirmal, Joint Managing Director. On behalf of the Board of Directors and Management of Prabhat Dairy Limited I welcome you all to discuss the results of the first quarter for FY 2016-2017.

Just before we discuss the financial performance during the quarter allow me to quickly emphasize on our business philosophy and our fast transforming business model which will help us to capitalize on the dairy industry growth and achieve long-term sustainability. We are a fully integrated Milk and dairy products company right from the farmer to the end customer. We have evolved from being an established speciality dairy ingredients company to an emerging consumer focused and brand driven company with wide range of dairy products under are key brands of Prabhat. Our strong success is backed by our integrated business model, robust procurement system and built on intense farmer engagement and trust along with our state-of-art manufacturing facilities and strict quality controls. Today we have a solid foundation of B2B business with a marquee clientele and we are witnessing the rapid scalability in our consumer business which has grown from being only a single state operation in 2012 to around more than 11 state operations in 4-5 years. We further aim to scale up our B2C business and grow its share from around 30% in the revenues where it is right now to around 50% in the revenues by 2020.

Coming to the quarter under review typically the first quarter of dairy industry is generally weak due to the lower availability of Milk on account of summer season. Moreover last two years of consecutive drought condition in state of Maharashtra had severely impacted the raw Milk availability during this quarter. This has led to lower Milk handling per day along with higher Milk procurement rates. But despite these difficult operating conditions I would especially like to mention that we were able to achieve revenue growth through judicious product mix and process efficiencies. With good monsoon season this year the Milk procurement situation is already improving substantially and we are confident of increasing our

Milk volumes in the quarters to come. During the quarter we launched a new sales campaign of Prabhat Ghar Jaisa Dahi in Mumbai and suburbs. We also expanded our modern trade retail presence by launching products like Paneer, Dahi, Lassi and Shrikhand in outlets of Big Bazaar, Star Bazar, HyperCity and D-Mart to name a few. We are further expanding our presence in modern trade beyond Mumbai across Maharashtra and Gujarat in the current quarter. We are also taking measures to expand our retail presence in northern and southern Indian markets especially for the long shelf life products. We have taken various marketing initiatives and also have increased the presence in social media where we are running a lot of campaigns and getting good responses. We have bagged a new order from Yum Brands for supply of Cheese. Additionally, we also have been able to get our first export order for Cheese from Middle East and we have also commenced our exports of sweetened condensed Milk to Middle East as well. Being the largest manufacturer of condensed Milk in the country, we see a lot of potential in the export markets.

Talking briefly about our financial performance, our total revenues increased by 9% year-on-year to Rs. 293 crores as compared to 268 crores in the last year's first quarter. The share of value added products have increased from 76% in Q1 to around 82% with higher contribution from products like Ghee, Butter and high quality powders. Sales of Skimmed Milk Powder and speciality powders have grown by around 40% year-on-year and Ghee and Butter especially grew by around 60% year-on-year. Our gross profit increased by around 2.3% year-on-year to around 56 crores. Our gross margin decreased by around 125 bps from around 20.4% to around 19.2% basically due to higher Milk prices and increased Milk procurement efforts on account of drought conditions.

Our EBITDA decreased by 8.1% year-on-year to around 24 crores driven by higher employee expenses and higher business promotion expenses for growing our B2C business. It's partially offset by lower manufacturing and administrative cost which we have achieved through process efficiencies. Our EBITDA margin has decreased by 167 bps from around 10.0% to around 8.5%. Finance cost decreased by 46% year-on-year as the company has repaid around 185 crores of debt using the IPO proceeds. And our PAT has increased by 64.5% year-on-year to Rs. 6 crores. PAT margin also increased by about 69 bps from 1.4% to around 2.1%.

So going forward we shall remain committed on growing our value-added consumer business while maintaining our stronghold on our ingredient business. We are placing a strong focus on establishing our products under our brands Prabhat in both existing as well as new market. We also are looking to further strengthen our distribution network delivery systems and spread our retail presence in India. Having commissioned the third largest Cheese plant in the last year, our strategy is to grow Cheese business with full aggression by focusing on our HORECA clients as well as the institutional customers in India as well as the Gulf countries. We have already procured orders from major QSR chains in India.

With respect to our B2B business we shall further leverage our institutional relationship and quality certification obtained from such institutional customers to grow the B2B business as well in a robust way.

With this I would like to now leave the floor open to questions and answers, if any please.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Aman Chaplot of Ventura Securities. Please go ahead.

Aman Chaplot: How much was the Milk procurement volumes for the first quarter as compared to previous year's quarter?

Vivek Nirmal: Previous year this quarter we handled around 9,25,000 liters of Milk. This quarter it was down to around 7,60,000 liters of Milk in Q1.

Aman Chaplot: For the deficit how much was the SMP which we purchased?

Vivek Nirmal: It's not the SMP what we have purchased, we also use some SMP from our own stocks as well as we purchase some and we normally make it up with the Skimmed Milk Powder as well as purchases of Butter and Fat from external sources.

Aman Chaplot: How much was the Fresh Milk sales for this quarter?

Vivek Nirmal: Total Liquid Milk Sales for this quarter was around 1.3 crore liters.

Aman Chaplot: As compared to?

Vivek Nirmal: We normally don't track it product-wise. The overall Fresh Milk for this quarter was 1.3 crore liters.

Aman Chaplot: What would be our outlook for the upcoming quarters on Milk availability because the monsoon in some parts of Maharashtra has been good?

Vivek Nirmal: So the overall monsoon situation has been really good. Monsoon has started a bit late so now the Milk availability is improving. It has improved significantly even towards the end of this quarter. So our Milk procurement volumes have already started going up. We expect a good inflow of Milk. The last two years were pretty tight. I think the worst is now over and we see a pretty good Milk inflow in the quarters to come.

Aman Chaplot: So we can expect around 10 lakh liters a day?

Vivek Nirmal: Around yes.

- Aman Chaplot:** What was the average procurement price for this quarter?
- Vivek Nirmal:** It was around Rs. 25 per liter for this quarter.
- Aman Chaplot:** And realizations, only for the Liquid Milk sales portion?
- Vivek Nirmal:** We don't calculate realizations only for the Fresh Milk portion.
- Moderator:** We have the next question from the line of Jatin Karani of Enam Holdings. Please go ahead.
- Jatin Karani:** Just a follow up on the Cheese capacity and the Cheese utilization at present. If you can give us some more specifics, I know you mentioned we have got an order from Yum Brand, so if you can give us some sense on what is the size of this order and have we already started shipping out Cheese to Yum Brand and at what realization levels are we at present compared to our capacity?
- Vivek Nirmal:** Cheese I think first quarter we have seen a good establishment of our products in lot of QSRs and we have started getting orders already so we have started shipping the products already to all these QSR chains and all. The products are already being dispatched. In terms of overall capacity utilization I think we would be around close to below 15% of the utilization right now of the total plant capacity. And first quarter we established a good distribution network for our institutional Cheese Blocks and that network was basically established in parts of Maharashtra, Gujarat, parts of Punjab, Haryana, Delhi, Rajasthan and we are also starting Bangalore and Hyderabad. These areas we see lot of traction for processed Cheese as well as Mozzarella Cheese because apart from the large QSR there are also a lot of mid-scale QSR restaurant chains as well as standalone fine dine restaurants to whom we are supplying. So our first quarter basically saw these establishments of distribution network and in the current quarter and the quarters to come we will be seeing a significant increase in the Cheese business overall.
- Jatin Karani:** In terms of strategy going forward when we look at the big QSRs like the Yum Foods and Dominos and those kinds of opportunities versus the smaller scale restaurants that serve pizzas, how does one quantify the size of the opportunity? If you can give some sense of how big is this market, the smaller institutional market in the smaller Tier-2, Tier-3 towns?
- Vivek Nirmal:** This market is pretty big. I don't really have the numbers in terms of size of this market vis-à-vis the organized QSR chains. What we see is that this market is growing day by day especially with the adaption from the large QSRs to the even smaller restaurants adopting to the same dishes and all now, so we see this market is growing.
- Jatin Karani:** Right now our mix would be 50-50 between the large QSRs and the smaller ones?
- Vivek Nirmal:** Yes around.

- Moderator:** We have the next question from the line of Jubil Jain of PhillipCapital. Please go ahead.
- Jubil Jain:** My first question is on Other Expenses. What is the reason for the fall in Other Expenses by around 24%?
- Vivek Nirmal:** These are the manufacturing expenses particularly. In Other Expenses normally whenever we have excess Milk we also at times convert in the facilities at places. If we have capacity constraints or something we also convert that product in other facilities where we have to pay convergence charges. Since we had lower Milk volumes the expenditure for convergence charges was not there at all and hence we see the Other Expenses have gone down.
- Jubil Jain:** Is that a reason your gross margins have fallen because the amount of semi-finished goods were more?
- Vivek Nirmal:** So obviously our inventories have increased because of lot of changes in the product mix from the clients as well especially from the ingredients side. So the gross margin has fallen basically on one or two reasons the basic reason being the increase in Milk prices and the second being the change in the product mix.
- Jubil Jain:** My second question is on the Milk procurement price, you said this quarter it was Rs. 25 per liter. What kind of prices do you expect going forward once the supply stabilizes and what was the price in Q4 FY16 basically the previous quarter?
- Vivek Nirmal:** The previous quarter price was around Rs. 21 and this has gone up in the summer season because naturally in every summer season we see the price is spiking up. Plus specially due to the global commodity markets the Indian Milk prices basically the Raw Milk prices were also under pressure and hence they were at a lower end since the last two years but now globally the scenario is improving and so is in India so we see the Milk prices going up. We expect these prices remain to be pretty stable at the current levels or reducing a bit as the Milk supplies go up in the quarters to come.
- Jubil Jain:** Last question, the share of Liquid Milk, value added Milk and the low margin business SMP, etc., and you had also mentioned about the growth rates I actually missed out you said Ghee grew by 60%, SMP grew by 40% you also mentioned some other products. Can you just repeat that?
- Vivek Nirmal:** That was basically Ghee and Butter which grew by about....
- Jubil Jain:** 60%.
- Vivek Nirmal:** Yes.
- Jubil Jain:** And SMP grew by 40%.

- Vivek Nirmal:** Around 40%.
- Jubil Jain:** So what would be the current share of Liquid Milk and value added in low margin businesses?
- Vivek Nirmal:** Value added is around (+) 80%, the rest is the Liquid Milk.
- Jubil Jain:** And SMP?
- Vivek Nirmal:** Powder, we normally don't make powder for the open market or we make it very low. These are the speciality powders we supply to the corporate clients.
- Jubil Jain:** So you count it under value added?
- Vivek Nirmal:** Correct.
- Moderator:** Next question is from the line of Dhaval Mehta of Emkay Global. Please go ahead.
- Dhaval Mehta:** My first question is on SMP. If we see the global SMP prices have fallen like from Rs. 220 odd levels to around 150-160 and SMP constitutes major part of our overall revenue. So I just want to know whether we were EBITDA breakeven for SMP in this quarter.
- Vivek Nirmal:** Actually our major part of the ingredients actually comes from Condensed Milk, however, yes this Speciality Milk Powder also forms a major part of our revenue. Now our most of the clients we work with the cost plus model and hence we are insulated by the global price decrease or increase in that way. But yes, we are EBITDA positive in terms of Milk Powder as a product from the last quarter.
- Dhaval Mehta:** So has the EBITDA declined, a run rate of EBITDA declined vis-à-vis what we had seen in previous quarters?
- Vivek Nirmal:** You are talking about the overall EBITDA?
- Dhaval Mehta:** The SMP I am talking about.
- Vivek Nirmal:** SMP realizations have gone down a bit but on the other hand the PAT realizations have improved. So on a net net basis it is constant.
- Dhaval Mehta:** In terms of Cheese we have taken a conscious decision that we will be catering only to B2B customers we are not right now expanding to B2C because of the higher A&P spend which is required. So what can you expect the utilization trends of the Cheese facility will be let's say in next year and in FY18?

- Vivek Nirmal:** We expect this capacity to be utilized to around (+85%) in around 3-3.5 years to come. So by next year we expect this to be at least (+35) to (+40%) and in the next to next year we expect this to be at least 65-75% utilization.
- Dhaval Mehta:** So this will be either through adding more and more states or it will be mining the existing states which we are present?
- Vivek Nirmal:** We have now expanded horizontally, now we have to go deeper in the states to build more, to start more distributors and all. This distribution network for Cheese is fairly new distribution network so we will see a lot of vertical growth coming in.
- Dhaval Mehta:** So the marketing team of Cheese is completely different than what we have for other verticals?
- Vivek Nirmal:** Yes, that's correct.
- Moderator:** Our next question is from the line of Kaustubh Bubna of SKS Capital. Please go ahead.
- Kaustubh Bubna:** As and when you plan to grow your market share in the B2C segment, I understand it's highly competitive so can you tell me how you plan to penetrate this segment? Can you talk about distribution channel because you already have 30% of your sales coming from there but with a 50% FY20 target can you talk about how you plan to penetrate this segment?
- Vivek Nirmal:** If you see this segment particularly has been seeing more than 50-60% CAGR growth since last 4-5 years especially the consumer product segment. Our positioning is very clear. We have identified the high-volume products and we have typically targeted products which are in the middle of the pyramid wherein we are seeing an exponential growth. Consumers are shifting from the home-made Dairy Products to the packaged one and especially there the freshness, the quality hygiene of these products matter a lot. Along with that matters the cold chain distribution because that ensures that your product without any temperature abuse is made available to the consumer and hence the repeat sales happen. So we have basically worked on 3-4 elements since the last 3 years and I think we have gained a reasonable success in that, first element being creating a very strong position in distribution network. So today all of our distributors have the deep freezers, we deliver it to them through insulated and deep freezer vans wherever required. Our frequency of the deliveries is pretty high and that ensures the fresh product reaches the market. Second is, apart from the larger cities, we have a very aggressive focus on the Tier-2 and Tier-3 towns and we see a lot of shift happening over there as well we see very less competition from the national brands in Tier-2, Tier-3 towns. We as a company understand this town is very good. So we have developed special products for these towns. For example, our UHT Milk is not in the cartons or tetra pack but it is in pouches. That gives us that advantage of placing a very reasonably priced product in the semi urban areas where the demand is high for this kind of products. At the same time in smaller towns where electricity is a large issue for people to sell milk. Third element we have focused on is that we

are completely cow milk player and that is playing to our distinct advantage especially in the last 2-3 years some of the national brands have penetrated heavily into cow Ghee. That has actually expanded the cow Ghee market to a very large size and we are getting a lot of advantage out of it. So our Ghee specially is of excellent quality and the credit goes to our great quality fresh milk. So our cow Ghee has paid off. We are there in Maharashtra and Gujarat markets particularly in the last 4-5 years and that business we see a lot of increase in this year as well. We have also started our cow Ghee distribution in states like Punjab, Haryana, Uttarakhand, Himachal Pradesh, Uttar Pradesh, Rajasthan where there are not many cow Ghee players because that's a largely buffalo Ghee dominant market. Overall consumer perception is now positive towards cow Ghee so that is an advantage we are getting, so that's the third thing. And fourth thing I think apart from that we seem not many organized dairy companies are really putting their brand building efforts, so we have started ramping up our brand building efforts this year. We focus more on the BTL activities rather than the ATL activities because we believe our target is not to really acquire consumers from our competitors but the 65% of unorganized market which is mainly the ladies preparing the products at their home and who are our potential customers to shift to packaged products are our main target consumer so we focus mainly on sampling, we focus mainly on home to home communication of our product and that is yielding us good results. So that is the strategy to grow. We will be growing more as a regional brand in the next 3-4 years to achieve our target of 50-50 revenues from consumer products and the ingredients as well.

Kaustubh Bubna: Also I see that you plan to in general increase the share of value added services and your retail business in mind. So do you have any margin range target that you hope to achieve?

Vivek Nirmal: From the current EBITDA we obviously aspire to earn higher EBITDA margins in days to come. However, while the margins in the consumer products are higher it also requires a lot of plough back in the brand building activities as well as the logistics. So we see a lot of investments happening in the next 2-3 years in the consumer business but overall after that we see a higher EBITDA margin than the current levels.

Kaustubh Bubna: Could you give us some general guidance for topline growth this year and also talk about a little bit CAPEX and inventory levels?

Vivek Nirmal: We will not be able to give you any guidance as such but yes, I think the Q1, Q2 as we have seen it is basically the Milk shortage season as per the Dairy industry cycle. Q3 and Q4 obviously is a better cycle with festival season seeing a higher sale as well as the good monsoon season seeing higher milk flows coming in so we expect better performance than last year in line to our growth which we have achieved in the last 3-4 years. On inventories I believe we are carrying some higher inventories because globally the prices were lower and obviously that has an impact on the current stock levels as well. But we see the inventories going down I think in coming quarters. Our inventories also have gone up on account of our

Cheese because in Cheese the production cycle itself is a bit longer and hence the inventories in Cheese go up. So our inventories are a bit stretched at the current point.

Kaustubh Bubna: Do you have any CAPEX plans?

Vivek Nirmal: Our CAPEX is already under way. Our cogeneration plant and our technology upgradation were the two basic elements on which we have been investing. Our cogeneration plant is expected to start in coming months and our upgradation of certain plant and machineries are also under way. Apart from that we are investing in the regular maintenance CAPEX and some CAPEX on the procurement side where we are installing bulk milk cooling stations and all that, so where we are already collecting Raw Milk and the volumes are going up we are installing bulk milk cooling stations. But that is not a very significant CAPEX as compared to the CAPEX we have done in past 2-3 years of setting up a plant in Navi Mumbai or setting up a Cheese plant. So this is the status on the CAPEX side.

Moderator: We have the next question from the line of VP Rajesh of Banyan Capital. Please go ahead.

VP Rajesh: I was wondering if you can discuss a little bit about the competitive landscape in the Cheese segment.

Vivek Nirmal: In Cheese if you see Indian market is growing at almost (+) 25%. The 70% of the market in India for Cheese is basically the institutional market because the consumption pattern of Indian consumers is that we consume quite less Cheese at our homes or the products which are prepared at our homes but the out-of-home consumption in restaurants and QSRs and all is much higher. So it is growing. There are two basic products like Processed Cheese and Mozzarella Cheese which constitute large portion of the market. And there are four key players in the Indian market today, the larger players, who actually have more than 80-90% of the market share and those are Amul, then there is Parag, then there is Dynamics which manufacture Cheese for some of the consumer products and then there is Prabhat. So these are the four large players in India. We see the specific HORECA segment growing pretty large and which actually has welcomed our product because due to the high quality Raw Milk which we use for our Cheese the quality of their final products has been much better. So our strategy has been to partner with the HoReCa guys to help them with better recipes, to help them develop new recipes for their products for their clients and so to see that their throughput of Cheese itself increases in their restaurants. That has been the strategy for the mid-scale HoReCa segment. For the large scale QSR and other organized chains we have been closely working with them since last two years even before the plant started. Prabhat has a core competency of working with quality conscious corporate clients which are global clients that is in Milk Powders or in Condensed Milk and all. That has actually helped us to get our plants approved pretty quickly with these global CSR chains and that is also helping us to ramp up our supplies to them.

VP Rajesh: Are you planning to also become more active on the retail distribution side or is too small a market to focus on just on the Cheese front?

Vivek Nirmal: Yes, the retail market is currently smaller and even if you see the major Cheese players in India, most of their products actually is consumed by the HoReCa segment so we have started the HoReCa segment and obviously that's a large segment where we have already started establishing ourselves. The consumer segment per se is smaller, the strategy is not to be right now in that particular segment because if you see Prabhat as a product has a positioning which is particularly indigenous products like Ghee and Paneer and all. We are getting a good traction for Prabhat brand in those products. When we will be entering into cheese in consumer products we will be having a completely different strategy of the brand for the Cheese and the overall marketing and distribution strategy will be very different than the current one. So the plan is not on the cards right now but yes in the future we will definitely be doing it.

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

Manoj: If you look on the Cheese capacity addition, especially from the competition, especially Amul, Parag, all these guys are significantly ramping up their capacities. So how do you see this because Prabhat being a new player and established player adding significant capacity?

Vivek Nirmal: If you see right now Cheese business is at a pretty nascent stage in India and has not really exploded but the time has come wherein the business has really started exploding with 4-5 factors playing the role. Especially if you see the hospitality industry and the restaurants growing substantially, second is the home delivery is growing substantially, third is the modern trade format increasing and then couple of other formats wherein we see a lot of Western ingredients increasing their share. Fourth impact we also see interestingly that Cheese consumption is not only increasing in the larger towns but it is also increasing in the smaller towns. We as our core strength have a very strong distribution in the smaller towns, parts of Maharashtra, parts of Gujarat and the other couple of states. We see a lot of traction happening there and Prabhat already has an established distribution over there. So we see larger sales coming from this region. As far as the capacity addition by the competitors, I believe everybody sees a lot of potential in this business and that is why instead of increasing any other capacities most of the players are interested in growing the capacities in Cheese which is a very logical step. However the market I believe is pretty large and unlike other dairy products like Dahi or Ghee or Butter or other products wherein there are hundreds of manufacturers in India. In Cheese there are very limited manufacturers given the fact that it requires very high quality Milk and that Milk has to be procured on a sustainable basis. Now procurement obviously has been a major strength of Prabhat. So we believe that our high quality Milk will yield us good traction from the consumers and we have already started seeing it because our Cheese right now is not sold at cheaper prices in the market. We are very much at par with the competitors in terms of pricing because our product is a very high quality product and that has been our philosophy. So for a high quality player I believe there is always

the scope in the market and that's why we are quite bullish on the Cheese capacity utilization increasing in years to come.

Manoj: Any update on getting the commercial orders from a large QSR chain especially Dominos and all?

Vivek Nirmal: We are already supplying it to them, we of course cannot disclose about the quantities and all supplied to them for some reasons. But we are already supplying to most of the QSR chains we are operating in India. We are supplying them products like Mozzarella Cheese, Processed Cheese and Paneer.

Manoj: Generally when these players buy cheese from let's say their strategy is to buy cheese from 2-3 players generally?

Vivek Nirmal: Yes. Every buyer obviously has minimum 2 to 3 suppliers because they want to de-risk there supply chain. At the same time their geographies spread out throughout the country so it also depends upon the logistics and the viability and the fresh products to be reached to the market. So everybody has a strategy to have around 2 to 3 suppliers.

Manoj: If you can give us some update on the Mega incentives, when we expect getting a first payment on account of that?

Vivek Nirmal: Mega project I have updated last time, we have already got the eligibility certificate. We are in the process of making claims and submitting it. Once we submit the claims we will be getting it. We are expecting it in this financial year only. As it's a government procedure we don't really know how much time it takes. But we should be expecting it in one or two quarters.

Manoj: From your side you will be submitting the claim in the coming quarters, right?

Vivek Nirmal: Yes so now we are already in the process of submitting the claims. We should be seeing the refunds kicking in by current or next quarter.

Manoj: And the claim will be effective 1st April 2015 like whatever sales we have done from that, right?

Vivek Nirmal: Yes you are right.

Moderator: Thank you. Our next question is from the line of Jatin Karani of Enam Holdings. Please go ahead.

Jatin Karani: I had actually the similar question on the special incentive. So I understand we have already got the eligibility certificate.

- Vivek Nirmal:** Yes.
- Jatin Karani:** So just wanted to understand have we already filed the claim or we are going to file the claim in the future?
- Vivek Nirmal:** No, the procedure is it's not only one document, we have filed multiple documents. We are already in process of filing. The process has already been initiated. It will be completed soon and we will be seeing the refunds kicking in at max by this or next quarter.
- Jatin Karani:** If I remember correctly, these payments will be for a period of five years, right?
- Vivek Nirmal:** Yes.
- Jatin Karani:** Where we will get these funds for a period of five years.
- Vivek Nirmal:** Yes you are right.
- Jatin Karani:** So that period will start from when?
- Vivek Nirmal:** April 2015.
- Jatin Karani:** Once we got the eligibility certificate?
- Vivek Nirmal:** Yes.
- Raviraj Vahadane:** These refunds are for the period of seven years starting from 1st April 2015 to 2021. We are in process of filing the claims so we are expecting the refunds by third quarter or fourth quarter definitely.
- Jatin Karani:** So basically when we get the first refund it will be the cumulated VAT refunds from April 2015 till the current quarter?
- Raviraj Vahadane:** Not the current quarter, till I think 31st March 2016.
- Jatin Karani:** So it will be given in annual increment is what you are saying?
- Vivek Nirmal:** Right.
- Jatin Karani:** And what would be that quantum for the first refund amount based on your estimate?
- Raviraj Vahadane:** First refund as we already discussed is around Rs. 15 crores.

- Jatin Karani:** Coming back to the Cheese capacity and utilization as was earlier mentioned on the call; right now we have about 10% to 15%. So we are looking at about 2 to 3 tons per day of Cheese manufacturing and sales?
- Vivek Nirmal:** Yes.
- Jatin Karani:** We expect this to go to about 8 tons per day by next year?
- Vivek Nirmal:** Correct.
- Jatin Karani:** Primarily driven by you are saying the institutional and HoReCa segment?
- Vivek Nirmal:** Correct.
- Moderator:** Thank you. Next question is from the line of Avneesh Agarwal of Prabhudas Lilladher. Please go ahead.
- Avneesh Agarwal:** My first question is regarding our Cheese unit where currently we are operating at around 15% and you are looking at increasing it gradually to 35% to 40% by '18 and then 65% to 70%. Now looking at this 15% utilization currently, so actually are we making losses in this unit and by when do you think we will start making money in the Cheese business?
- Vivek Nirmal:** We are not really making losses as such but yes, we are not making any significant margins on Cheese right now because the production capacities are utilized at a very low level. So obviously the costs of production for those particular products are higher, so as a capacity utilization increases we will see more margins coming in from this particular segment.
- Avneesh Agarwal:** So meaningfully one can expect that it will happen somewhere in FY18 only?
- Vivek Nirmal:** Yes 17-18.
- Avneesh Agarwal:** My second question is regarding the Milk procurement where you are looking at close to million liters per day going forward. However, if we look at your processing capacity of 1.5 million then do you already have plans in place or in the next 3 to 5 years where do you see this Milk procurement increasing from the current levels?
- Vivek Nirmal:** We already have our strong Milk procurement network. We have as a strategy of... actually our farmer engagement programs are pretty strong going on from last many years. So we have a strategy of increasing Milk per cattle which actually also gives higher profitability to the farmer. Second is we encourage farmers for having higher cattles, so higher cattles per farmer and more farmers per village. So in lot of areas in which we operate we have around 30%-40% of penetration, so we are increasing our penetration. We have already a plan in place to increase the Milk procurement volumes to around 1.4 million liters in years to come.

- Avneesh Agarwal:** When do you want to reach this 1.4 million liter?
- Vivek Nirmal:** Around 3 years.
- Avneesh Agarwal:** Our tax rate during the current quarter has been only roughly around 20% whereas last year full year was upwards of 35%, so is there one-off kind of a thing where do you see the full year tax rate be?
- Raviraj Vahadane:** We will be in the full tax bracket this year also.
- Avneesh Agarwal:** Final last thing can you say the limited review you have stated that for the current quarter your 3.6 crores would have been the incremental profits and have you accounted for that government subsidies and all those incentives.
- Vivek Nirmal:** Right.
- Avneesh Agarwal:** So based on that you are saying around 15 crores per annum should be the number?
- Raviraj Vahadane:** Auditor has taken some different view. As per auditor's view we need to recognize the Mega project benefit from the year when we have received the eligibility certificate. So we have received the eligibility certificate originally into December 2015 but we got the revised eligibility certificate into May 2016 that's where we have some differences of opinion with auditor. As per auditor's opinion the current quarter's income of around Rs. 3.6 crores that's the VAT that we have paid to government of Maharashtra and based on the eligibility certificate we were supposed to get it as per part of our income so that's where they have accounted for it and as a difference of opinion we have not accounted for it.
- Vivek Nirmal:** So Avneesh if I understand it correctly you are asking that can this be annualized, right, 3.6.
- Avneesh Agarwal:** Yes.
- Vivek Nirmal:** So if you see annualized yes, it should be in the range of that or maybe a bit higher than that is because year-on-year our sales of value-added products is increasing.
- Avneesh Agarwal:** Once we get it by the 3Q or 4Q of this year then would it be starting from 1Q FY16 or FY15 so we will be getting for one year or for two years?
- Vivek Nirmal:** This will be cumulative as Ravi said. We will be first of all getting it till March 2016, so cumulative in the sense it's only one year, April '15 to March '16.
- Avneesh Agarwal:** So it will always come with a lag, for FY16-17 you will get some time in 17-18?
- Vivek Nirmal:** Correct.

- Moderator:** Thank you. Next question is from the line of Kaustubh Bubna of SKS Capital. Please go ahead.
- Kaustubh Bubna:** These initiatives you are taking on value-added services and retail all of this see you moving out of your historical low single-digit ROEs right in the future?
- Vivek Nirmal:** Yes.
- Kaustubh Bubna:** So could we see post FY18, let's say FY19 double-digit ROEs?
- Vivek Nirmal:** I'm not sure. I don't have the working model in front of me right now but yes directionally the intent is to see that our capacity utilization goes up, number one. Number two, is our share of value-added products increase in the overall proportion of the business and number three is the consumer business increases as the overall proportion. We strongly believe that all these three things put together we should be getting better returns than the current levels.
- Kaustubh Bubna:** With your inventory buildup what's your working capital scenario?
- Vivek Nirmal:** Our working capital scenario in the sense?
- Kaustubh Bubna:** Working capital days year-on-year you have any figures?
- Vivek Nirmal:** Normally since we have very different product lines our products commodity wise and number of days is not what we actually focus on. Lot of inventories also gets consumed due to the seasonal impact. But our inventory levels have gone up from the last 20%-25% of the inventories have gone up if we compare it from the Q4 levels right now. That is mainly for the Cheese and some Powder stocks.
- Moderator:** Thank you. Next question is from the line of Manoj of Edelweiss Securities. Please go ahead.
- Manoj:** Just one follow-up question, if you can talk a bit on the response on Curd side that what is the current run rate of the Curd and what is the target, capacity utilization as a target run rate for this year end?
- Vivek Nirmal:** So Curd response especially after the campaign has been very good. Our Curd as such we launched last year and in cities we had that Prabhat Raftar model where we directly delivered to outlets that ensured the fresh quality product reaching to consumers. In the campaign in April-May-June what we have ran we have reached lot of new consumers and we have been able to open lot of new outlets. In western Mumbai for instance we were not available; we were available only in Navi Mumbai. We have increased our distribution to parts in central Mumbai as well as Thane, western Mumbai. We have started our Dahi distribution in Nasik and Aurangabad, in Pune and all especially in the last quarter. So response for that is very good because our USP is that's 'fresh ghar jaisa Dahi' with no added Milk Powders and all

when it comes to the product as compared to the other products on the shelf. And that has actually struck the chord because we strongly believe the lady of the house she looks for very similar products, similar home tasting products on the shelf. She doesn't want an artificial taste. So that is where our judgment has clearly been a winner and we have seen a huge increase in Dahi sales. Incidentally as Dahi distribution increases we also get a lot of opportunity to place other products like Paneer and all on the same distribution network, so that has increased. Earlier we were doing around 7000 to 8000 outlets, now we are doing more than 10,000 outlets in Mumbai for Dahi.

Manoj: In terms of current run rate if you can talk a bit about it and what's the targeted run rate which you plan to achieve by this year-end?

Vivek Nirmal: So right now we do around 200 tons of Dahi per month and by end of this year obviously it will be higher because March is also a summer season where we see sales going up. So we expect at least 25% to 30% growth in that product particularly.

Manoj: A similar kind of update if you can give on Ghee also because that is also one of the products which has picked up pretty well for you?

Vivek Nirmal: We normally don't have the product wise volumes of each and every product. But Ghee has yes, picked up and especially with the distribution which we have started in northern part of India that has picked up very well, so large volumes are coming from there. And secondly these large volumes are also coming from Maharashtra now. Recently if we see currently in the first quarter, we have opened lot of distribution in parts of Maharashtra where we were present. At current specially in the Ganpati, Navratri and the Deepawali which is a Festival season we have done a lot of ATL as well as BTL activities including sponsoring the regional TV programs as well as having campaigns in the newspapers as well as on social media with a support of lot of BTL activities. So that is helping us in gaining new consumers for Ghee. Our modern trade presence also has helped us to increase our sales in the general trade because the visibility there impacts the sales in general trade as well. So Ghee business also we have seen an increase, for Ghee we were present in around 55,000 outlets last year. We have already seen an increase of 30% in terms of number of outlets till date.

Moderator: Thank you. Our next question is from the line of Jatin Karani of Enam Holdings. Please go ahead.

Jatin Karani: Last question on our exact net debt level at present? It was 146 crores as of March 31st, 2016 so if you can just tell us where we are right now?

Vivek Nirmal: Ravi, can you just take on the June numbers?

Raviraj Vahadane: Net debt is around Rs. 160 crores.

Moderator: Thank you. Next question is from the line of Jayesh Gandhi of Birla Sunlife Mutual Fund. Please go ahead.

Jayesh Gandhi: My question is regarding profitability. As you had mentioned the Milk prices in India in line with the global prices are actually trending up. I guess for the next few years will we be able to maintain the profitability in the sense will we be able to pass on some of the increase in Milk procurement prices that we pay to the farmers in terms of product realizations? Do you feel confident that we will be able to maintain margins per kg of Milk, etc., as we compute in getting the better realizations from our products?

Vivek Nirmal: Our biggest strength is that we procured directly from the farmer, so our Milk procurement prices are pretty stable. However, we see that seasonally in summer season the price obviously goes up. This time it was particularly coupled by the last two years' drought. So I want to say that it is largely a global effect which we have had on Milk prices. Yes, there is an impact but major impact I would still attribute to the summer season and the drought for the last two years. Now coming to the passing on of the prices, in most of the B2B clients it's a cost plus model so the prices are passed on. In some regions like for instance in consumer business, in consumer business the prices are not immediately passed on. Overall the gross margins of consumer business are higher but the prices are not immediately passed on so there is always there is a lag effect in the consumer business of the Milk price increase. In the coming quarters I see the Milk price to be stable or maybe going down slightly on account of Milk supply increase. Last two years actually has been very unusual wherein we have seen very less of this kind of situations in past 17 years wherein on one side the Milk prices are higher and on the other side the realization is lower. So it was a very unusual situation I would say. This quarter was very different for the entire industry but in the quarters to come I see that the supply is going up as well as the prices coming down and that pressure releasing overall.

Jayesh Gandhi: So margins should trend up on a full year basis and we should be back to the margin numbers that we saw last few years?

Vivek Nirmal: Yes.

Shradha Sheth: Hello Vivek? Two questions from my side Vivek.

Vivek Nirmal: Just a minute, Ravi?

Raviraj Vahadane: Actually we would like to change the net debt figure. By mistake I have told the short-term borrowing only. Total debt figure is around Rs. 190 crore out of which 155 crore is the short-term borrowing and around 38 crore is the long-term borrowing, so on an average around 190 crore is the net debt position.

Vivek Nirmal: Shradha please go ahead.

Shradha Sheth: Just two questions, one is as I understand since we are expanding the B2C we will be investing lot in the brand building and distribution expansion, however, what is our target in terms of the value added product sales over the next 2-3 years and hence how do we see the gross margin expanding? From the last year level I think we were around 22% gross margins so what is the trajectory expected with the increasing value added products?

Vivek Nirmal: See, our value added product proportion right now is already pretty high, it is more than 80% of the products we do are value added products. The major expansion of gross margin which we will be seeing will mainly come from the consumer products. So the gross margins in the ingredient business is in a range of around 15-18% but the gross margins in the consumer business is in the range of around somewhere from 26% to around 34%. So as the share of the consumer business increase the gross margins on an overall basis will automatically go up, so that is what the strategy is to increase on the gross margins.

Shradha Sheth: Because as we are expanding in the Cheese side it's mainly initially for the next 2-3 years is more on the B2B and institutional side, so this gross margin that we spoke about the consumer business will that be attained immediately over the next 2-3 years or will it be even further?

Vivek Nirmal: We have already seen gross margin expansion if you see because the consumer business is increasing. We will continue to see this expansion in next 2-3 years.

Shradha Sheth: Lastly on the distribution network expansion if you could give some colour to the investors for the food service division as we are targeting such a big scale in Cheese and the value-added products.

Vivek Nirmal: As I said earlier for Cheese particularly there is a separate team and we have already expanded in more than 9 to 10 states for Cheese. We have targeted all the metros and mini-metros. We have already opened our distribution over there and since it's a space wherein hardly two or three players are operating we have started getting a good traction for Processed Cheese and Mozzarella Cheese. We have again a dedicated marketing team, our own chefs helping our guys to develop their menus and all, that's how typically our food service business operates. And that's the niche I think we are developing apart from our other offerings of Cream and Paneer and all. Some of the products which are under development right now we will be seeing a lot of products developed for the consumer market as well as the food service business in quarters to come which will be launched on the same platform. And we also are increasing our visibility by participating in lot of trade shows which are dedicated to the hospitality industry and we are also getting significant new business opportunities from these platforms.

Shradha Sheth: Riyo, any further questions?

Moderator: No, there are no more questions.

Shradha Sheth: So we would like to thank the Prabhat management for giving us the opportunity to host this call and thank you all the participants for being there on the call. I would like to hand over to Vivek for any closing comments.

Vivek Nirmal: Thank you very much everyone for your time and for this call. I would just like to conclude by saying that obviously Dairy as in case of any agri business there are its own cycles and seasons but given our strong integrated model I think we are very well poised to sustain ourselves even in difficult situations in the industry and especially with the consumer business now started getting good traction we see a lot of promising growth from value added products. Our strategies I think have now started paying off especially we have had pretty ambitious plans of being one of the large Cheese players in the industry building one of the greatest manufacturing facilities in the country and having a very unique Milk procurement model. All these things put together I think obviously have started paying off. We will have to work a lot on the brand building activities I believe in days to come. So in future we will see a lot of ATL and BTL activities by Prabhat and our intent will be to gain more and more new consumers basically from the unorganized segment. So our team is pretty well committed to that. So with that I would like to conclude. Thank you very much everyone for being on the call.

Shradha Sheth: Thank you very much.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.