



## “Prabhat Dairy Q2 FY2017 Earnings Conference Call”

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**Moderator:** Good morning ladies and gentlemen welcome to the Prabhat Dairy Q2 FY2017 earnings conference call hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing “\*” then “0” on your touchtone phone. Please note that the conference is being recorded. I would now hand the conference over to Mr. Vishal Punmiya from Motilal Oswal Securities. Thank you and over to you Sir!

**Vishal Punmiya:** Thanks. On behalf of Motilal Oswal Securities I welcome you all to the Q2 FY2017 earnings conference call of Prabhat Dairy. From the management, we have with us today Mr. Vivek Nirmal – Joint MD and Mr. Raviraj Vahadane, CFO. I will now handover the call to Mr. Vivek for his opening comments, post which we will have the Q&A session. Thank you and over to you Sir!

**Vivek S Nirmal:** Good morning everyone. It is a great pleasure to greet all of you once again on behalf of all our Board of Directors and the senior management. We begin by thanking all of you for having spared time in joining us here today to discuss our Q2 and first-half earnings for the financial year 2017.

Before we discuss the financial performance during the quarter please allow me to quickly emphasize our business philosophy and our transformed business model, which will help us to capitalize on the dairy industry growth as well as achieve long-term sustainability.

We, Prabhat are fully integrated milk and dairy products company right from the farmer to the end customer. We have evolved from being an established specialty dairy ingredients company to an emerging consumer focus brand driven company with the edge of dairy products under our key brands Prabhat.

Our strong successes backed by our integrated business model, robust milk procurement system built on intense farmer engagement and trust, state of art manufacturing facilities and strict quality control and food safety standard. We are witnessing rapid scalability in our B2C business which has grown from being present in one state in FY2012 which was Maharashtra to now around 27 states with around 850 distributors and more than 85,000 retail presence points as on September 2016.

We further aim to scale our B2C business and grow its share from around 30% of the revenues today to around 50% of its revenues by around by FY20. During the quarter under review and the first half of the year, we have launched our brands like Popular Milk, which is in the fresh milk category, low fat milk and we also started supplying products to Indian Railways.

Our Ghee is now retailed across 25 states in India. It gives me immense pleasure to share that we are witnessing repeat sales across retail outlets, which is a very strong indicator of good quality of the products, and our brand Prabhat is evolving as a preferred choice across the country.

Talking about our financial performance for the quarter, our Q2 FY2017 revenues increased by 12.4% Year-on-year to Rs.324 Crores. I would like to highlight that despite overhang of drought conditions in Maharashtra, which was a very critical situation for the dairy industry, our efforts to increase volume growth and increase in the realization across value added products aided our revenue growth. The share of value added products has increased from 76.3% to around 83.1% on Y-on-Y basis. This has been driven by specialty ingredient and ghee.

We expect adequate monsoon should help us in increasing raw milk availability and the ecosystem should improve starting from this quarter to next quarter as well. Our Q2 FY2017 gross profit decreased by 2.2% Year-on-year to Rs.64 Crores. Our gross margins decreased by 293 bps from 22.8% to 19.9% primarily because of higher milk prices and increased milk procurement efforts. However, if you compare on quarter-to-quarter basis our gross margins increased due to high realization and Q2 FY2017 EBITDA has decreased by 21.9% year-on-year to around Rs.27 Crores.

Our EBITDA margins decreased by around 373 bps from 12.2% to 8.5%, if you see last year this quarter, our EBITDA was unusually high I would say because the raw milk prices were unusually low despite low availability and due to lower commodity prices globally as well as in India. Higher costs were also primarily driven due to higher employee expenses as the new Cheese, Paneer and Shrikhand facilities becomes operational. Also, there was an increase in business promotion expenses for B2C sales led by efforts to expand retail presence in newer regions and markets.

Our finance cost decreased by around 55.8% year-on-year after the company repaid 185 Crores of debt using IPO proceeds last year. Q2 FY2017 PAT has increased by 47.8% year-on-year. PAT has increased by around 53.4% Year-on-year in H1 FY2017. Our PAT margin increased by 65 BPS year-on-year so around 2.8% in Q2 FY2017. In H1 FY2017 our PAT margin increased by 67 BPS year-on-year to around 2.4%.

Going forward we shall remain committed on growing our value-added consumer business while maintaining our strong hold on our ingredient business. We are placing a strong focus on establishing our products under our brands and both existing as well as new market across India. We shall also look further to strengthen our distribution network, delivery systems and spread our retail presence across India.

Having commissioned a third largest cheese plant in India, our strategy is now to grow the cheese business exponentially including all channels with having a lot of focus on HORECA clients as

well as institutional customers in India as well as abroad. We have already started exporting cheese to middle east and we are very happy to share that we are getting repeat demand for cheese as well. We have already procured orders from major QSR and Pizza chains in India. With respect to our B2B business we shall further leverage our institutional relationships and quality certifications obtained from such institutional customers to further grow our institutional business in India and globally.

With this I would now leave the floor now open for Q&A please.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Rahul Jha from Bay Capital. Please go ahead.

**Nikunj Doshi:** This is Nikunj Doshi from Bay Capital. Just wanted to understand the impact of this currency withdrawal on milk procurement because I believe most of your payments would be in cash to the farmers?

**Vivek S Nirmal:** Hello Mr. Nikunj. I would just like to give you a short background. Prabhat is one of very few private dairy companies in India with a direct sourcing model and I think we are very happy to share that our 100% of the payment to farmers are made through banks. We have taken a lot of efforts to do this but since last many years we have our proprietary software and we make the payments to banks directly so in fact now we are, we see that this as a positive move because lot of farmers who are getting paid in cash from the other dairies and the informal channels, have a lot of trouble in managing the cash, so we see a lot of them now shifting towards in terms of milk procurement, so as far as procurement is concerned, this demonetization I do not think has really impacted our procurement levels or the payment systems to farmers, Mr. Nikunj

**Nikunj Doshi:** Can you give us some idea on milk procurement prices and what do you expect it going forward?

**Vivek S Nirmal:** Milk procurement prices if we see since last quarter have been stable around Rs.24 or Rs.25, we see that going forward the prices would remain similar because due to the overhang of drought, the milk collection is increasing in Maharashtra but it is increasing with a slower pace so while we will be seeing demand slightly going down but since the milk procurement is also increasing at a slower pace we will see the prices remaining constant for quarters to come.

**Nikunj Doshi:** Overall demand side you are seeing any kind of your I mean it's too early to say but do you expect any demand side implications of this currency demonitization?

**Vivek S Nirmal:** See in terms of again as you rightly said its bit early to say, on milk side if you say in last six seven days we have not been able to see much impact but on the product side like we high value products like ghee and all we have been able to see that the offtake from the retail outlets is very

low compared to what it was earlier and I believe that this is the shorter term and may be in next few days we expect the situation to normalize.

**Nikunj Doshi:** Regarding cheese plant what has been the utilization achieved and what do you expect for the full year?

**Vivek S Nirmal:** So, by this year we expect the utilization to be around 15% at the end of the year, right now, since we are tapping new clients including export markets the utilization is lower but by end of this year we expect to reach by around 15% of the utilization.

**Nikunj Doshi:** Thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Kaustav Bubna from SKS Capital. Please go ahead.

**Kaustav Bubna:** I had the question on the demand side, you were talking about high value products demand could be affected, I wanted to know could you give me some sort of indication on what is the difference in pricing between Prabhat high value products in terms of like Dahi and ghee compared to the cheapest alternatives you have because I believe that with this demonetization scheme people in the short term would move towards cheaper substitutes so could you give us some color on the demand side and how that would affect your financials in the second half?

**Vivek S Nirmal:** Mr. Bubna I think it would be a bit early to say because we do not have an exact idea that what is the exact offtake which has been affected because offtake normally happen from the retail shelves, second is in terms of the MRP our pricing is very similar or our MRP's are very similar to other players in the market including our other competitors in the private and the cooperative space, so on MRP side we are much similar and it might be dahi or it might be products like ghee or paneer so that is our judgment as of now.

**Kaustav Bubna:** Any new stores, any new retail outlets you have entered you were saying Sahakari Bhandar, you were going to enter last quarter which I believe you have but what in terms of stores what is your, how is your distribution looking like the spread to get to the consumer?

**Vivek S Nirmal:** So, if you see in terms of our retail outlets our basic focus remains on general trade because modern trade does not constitute a large volume of our business and dairy products are basically the neighborhood stores buying products, but our general trade availability has improved a lot but even in modern trade I think we are already in a Big Bazaar and Star Bazaar we are in Hypercity. D-Mart is what we have started recently, Sahakari Bhandar and all obviously, we have started it earlier but D-Mart is what we have started recently.

**Kaustav Bubna:** In terms of your revenue guidance you vaguely said that you know we would expect in the second half of FY2017 about a 20% growth in revenues and we would be keeping, I would assume margins would stay between 8.5% so with this demonetization do you cut your estimates conservatively or how does it look like?

**Vivek S Nirmal:** See normally what happens is in dairy every quarter is different and that is why H2, normally sees higher sales because of higher milk procurement, higher milk handling and that H2 is always a bit higher than H1 so I think we are still there on our estimates because we feel this demonetization could be a shorter-term thing and would not impact our longer-term estimates, that is what we feel as of now.

**Kaustav Bubna:** Do you think EBITDA margins are sustainable at this level until benefits from your SG&A expenses are reaped?

**Vivek S Nirmal:** Yes, because you know this particular event has not really impacted any elements of our costs, which will include our milk procurement cost or sales price or something as of now, so we do not feel that our longer-term estimates would change really.

**Kaustav Bubna:** Last question how much percentage of your milk is in terms of the procurement process directly sourced from the farmers compared to vendors?

**Vivek S Nirmal:** Around 65% of our milk is directly sourced from the farmers and around 35% is sourced from 3<sup>rd</sup> party vendors.

**Kaustav Bubna:** Thank you so much, Mr. Nirmal.

**Moderator:** Thank you. We will take the next question from the line of Jinal Fofolia from Alpha Accurate Advisors. Please go ahead.

**Jinal Fofolia:** Good morning Sir. Sir if you could share a segmental mix that is your value-added products like ghee, skimmed milk powder or cheese, what percentage of revenues does it constitute?

**Vivek S Nirmal:** Around 83% of the revenues right now come from the specialty milk powder, ghee, cheese and all other value added products.

**Jinal Fofolia:** Is it possible to segment it further?

**Vivek S Nirmal:** See we do not have product wise breakup as such but all these categories put together we normally categorize into liquid milk and other than liquid milk product. Other than liquid milk products are around 83%.

**Jinal Fofolia:** Thank you.

- Moderator:** Thank you. We will take the next question from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Good morning Nirmal, good set of numbers we are on recovery path. Just a few questions if you can update on the milk procurement numbers for the quarter?
- Vivek S Nirmal:** Milk procurement now for the quarter has been around 725,000 for the entire quarter.
- Bhavin Chedda:** If you can give the numbers for ghee, butter sales value in the quarter?
- Vivek S Nirmal:** We normally do not split it product wise, but the growth in butter and ghee has been higher, normally if you see the fat group as such, butter and ghee it is around 20% of our total revenues.
- Bhavin Chedda:** Okay and it would have grown more than 50% year-on-year, right?
- Vivek S Nirmal:** No, not really, but the shift is happening, for example if earlier we were selling butter through our B2B channels now the shift is happening towards the B2C channel as such.
- Bhavin Chedda:** Okay and just the update on cheese that I missed out, you said that you will reach a 15% utilization by year end right, so if any numbers you wanted to throw for the quarter how much you did and all that?
- Vivek S Nirmal:** Yes, we are around 10% of the capacity utilization as of now, around 8% to 10%. By this year-end, we will be reaching around 15% of the capacity utilization.
- Bhavin Chedda:** Okay, so for the entire quarter you would have been around 8% to 10% utilization?
- Vivek S Nirmal:** Around.
- Bhavin Chedda:** Okay and you already exported in the quarter?
- Vivek S Nirmal:** Yes, we have already exported in this last quarter in Q2 and we are also now exporting the repeat demand products in this quarter.
- Bhavin Chedda:** Cheese capacity is 40 tonnes a day right?
- Vivek S Nirmal:** It is 30 tonnes a day.
- Bhavin Chedda:** So you are saying you already are around close to 3 tonnes a day?
- Vivek S Nirmal:** Yes.

- Bhavin Chedda:** The debt numbers have gone up sharply in the quarter, so any update on the same because still the cheese utilization level is low so how come the gross debt number is still going up?
- Vivek S Nirmal:** Cheese utilization actually what happens is in terms of production it is higher but the stocks are happening but if you see in terms of the sales side it is lower because the sales will follow in the months to come because some cheese inventories are going up but apart from cheese inventory we have also managed a lot of our revenues by sourcing ingredients because our milk handling was lower in the last quarter and we have been able to manage it by sourcing a lot of ingredients and we strongly see the prices going up of the ingredients in the quarters to come so our stocks of the ingredients bought have also increased so that is why in September end, the inventories are more than the earlier quarter. Second, our advances also to the milk supplier have increased a bit because normally pre-Diwali we issue a lot of advances that is the trend or norm of the market to see to secure our milk supply for the next season.
- Bhavin Chedda:** No so whom have you issued advances to?
- Vivek S Nirmal:** See we issue advances to lot of milk suppliers.
- Bhavin Chedda:** Okay so basically since 65% is the direct procurement the other 35% you are saying?
- Vivek S Nirmal:** No both the channels. Both the channels we issue advances because again generally we keep on issuing it every time it is just pre-Diwali normally the advances increase.
- Bhavin Chedda:** Okay and the ingredients you procure so have you procured fat from the market or milk powder from the market?
- Vivek S Nirmal:** Both the things, we have procured milk powders, whole milk powder, skimmed milk powder, butter all the three commodities, we have procured from the market.
- Bhavin Chedda:** Milk powder, butter, and fat, and how much that would be as a percentage of overall RM or sales how so ever you classify?
- Vivek S Nirmal:** It will not be possible right now to classify that but whatever shortfall we normally had out of our raw milk we have managed it by sourcing ingredients.
- Bhavin Chedda:** Okay and the ghee sales to Patanjali, are you still supplying?
- Vivek S Nirmal:** We are supplying butter to Patanjali.
- Bhavin Chedda:** Okay any guidance on the gross debt numbers how would it look by March so if you want to give because that is the number which we are not able to still get a grip on?

**Vivek S Nirmal:** We normally expect it to remain at current levels because by March normally while H2 will see a larger business so our inventories would slightly go up but the debt numbers I would see at remaining at around a similar level or slightly higher by this month.

**Bhavin Chedda:** Thanks, a lot.

**Moderator:** Thank you. The next question is from the line of Kaushik Krishnan from Emkay Global. Please go ahead. We will move on to the next participant. That is from the line of Dhaval Mehta from Emkay Global. Please go ahead.

**Dhaval Mehta:** Good morning Sir. Sir, my question is if we see your presentation you have put a slide of offers, so has the competitive intensity in the market increased that we must increase our offers or it is the same?

**Vivek S Nirmal:** In terms of offers, if we see normally these are all seasonal offers. So for example if we see our Gulab Jamun mix and all, these are normally the festive seasons in which these products sell more, so I do not say really the competitive intensity has increased. Markets are already say quite competitive, but right now our focus is more on BTL and to induce more consumer trials, because our TG is particularly women who prepare these products at their home and we want them to try out the packaged dairy products and that is why we see when we do a lot of offers around that the product is tasted for the first time and since the product quality is good then we start getting the repeat demand.

**Dhaval Mehta:** Will our guidance of around 15 to 20 Crores of ATL and BTL will be same or will it be increased with newer products launch?

**Vivek S Nirmal:** I think we are moving very aggressively in terms of our retail expansion as well as we will see a lot of new products coming in next quarters to come, so I think this is the kind of spend we are expecting as what you said. We are right now working on the overall marketing project but yes this is the kind of spend we are expecting in the year to come on our promotions.

**Moderator:** Ladies and gentlemen, the line for the current participants seems to have dropped out. We will move on to the next participant. That is from the line of Anurag Purohit from Anived PMS. Please go ahead.

**Anurag Purohit:** Thanks for taking my question. Could you disclose the amount of PSI incentives that you would have recognized in this quarter?

**Vivek S Nirmal:** For this quarter particularly, we would have recognized around Rs.4 Crores PSI income particularly for the Q2 of FY2016-2017.

**Anurag Purohit:** This would have gone into revenues?

- Vivek S Nirmal:** Yes. It is in operating revenues.
- Anurag Purohit:** Regarding the value-added products portfolio the increase from 76% to 83% on YOY basis, is it purely related to increase which has happened or there are other products as well which we would have done much better compared to the overall company?
- Vivek S Nirmal:** It is basically driven by ghee for sure, because now our presence of ghee is more than 25 states but there are other products like for instance our cheese has increased as well, our institutional brands for cheese are increasing and so are other products like UHT, curd and all.
- Anurag Purohit:** Would it be possible to give a figure of B2C revenues for you excluding the fresh milk?
- Vivek S Nirmal:** It is in the same range right now in our B2C including fresh milk was around 30% of our total revenues. It obviously differs from quarter-to-quarter but I think even today it is at the same level as of the last year.
- Anurag Purohit:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Shraddha Seth from Edelweiss. Please go ahead.
- Shraddha Seth:** Just wanted to understand I see that procurement is becoming increasingly challenging in the Q1 also it was a similar runrate of 7.5 lakh liters and this quarter also it is around 7.3 and we were indicating in the second half we would be able to catch up to a million liters per day and also on the procurement cost also you said on this 24 and 25 you were looking at it cooling off, so as I understand you said it should remain at similar levels so do you think it is increasingly challenging on the cost side and also procurement volume looks difficult as well as to go to a million liters?
- Vivek S Nirmal:** I think that is correct Shraddha. Normally the anticipation is that as the flood season starts post Deepavali normally the milk increases. That is the natural cycle. Due to this continuous two years of drought, the calving cycle of the animals is lot of disturbed than what we had expected, so the milk procurement is going up steadily. We had expected with this very good rainfall it must be going off quickly, which has not happened. It is going up, but it is slower than expected and that is also the reason we expect that the prices to remain at these levels may be prices were expected to drop by this quarter, may be if the milk production continues to grow slowly but the prices would remain at this level, but one thing also is that the commodity prices on the other hand are also increasing. That is also one of the reasons for the milk prices to remain steady because the overall realization of the milk products is also improving.
- Shraddha Seth:** So, were we able to take any price increases in any of our products?

- Vivek S Nirmal:** We have been able to take it as the seasonal prices increased. We have been able to take for ghee for instance we have increased our MRPs by around Rs.20 a liter, we have increased our MRPs of curd, we have increased our MRP in other B2B where it is cost plus model, automatically the price realization has gone up there as well.
- Shraddha Seth:** So for the topline growth how much was the underlying volume and value growth?
- Vivek S Nirmal:** For the last quarter?
- Shraddha Seth:** Yes for the current quarter, which went by?
- Vivek S Nirmal:** Whatever price increase I am telling it is all in this quarter, which is the rate now, the Q3 particularly. So in Q2 if we see it continued with lower milk supplies and the sales price remaining under pressure, so whatever price rise I am talking about and all, this quarter, because of the season and all, we have seen the price realization this quarter.
- Shraddha Seth:** You are talking of this quarter.
- Vivek S Nirmal:** Because of the season and all, we have seen the price realization going up in this quarter.
- Shraddha Seth:** On the procurement volume, would you want to give guidance or you will wait and watch for this 1 m liters. Do you think it is difficult to catch up?
- Vivek S Nirmal:** We are expecting to reach there. Normally what happens if we are not able to procure more milk normally we manage it by sourcing ingredients but we see that our revenue growth is maintained.
- Shraddha Seth:** Lastly wanted to understand food service distribution. How are we scaling up? You have highlighted our overall distributors, we have reached 850 in the presentation, but on the food service side, how are we scaling up. Are we seeing any slowdown there or it is as per our plans?
- Vivek S Nirmal:** I think food service is seeing a very good increase. There are I would say smaller QSRs and restaurants we have been tapping. We have now developed newer varieties of cheese for these restaurants and our program particularly to work closely with the chefs of mid-size to smaller restaurant is now started showing results. It will take more time but that is an engagement program where we engage with the chefs directly to show them newer recipes and how convenient using packaged dairy product is vis-à-vis preparing the products at their restaurants, so our sales particularly of dahi of new products like raitha, our sales of products like ice cream mixes, mozzarella cheese, cheddar cheese and all, we are seeing a good increase and good repeat demand for all these products. We are right now focusing only on metros and mini-metros for this particular food service segment but in days to come we are also going to tap tier II and tier III cities for the food service segment for our product range.

**Shraddha Seth:** Any number you would want to share in terms of distribution reach we are targeting of where we have reached?

**Vivek S Nirmal:** If we see right now we are serving around 1600 I would say food service outlets through our network which includes fine dine restaurant, smaller pizza chains and standalone restaurants.

**Shraddha Seth:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Aman Bij from Astute Investment Management. Please go ahead.

**Aman Bij:** Good afternoon Sir. I have two questions mainly on export front; could you give some highlights on what is the current percentage of revenue via exports as well as rough geography wise, so which region do we get the most revenue from in exports?

**Vivek S Nirmal:** Exports right now are just miniscule. They are not even less than 1% of our total revenues, because if you see India as a country, our milk pricing is higher than other countries and hence we are not competitive enough to export other products like milk powders and fat and all, but we are focusing on value added products which includes mozzarella cheese, cheddar cheese and paneer. We participate in a lot of global trade shows nowadays and we are seeing a growing demand particularly from Middle East and Middle East we have exported some of our products to Bahrain, some of our products to Dubai to Iraq and we are seeing a repeat demand from all these markets. We are also expecting opening new markets in the countries in the Middle East where we are not present as of now for the same range of products.

**Aman Bij:** Sir, second question is related to that only. So there was news on Russia being opening up and becoming a big market for Indian dairy industry, so any update on that?

**Vivek S Nirmal:** Russia I think definitely is a large market. It has opened up. Opened up in the sense means due to the protocol they are not able to import from Europe and that is why it is seen that countries like India could have an advantage out of that to export to Russia because there are no restrictions to import dairy products from India, so as of now two dairy plants in India have been registered or approved for exports. Our plant is also under process for approval and in the next couple of months we expect the approval procedure to be done and then we will be able to start exports particularly of cheese to Russian markets.

**Aman Bij:** Any number on what is the current say the cheese market in India and how is it growing for this quarter or even the H1?

**Vivek S Nirmal:** See overall the growth of cheese is more than 20% in India, 70% of the cheese market in India is basically out of home consumption and 30% in India of the overall cheese market is the

household consumption both the segments are growing but the out of home consumption segment is growing by more than 25% with all the kind of regular food items which are been now garnished with cheese and all. So that is the kind of segment, which is growing. Right now we only have basic cheese in India, which are largely sold, which includes cheddar cheese, then processed cheddar cheese and mozzarella cheese but slowly the market for gourmet cheese is also picking up. Gourmet Cheeses are right now sold only out of fine dine restaurants and all but as the consumers are getting well versed with the basic form of cheeses they are also now slowly trying to adopt the new taste of gourmet cheese so the gourmet cheese segment has grown. Prabhat right now is also developing a lot of gourmet cheese range, which will be launched in the market in quarters to come.

- Aman Bij:** Thanks for that. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Sir how much was the PSI income recorded in Q1 you said 4 Crores in Q2?
- Vivek S Nirmal:** See we have not recorded as of date as an income; auditor has given qualification for it. The tentative amount for claim that will be filed in next year for Q2 will be Rs.4 Crore Q1 was around Rs.5 cr.
- Bhavin Chedda:** No, so you said that this number is included in revenues or not included in revenues?
- Vivek S Nirmal:** Not included in revenues.
- Bhavin Chedda:** Not included in revenues, these are just your assumption numbers?
- Vivek S Nirmal:** For which auditor, has given qualification.
- Bhavin Chedda:** So you are not accounted anywhere in balance sheet also?
- Vivek S Nirmal:** No Sir we have not accounted.
- Bhavin Chedda:** Okay and your note also said that you have got an eligibility certificate so eligibility certificate has been received for which year and for how much amount do you think you can claim?
- Vivek S Nirmal:** See we have received eligibility certificate in May 2016 the eligibility amount is around Rs.260 Crore, for the year April 1, 2015 – 31 March 2021, seven years.
- Bhavin Chedda:** From April 2015 to April 2021?

- Vivek S Nirmal:** Right, seven years.
- Bhavin Chedda:** That is you can claim for that.
- Vivek S Nirmal:** We can claim for that but we are estimating we will receive around Rs.125 Crores out of this claim.
- Bhavin Chedda:** So as per the eligibility certificate now the first fiscal year, so this year what you are saying 4 Crores and 5 Crores this is the FY2016 excise and the VAT number which you may already collected and you think you will get it?
- Vivek S Nirmal:** Right, so it is for FY2014-2015 it is around Rs.4.75 Crores and 2015-2016 it is around Rs.12 Crores so for this we have already filed the claim to Government of Maharashtra and we are positive that we would receive this money from government in Q3 or Q4.
- Bhavin Chedda:** Okay so probably you may receive around 17 Crores this year?
- Vivek S Nirmal:** Right.
- Bhavin Chedda:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Kaushik Krishnan from Emkay Global. Please go ahead.
- Kaushik Krishnan:** Hi, Morning Mr. Nirmal. Thanks for giving a chance. Well my question is in the flavoured milk segment I just wanted to understand what is the market size in India for the flavoured milk segment since I believe the next level of growth can be majorly from the flavoured milk, if you can give me a number to that, if you can the number that the quantum the size of the markets for the flavoured milk and what kind of opportunity do we see going from here, the strategy we have in place with the same?
- Vivek S Nirmal:** We do not have exact numbers for the market size in India, Mr. Kaushik. But we also have our own flavoured milk brand, which is Flava, but the brand is, we are not investing too much on that brand. It is a very small-scale sort of our total portfolio. We also have a limitation that this particular product is in glass bottles which is a logistical limitation, so we are developing a product in plastic bottles which will be easy to carry for the consumers and in next couple of quarters we expect this product to be launched in the market, flavored milk definitely is a great opportunity, overall if you see globally flavoured milk market is growing at around 10.4% to 10.5% which is a very healthy growth rate, most of the growth of which is coming from Asia and flavoured milk is basically or may be an impulse byproduct but slowly categories in flavoured milk are getting developed which includes milkshakes and also flavoured milks which could be post work out to replenish the proteins and all or the muscle loss these are also the categories

which are getting developed globally we will see this kind of products coming in India in quarters to come. As far as Prabhat is concerned we do not have any immediate plans. Our focus is right now mainly on another product categories may be by next year or so we will be increasing our focus on products of other products including flavoured milk and other dairy based beverages.

**Kaushik Krishnan:** But do not you think that will be too late for you to venture into a market that has already established and you know you have other players that have already gained some prominence in this field, would not it be too late for you to get a foothold?

**Vivek S Nirmal:** See it depends. Normally flavoured milk is a category, which is a beverage category, if you see it also needs a distribution, which is suitable for beverages distribution. Prabhat today has a great distribution but it is limited to products, which are sold under grocery, which includes like ghee or dahi or paneer and cheese and all. Flavoured milk is basically beverage category product which could go well along with other beverages wherein there are specialist distributors for beverages, especially outlets which are like cold drink outlets and restaurants who sell cold drinks, as of now, we do not have that strength. That is why when we will be deciding to enter into that category it is not only a flavoured milk with which we will be entering, we will be having other dairy based products also, as like for instance long life lassi or long life chaas and milk shakes and flavoured milk so it will make a lot of sense to go with all the products as a basket to the market which will give better ROI for our distributor and which will also help us to improve our footprint when we come into the consumer product when we come with aggressively in this category.

**Kaushik Krishnan:** Well, going back to referring to your earlier comment or initial comments in the call that you made that you have been exporting some amount of cheese to Middle-East market and value added products like ghee and other mozzarella cheese and so on and you are seeing some good growth from Bahrain and Dubai, my question to you is since, there are some already established players like Almarai and NADEC and some other companies who are huge, I mean more or less monopoly in these markets as far as milk products are concerned how do you expect to tap into the opportunity there and get a differentiation as far as Prabhat as a brand is concerned when you already have some branded players playing in there?

**Vivek S Nirmal:** There are two to three products, we are catering to the consumer segment, in consumer segment for instance cow ghee is definitely a lot of credibility, cow ghee coming from India No.1, No.2 is we also deal into ingredients over there. For instance we supply to lot of ice cream manufacturers a product like condensed milk and we are the largest condensed milk manufacturer in India and there are hardly two three players, so that is also one of the edges that we enjoy over there. Third, products like mozzarella cheese and cheddar cheese. Mozzarella cheese basically served in the food service segment and mozzarella cheese while globally there are other players in Alamarai and other players which are very large players in Middle-East they do not manufacture their own

cheese or even if they manufacture they manufacture local cheeses like feta cheese and all, these people are not into manufacturing of European cheeses. So that is a gap we are finding it over there and fourth is in terms of Paneer again Paneer from India has a lot of credibility vis-à-vis Paneer is manufactured locally or something because it is definitely perceived to be an Indian product so these are three or four kind of products which we are focusing on.

**Kaushik Krishnan:** So do you think these larger players in the Middle-East like Alamari and NADEC all given their sizes will venture into this segment and pose your competition my question to you is what kind of sustainability is there in this business. I mean you are exporting cheese and other stuff to Middle East do you see any sustainability in the future?

**Vivek S Nirmal:** We see a lot of sustainability, particularly this product categories given the very high quality products because we source our own milk and our plants are global standard plants so the quality is at par with any New Zealand or an Australian product but if we see we specifically do not focused on products like milk powders or butter because there we are not competitive and it is not sustainable we might get a price advantage today but tomorrow if any global player is cheaper we might lose that advantage but these are products where we see a sustainable advantage and that is why we are having a lot of focus on these categories.

**Kaushik Krishnan:** Thanks very much. That is it from my side.

**Moderator:** The next question is from the line of Dhaval Mehta from Emkay Global. Please go ahead.

**Dhaval Mehta:** Sir my question was that we currently are serving to around 600 HORECA outlets and majorly the demand in this segment will be for our cheese so considering the demonetization and the lower footfalls especially in the segment and along with that December ideally is the strongest quarter for cheese would you not feel that 15% capacity utilization in FY17 will be a tall task now?

**Vivek S Nirmal:** It is not that December is the largest quarter for cheese. Obviously, cheese is a product which we see a consistent growth because the category is growing by and large. I think definitely there will be some impact on the restaurant business because the demonetization has larger impact on overall economy and the restaurant business cannot escape out of it and so there be an impact on the ingredients as well. So as I said earlier we are seeing some impact on the offtake, it might be offtake from the restaurants or it might be offtake from the retail shelves, I think in next couple of days we expect that to stabilize and hence we do not see a larger impact on our overall estimate.

**Dhaval Mehta:** Sir second question is that you highlighted in the call earlier that you had procured a lot of your ingredients especially butter, SMP because you expect the price to increase but because of good monsoon this year ideally the raw material price the milk price should decrease going forward

and this is what we expect, so do not you think that even this ingredient price should decrease going forward?

**Vivek S Nirmal:** See normally we expect right now the prices to remain constant because even if the monsoons are good it will take a lot of time for the milk production to pick up, as milk production does not immediately like, any other agricultural product after a monsoon in three four months we see that production rises, milk is not the case, milk has a longer cycle and it takes time to increase. Second is normally in the season like you know in the festive seasons and all you do not really or you are not able to source products like butter and all because that time the availability is not there because its too short there is lot of shortage in the market and that is why normally you know August or September remains strategic opportunity to source this kind of ingredients.

**Dhaval Mehta:** So even at current levels we are sitting at high level of inventory or post the Diwali the inventory has come down?

**Vivek S Nirmal:** The inventories are there post Diwali lot of inventory has been consumed but now since as our milk intakes will go up we will again see some other inventories like, for example our fat inventories are pretty much down now but since we are producing more fat from our milk, our powder inventories continue to remain at the same level or our cheese inventories are going slightly up now because of the November production cycle and all.

**Dhaval Mehta:** So historically from your experience what do you expect when the raw material prices will start declining or let us say stabilizing so it is already been stabilized now, but let's say when it will again go back to around 22-23-odd levels?

**Vivek S Nirmal:** I do not think they will go to 22-23 because if you see, last year and the prices were unusually low the current Rs.25 of price level already existed in 2013 and 2014, 2013 especially so 2014-2015 was unusually low, prices are I would say now back to normal and that is why I would expect the prices to stay at the current levels.

**Dhaval Mehta:** Thank you Sir. All the very best.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

**Vivek S Nirmal:** Thank you very much everyone for participating in the call. As a company we remain committed as per our philosophy of being partners in progress, which earlier was only the farmers, employees and clients and now also our shareholders so we are committed towards growth, obviously with the challenges including demonetization, which has to be closely watched but I think we as a company are very strongly poised because we directly source from farmers on that way we are strongly insulated from this particular event, at the same time and we have to see in



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terms of our sales it is a very evenly distributed in between lot of corporate clients, the food service segment, the fresh milk segment and all. We are very well poised to handle the situation strongly and we will continue to be committed to our growth plans. Thank you very much for participating in the conference.

**Moderators:**

Thank you members of the management team. Ladies and gentlemen with that we conclude today's conference, thank you for joining us. You may now disconnect your lines.