

Updated: 05-02-2019 09:40

Tags: @vishnu570

92-117 minutes

MUMBAI Feb 5, 2019 (Thomson StreetEvents) -- Edited Transcript of Parag Milk Foods Ltd earnings conference call or presentation Monday, February 4, 2019 at 10:00:00am GMT

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Ladies and gentlemen, good day, and welcome to Parag Milk Food Limited Q3 FY '19 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involves risks and uncertainties that are difficult to predict.

(Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Ms. Natasha Kedia, Head, Investor Relations, from Parag Milk Foods Limited.

Thank you, and over to you.

Thank you. Welcome, everyone, to the Parag Milk Foods Q3 FY '19 Earnings Call.

Let me begin by introducing the management participants for today's call. We have with us Mr. Devendra Shah, Chairman; Mr. Vimal Agarwal, CFO; Ms. Akshali Shah, who's our Senior VP, Strategy Marketing and Sales; Poojan Shah from the promoter family and the project lead for business development; Mr. Amarendra Sathe, Chief Commercial Officer; Mr. Harshad Joshi, Chief Operating Officer; Mr. Shirish Upadhyay, who's advising the company; Mr. Deepak Jain from the finance team; myself, Natasha; and SGA, our investor relations adviser.

I hope you've got a chance to look at our financial results and presentation that we uploaded on the stock exchange as well as on company website.

Let me start by giving some recent updates on the company.

In the quarter gone by, we have launched Go Protein Power, a protein product which caters to the protein supplement market in India. This category is approximately INR 1,400 crores to INR 1,600 crores and is growing upwards of 25% annually. We have launched the product in Mumbai, and it's available across 1,200 outlets in packs of 200 grams and 400 grams. Our endeavor is to make the product available across all pharmacies, major nutrition supplement stores, modern retail stores and e-commerce portals. Further, we have expanded our Avvatar portfolio and introduced a new variant, Avvatar Advanced Mass Gainer, a product that was specially designed for weight gain. This launch is a strategic push for expanding the company's value-added product activities, specifically the health and nutrition portfolio that we have identified as a key growth driver. Besides this, we also have added new flavors and pack sizes, and we are currently available in 20-plus states across India and also online.

Both these launches signify that we are focused aggressively on the health and nutrition category. And we expect it to become a significant part of our product portfolio going ahead.

In Jan 2019, we also launched our premium milk Pride of Cows in Delhi NCR. The company will airlift the milk from our dairy farm located in Manchar, near Pune. This expansion is a strategic move towards strengthening Parag Milk Foods' offerings in the North region.

I will now give you some updates on certain media and marketing campaigns that we conducted during the quarter.

As you all know, we recently introduced Gowardhan cow milk in Delhi NCR and the surrounding regions. To make consumers more aware of the benefits of cow milk and to promote our brand, we ran a radio campaign in Delhi on all leading radio channels; and augmented that with hoardings, shelters, dealer boards, POS materials, et cetera. A full-fledged TV campaign was done for our products Gowardhan ghee and Gowardhan Paneer on various popular news and regional channels. The campaign highlighted the importance of paneer as a daily source of protein or (inaudible) protein and Gowardhan cow ghee as the #1 choice in traditional homemade recipes. We also ran several campaigns for Pride of Cows across TV and digital platforms and tried to feed Pride of Cows as a national brand. We continue to invest in building our whey protein brand Avvatar through initiatives such as partnering with Zee Maharashtra Kusti Dangal, which was featured in Zee Talkies.

I will now hand over the call to Mr. Devendra Shah, Chairman of our company, to share his thoughts on the current business, which will be followed by an update on financials.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [3]

Thank you, Natasha. Good evening and warm welcome to all participation.

Our performance for the first 9 months of this financial year has been as per our expectation. We grew by 20%, as compared to the same period in the last financial year. Our efforts in strengthening our brands and increasing our distribution and retail reach across India is what is delivering higher growth in all categories, as compared in the industry growth reach. Our brand strength in our key categories like cheese, ghee, paneer continues to be strong.

With the consumer expectation and availability, along with the increasing health and concerns the awareness regarding ghee based from the cow ghee, the ghee segment is growing rapidly for us. In the cheese category, through the various innovative products in terms of goat cheese, has created a special place for itself as an alternate unique position in another category. The fresh product like milk, curd, buttermilk, it has continued growth due to the high quality and taste, resulting in increasing consumer demand. We have already started the supply of the -- this fresh category products from the Sonipat plant. This facility has not only allowed us to -- closer the consumers of the North and East region but has also helped increase our product offering in the North and East regions as well as freshness of our product [and availability in those areas]. We will be adding other products lines in the category, which will contribute to the footprint expansion in the North and East.

We are also expanding our products portfolio in the health and nutrition category. With the launch of the Go Protein Power and new variants under the brand Avvatar calls -- called mass gainer, we believe that the future of this category is brightened by being pioneer in India. We can gain the -- significantly further steam. We aim to have around 7% of our sales coming through the health and nutrition categories from FY '20 and '21, from [2.5%] in 2018. With this overall value-added products portfolio, we'll increase [70 to 71] by '20 to '21 from [60] in FY '18.

We have also progressed well in the adoption with the new way of the working. We have developed the unique TOC model based on which we'll able to increase our retail presence in the expanded range of our products across the existing retail outlets. We have implemented this model in various parts of the Mumbai, and the results have been about our expansion. We plan to cover entire Mumbai by early 2019. We have also started our ground work in Delhi NCR, which will -- we targeted to cost -- post successfully implementation in Mumbai.

Lastly, I would like to say this. With this strong performance, we are all on the course to achieve our vision 2020 we had guided to last year. Our family has been the dairy business since last 25 years now. And while we are entirely started off in the commodity business on -- of milk and SMP, we have transformed ourselves into the largely well-developed products business or FMCG business. I feel immense pride on the journey of the company so far, and I would like to thank the entire team of the Parag and all employees for the working hard and delivering robust and historical 9 months performance. We are very optimistically of the Parag Milk Foods future in the dairy business in the years to come.

As you are -- all are aware, the dairy industry possess great opportunity on the growth with the many unexplored avenues and unfinished agendas that we have yet accomplished. We believe that it is vital for the -- for a dairy or dairy players to have a strong procurement [need to us] and a relationship with the farmers as well as the strong distribution and the cold chain network, both of the which provides the

competitive edge and determines of the success of the dairy business. Parag is one of the unique companies with an integrated business model with strength across the value chain, like from the procurement, distribution. Backed by the latest technologies, we are, though, placed to capture the growth and explore the opportunity in the dairy space. With continued focus, we are building the business for the next century and aim to create long-term value for the -- all stakeholders.

Now I will request Vimal Agarwal, our CFO, to discuss our financial performance for the quarter and half year ended 13 September 2018 (sic) [9 months ended 31st December 2018].

Vimal Agarwal, Parag Milk Foods Limited - CFO [4]

Thank you, Devendra bhai. Good evening, ladies and gentlemen.

I'll discuss the financial performance for 9 months ended 31st December 2018.

Consolidated revenue from operations for 9 months FY '19 reported a growth of 20% Y-o-Y to INR 17,235 million, as compared to INR 14,367 million in 9 months FY '18. Growth was driven by increase in revenue from Milk Products by 23% Y-o-Y to INR 11,619 million. The share of Milk Products for 9 months FY '19 is 67.4% of total revenue, while that of liquid milk was 18.3%. And for Skimmed Milk Powder, it was 12.3%.

Gross profit for 9 months FY '19 recorded a growth of 28% Y-o-Y to INR 5,392 million, as compared to INR 4,211 million in 9 months FY '18. Gross profit margins improved by 200 basis points to 31.3%, as compared to 29.3% in 9 months FY '18.

EBITDA for 9 months FY '19 grew by 30.4% Y-o-Y to INR 1,797 million, as compared INR 1,379 million in 9 months FY '18. EBITDA margin increased by 80 bps Y-o-Y to 10.4% for 9 months FY '19.

PAT for 9 months FY '19 recorded a robust growth of 46.8% to INR 894 million, as compared to INR 609 million in 9 months FY '18. The PAT margin increased by 100 basis points Y-o-Y to 5.2% for 9 months FY '19.

Now coming to financial performance for the quarter ended 31st December 2018.

Consolidated revenue from operations for Q3 FY '19 reported a growth of 15.7% Y-o-Y to INR 6,006 million, as compared to INR 5,193 million in Q3 FY '18. Growth was driven by increase in revenue from Milk Products by 19% Y-o-Y to INR 4,054 million. Continued focus on execution excellence and buoyancy in key categories contributed to this growth. The share of Milk Products for Q3 FY '19 is 67.5% of total revenue, while that of liquid milk, it was 17.1%. And for SMP, it was 12.6%.

Gross profit for Q3 FY '19 recorded a growth of 22.6% to 9 -- INR 1,957 million, as compared to INR 1,596 million in Q3 FY '18. Gross profit margins improved by 190 bps Y-o-Y to 22.6% (sic) [32.6%], as compared to 30.7% in Q3 FY '18. This was driven by improved product mix, favorable commodity prices and export benefits.

EBITDA for Q3 FY '19 grew by 5.3% (sic) [5.7%] Y-o-Y to INR 620 million, as compared to INR 587 million in Q3 FY '18. EBITDA margins were at a healthy 10.3%, which also gave us a headroom to make investments in developing long-term distribution infrastructure and new GTM as well as building our brands.

Building of a strong team, infrastructure and modern GTM has also led to an increase in employee benefit expenses. More specifically, we have deployed manpower to leverage Sonipat plant, which we had acquired earlier this year; have further augmented our front line for North and East regions; and have hired new manpower for implementing the TOC model, in addition to new hires and the leadership teams which we had done beginning of this year.

Other expenses, which includes logistics, factory overheads, sales promotions, S&D and advertisement expenses, have grown in sync with the expanding business both in terms of depth and worth. Advertisements and promotion expenses were higher due to festive seasons. However, trade incentives and advertisement expenses put together continues to be at par with trends in previous quarters. As well, Q3 FY '19 recorded a robust growth of 20.6% to INR 307 million, as compared to INR 254.8 million in Q3 FY '18. The PAT margin increased by 20 bps Y-o-Y to 5.1% for Q3 FY '19.

During the last couple of years, we have made significant investments on the technology side encompassing milk procurement processes, sales force IT automation, DMS and SAP ERP. There are

further enhancements being done on developing cold chain with the state-of-the-art modern technological inventions. We have been able to achieve positive outcomes by leveraging these tools on the revenue side as well as on the working capital side. Our net working capital based on total revenue has improved to 60 days in December '18 versus 72 days in March '18 and 61 days in September '18. We expect our net working capital to continue to improve in subsequent quarters as well.

This is all from our side, and now we can open the floor for Q&A.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Nitin Gosar from Invesco Mutual Funds.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [2]

A couple of questions. One is on the other expenditure which management highlighted that it was higher, led by A&P channel development. Would you mind elaborating it further or breaking it down further between these 2 pieces? Like what's -- why is it higher? Or what's the number with regard to advertisement spend Y-o-Y delta? And what's the other meaningful piece in this other expenditure?

Vimal Agarwal, Parag Milk Foods Limited - CFO [3]

Yes. Thanks for asking this question. And that's an important one. I laid out a few data points which I mentioned in my speech 5 minutes back. See, one is the EBITDA margin YTD was 10.4% versus 9.6% earlier. And within that, other expenses component has gone up. Now on the other expenses there are 2 things. One is really the variable part in other expenses, which is largely logistics expenses or the factory overheads. That will grow in sync with the overall revenue growth. More specifically, on advertisements and marketing our last year number was closer to 2.6 percentage point. That in quarter 3 was closer to 3%, okay? And that possibly is the key driver where you are seeing the fixed part of other expenses really going up, yes.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [4]

Okay, so that's been the meaningful delta.

Vimal Agarwal, Parag Milk Foods Limited - CFO [5]

Yes.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [6]

Okay. Sir, my second question is with regard to the gross margins. We have seen a good enhancement in the gross margin. Now is it with regard to the raw material costs, or is it coming in from the sales mix? And how much of it do you want to keep on deploying in advertisement spend and channel development going forward?

Vimal Agarwal, Parag Milk Foods Limited - CFO [7]

On the gross margin, what may be more relevant is to really look at possibly a longer-term trend of, say, 9 months trend where the margin is closer to 31%. Quite a few factors contributing to it. For example, the value-added mix per se is going up. And within value-added products also there are categories like protein which is picking up momentum; and next year will be, hopefully, a game changer for us, so far as the protein category is concerned. Now outside of that, to -- as I mentioned in the previous part of the conversation, your marketing expense are going up. What we have done is, if you look at trade incentives or, say, channel leverage, along with advertisement promotions, we'd usually operate at around anywhere between, say, 8 to 9 percentage point. We have managed that while the advertisements have gone up, which means that the trade incentives have dipped a bit for the quarter. So these 2, 3 things are the key factors which are contributing for the improvement in gross margins.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [8]

Okay. My question also was extended to how much of sales mix improvement -- or sorry. How much of the gross margin improvement you want to deploy in advertisement as well as channel development going forward. Like we have seen almost 40 bps delta in advertisement spend. That is 2.6% going to 3%. So what's the upper limit going forward to this number?

Vimal Agarwal, Parag Milk Foods Limited - CFO [9]

So we'll say that the key point is our advertisement and sales promotions will continue to operate in the range of 2.6 to 2.9 percentage points. Having said that, within quarters, you will see upsides or downsides. For example, the Sonipat plant, which we went live in the later part of Q2, was up and running for a full year. And we did made investments in quarter 3 on the Delhi NCR distribution as well, so to an extent you are seeing the up here, which hopefully will drop in Q4. But as a stated principle, as we have maintained in the previous calls, our advertisement budget should be closer to 2.7.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [10]

Okay. And one last, final...

Operator [11]

Mr. Gosar, this is the operator. Mr. Gosar, may we request you to come back in the queue for a follow-up, please?

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [12]

Sure. No problem.

Operator [13]

(Operator Instructions) The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev, [14]

Sir, I missed the figure of net working capital for 3Q '18. You said for 3Q '19 it was 60 days. What was it for 3Q '18?

Vimal Agarwal, Parag Milk Foods Limited - CFO [15]

3Q '18. I would not have shared that number in my conversation earlier this day. I remembered March '18 exit overall was about 70 days.

Unidentified Company Representative, [16]

Yes.

Vimal Agarwal, Parag Milk Foods Limited - CFO [17]

72 days.

Bhargav Buddhadev, [18]

And is it fair to say that in March '19 we'll be closer to 60 days, or that it will increase from here on?

Vimal Agarwal, Parag Milk Foods Limited - CFO [19]

See, something which we had invested -- in the last Investors Call, we had talked about this aspect in pretty much detail. Our stated approach or drive is to ensure that we will improve on working capital. December, we are at about 60 days. We intend to improve on it if we can, but we definitely are not going to deteriorate on this number.

Bhargav Buddhadev, [20]

Okay, understood. Secondly, sir, there has been a short-term or significant increase in employee costs in '19, so just wanted to know your thoughts in terms of how will FY '20 look at, as far as employee costs is concerned.

Vimal Agarwal, Parag Milk Foods Limited - CFO [21]

So Bhargav, on this one, FY '19 is a year of investment, so far as talent buildup is concerned. If you look at it, we have hired people at the key leadership position, and that's the communication we had sent out in quarter 4 of '18 and quarter 1 of '19. That's one part. And the significant leadership hiring, we are done with. That's one. Second is our North plant acquisition, which was largely executed in quarter 1 of this year. So we've hired people for the plant as well as for frontline distribution. And we are very hopeful that, that decision of hiring very, very talented bunch of people will really pay back. The second and the third reason is North and East right now are growing at a pace which is at least we have not seen in the last many years. And that's on the back of the leadership team which we have built up across East, which is -- which includes Northeast states as well. That's the third reason. Fourth is financial people on the call are aware of the theory of constraint-led GTM which we had implemented post November 2017. We are right now scaling that model in Bombay as well as have started the investments for Delhi. That is leading to member hiring. And to that extent, you will see the employee costs to be higher, so far as this year is concerned. On a percentage basis, I'm sure that we are not going to go up versus what you have seen as of now.

Operator [22]

The next question is from the line of Jasdeep Walia from Infina Finance.

Jasdeep Walia, [23]

Sir, so your trend in your SMP sales is pretty subdued on a Y-o-Y basis. I thought that, because of the government incentives, there will be significant increase in SMP sales this quarter, which would also reduce your inventory significantly. So could you comment on that, sir? Why is the trend so subdued in SMP sales?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [24]

I think that trend is not that subdued. It is in line with whatever we have been telling and doing overall this year. So trend is in fact almost in-line. Till date also, around 12.5% of our total sales consists of SMP as a commodity, and 12% to 13% is the range in which we have been doing. And trying to reduce it a little bit, as far as possible. Secondly, the price realizes an increase in terms of commodity, has started only a few days back, so it may take time in terms of market stabilizing in terms of pricing and also the inventory levels. And accordingly, we will take a call how much to sell and how much to take it forward.

Jasdeep Walia, [25]

Sir, but the government incentives on exports of SMP were significant, right, so even at subdued prices you could have sold a lot of SMP.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [26]

No. So the government incentive was quite good. And we thank the government for all that support, but however, even after all those incentives, we were somehow not able to match the international pricing, and therefore, the kind of business that we could generate from export was very, very limited.

Jasdeep Walia, [27]

Got it. So in that case, I should also assume that inventories of SMP continue to be high in your company.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [28]

No. It is not that high as of now.

Jasdeep Walia, [29]

Could you quantify? Could you give some color on level of inventory of SMP?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [30]

It will be very difficult as of now to comment on that.

Jasdeep Walia, [31]

And sir, now you're saying that the -- possibly the exports have started, so should we expect significant reduction of SMP inventory in the next 2 quarters?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [32]

It is, say, very difficult to comment on commodity market because it fluctuates on a daily basis, but as we discussed, currently there has been some price increase both domestic as well as international market. We are watching the market, discussing with market players. So hopefully, there will be increased sales and liquidation of some inventory going forward.

Jasdeep Walia, [33]

Got it, sir. Sir, could you comment on how Awatar has performed in 9 months of this year?

Vimal Agarwal, Parag Milk Foods Limited - CFO [34]

So maybe a couple of points on Avvatar as such. One is for this year and how do we see this going forward. We launched Avvatar, I think, about 5 quarters back with one key driver, which is whey protein. Our standing today, we have been able to really complete the full basket. And the recent launch, the last one actually was the muscle gainer. And you will see a couple of more variants, like Isorich which is 90% protein; and Avvatar [Rapid], which is for runners or people who are into lighter activities, getting launched as we speak right now. With these, we are completing the entire basket. Our distribution across [20, 22] states is largely done. We believe that, whatever it takes in terms of providing the inputs to the business, so -- we are largely done, which will mean that next year we should see significant contribution coming in. See, our stated number for health and nutrition segment FY '21 is about 6%. Right now we are closer to 3.5%. And that's the journey we are sort of trying to cover. And Avvatar is going to play a critical role, apart from Go Protein Power which right now is getting test marketed in Bombay. And apart from that, there are a few institutional supplies which we do to key clients or, say, the niche clients. So these 3 things. So we are hopeful that, the health and nutrition segment, we will start cracking or trending what we had said in the investors conference earlier this year.

Jasdeep Walia, [35]

Sir, I think your target for Avvatar sales was some INR 25 crores, if I'm not wrong, for this year, FY '19. So would -- are you on course to achieve that?

Vimal Agarwal, Parag Milk Foods Limited - CFO [36]

We are ahead of that.

Jasdeep Walia, [37]

Ahead of that. I've got it. And...

Operator [38]

Excuse me. This is the operator. Mr. Walia, may we request you to come back in the queue for a follow-up question?

Jasdeep Walia, [39]

Sure, sure.

Operator [40]

Thank you. The next question is from the line of Anil Sarin from Edelweiss.

Anil Sarin, [41]

I just wanted to know, what are the figures for creditors during the first 9 months? What is the figure for loans and advances during the same period? And what is the figure for inventory and debtors?

Vimal Agarwal, Parag Milk Foods Limited - CFO [42]

I'll not be able to share the exact numbers with you. However, a couple of points which I can share with you which will approximately -- you can layer that on in the September numbers and then get a good sense. So far as creditors are concerned, we are largely in sync with the numbers which we had seen in March '18 or September '18, so there is not much change. Similarly, loans and advances, there is not significant change. We are seeing some recoveries, especially for the loans which we have given to the farmers. The related part which is critical here is the PSI incentive which Parag gets from Maharashtra government, export subsidies for all the exports which we have done in the last 3 months or 6 months and Maharashtra's state-led subsidy of INR 5 to the farmers. These three put together, as of now, makes a good or a significant contribution to the entire balance sheet. Now our expectation is that in the next 45 days or so we should see this number coming back to normal. When I say normal, it means that, milk subsidy which has got built up, we should be getting all that money. And similarly, PSI incentive usually will get a large chunk in quarter 4. If that comes in, our loans and advances will be much, much better versus where we were last year.

Anil Sarin, [43]

Okay, but this is the dues from the government. But in terms of the loans that you give out to aggregators to support them, how is the movement on that account?

Vimal Agarwal, Parag Milk Foods Limited - CFO [44]

Yes. Actually I mentioned that part as well when I said that, the outstanding in March, you will see that dipping because, as we buy milk or procure milk, that amount starts getting adjusted. So that number should be better versus our March number.

Operator [45]

The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda, [46]

Sir, what was the milk procurement number in the quarter? One is that. And your presentation slides shows that for the [soon bit]. Also you will be soon targeting 4 states for milk procurement. So what are the plans there? When will the sourcing start? And what will be the strategy on the milk procurement number over next 2 years?

Vimal Agarwal, Parag Milk Foods Limited - CFO [47]

Just give us a second.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [48]

Yes, milk procurement for the quarter, this number is in a range of around 13 lakhs to 15 lakhs. It does on an average. And as far as the Sonipat plant is concerned, we've started working in terms of laying procurement network in that area, but it is too premature to give any figures or facts in that regard. As of now, it is work in progress. As and when there are some developments, we will update you.

Bhavin Chheda, [49]

But will it take time? Or you have a strategy where you can get 3 lakh, 4 lakh liters by next year or '21?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [50]

We have started work in that regard, but procurement is always a time-consuming thing, so it will take time in terms of achieving full scale.

Bhavin Chheda, [51]

Right. And what was the net debt number as on December 31?

Vimal Agarwal, Parag Milk Foods Limited - CFO [52]

It's same as in September '18.

Bhavin Chheda, [53]

Hello...

Vimal Agarwal, Parag Milk Foods Limited - CFO [54]

It's same as September '18.

Bhavin Chheda, [55]

Roughly. So that was around INR 200-odd crores.

Vimal Agarwal, Parag Milk Foods Limited - CFO [56]

Yes. It was about, I think, INR 270-odd crores, including long-term debt.

Bhavin Chheda, [57]

Including long-term, 2-7-0.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [58]

INR 260.

Vimal Agarwal, Parag Milk Foods Limited - CFO [59]

2-6-0, 2-7-0, thereabouts.

Operator [60]

The next question is from the line of Sameer Gupta from IIFL.

Percy Panthaki, IIFL Research - VP [61]

Sir, this is Percy Panthaki here. Sir, just wanted to get your views on how do you see milk procurement prices trending over the next few quarters. There is an opinion that, after 3, 4 years of very benign and declining milk price, now we should see some gradual inflation. And some part of it is already visible in terms of SMP prices, and now it will flow over to liquid milk prices also. So just wanted your view on that.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [62]

As of -- I think, whatever corrective actions that were required in terms of bringing milk procurement prices in line have been taken in these regions, so be it Maharashtra where there were some issues and government intervened with subsidies and started to stabilize the market. Similar was situation in Gujarat. Same was also in a few other states. So all those corrections have been done. Going forward, we will see normal inflationary increase in terms of milk procurement prices, which will be roughly around 5% to 7%. Other than that, we don't see any major change...

Percy Panthaki, IIFL Research - VP [63]

Okay. And this normal inflation that you expect going forward, when that happens, could there be a temporary dip in your margins on account of that?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [64]

So 2 things. Normally the increase in terms of procurement prices happens with the onset of summer season. So typically by end of March or beginning of April is the time when the increase in procurement prices happens. And it does not happen at one shot, but it happens gradually over the summer period, depending on availability and carryforward inventories. And in terms of hit on our margins is concerned, as we discussed, this is a normal inflation. And we have to take care in terms of managing that increase either in terms of cutting down of different offers that we provide into the market, some increased costs; or secondly, in terms of passing it on to the market. So that is a part of normal business, and we will take care of that.

Percy Panthaki, IIFL Research - VP [65]

Okay, sir. Sir, next question is you mentioned that you are seeing very good growth in the East, Northeast. North also you have started now. So all put together, this is giving you a growth of about 15%, 16%. Sir, just wanted to understand the growth in your main, core business that is the western region. Is that really something which is not up to the mark? I mean, will you be able to give some color on how much growth is there in the western region?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [66]

See, region-wise we don't give out numbers, but rest assured that there is no issue in terms of any drawdown in terms of growth in an established market like West. And just to correct your figures: We have grown by 20% in last 9 months. And within that our consumer growth, consumer product growth, is much higher than that. So we have been growing consistently in our consumer products and across geographies, while we are discussing East and North as major focus markets. Our base in those markets was much smaller. And therefore, the percentage increases that we are getting in those markets looks higher, but overall, established markets like West are also growing significantly.

Percy Panthaki, IIFL Research - VP [67]

Right, sir. And finally, just a clarification on the other expenses line. You mentioned that 40 basis points is account of higher ad spend, but if I see Y-o-Y, your other expense as a percentage of sales have gone from 15.9% last year to 18% this year. So that's a 210 basis points increase. Out of 40 basis points explained by ad spend, sir, what will the other increase be on account of?

Vimal Agarwal, Parag Milk Foods Limited - CFO [68]

We have no -- so see, I'll give you overall -- it'll still be the absolute numbers because that's easier to understand. We had other expenses, so in first 9 months last year, of about INR 230 crores, which has gone up to about INR 290 crores, right?

Percy Panthaki, IIFL Research - VP [69]

Yes...

Vimal Agarwal, Parag Milk Foods Limited - CFO [70]

Yes, that's right. So overall in first 9 months revenue growth was about 2 -- 20%. And from INR 230 crores to INR 290 crores, you have got at least 50% of other expenses which are variable, which means that inherently INR 230 crores would have gone up, anyways, 50% because you are based -- or the revenue is going up...

Percy Panthaki, IIFL Research - VP [71]

Sir, makes sense on 9 months basis. My question was on the third quarter itself.

Vimal Agarwal, Parag Milk Foods Limited - CFO [72]

Yes. So I'm saying I'll request to stay with 9 months because that's much more -- you can appreciate the numbers much better. And that's...

Percy Panthaki, IIFL Research - VP [73]

Okay, okay, then it makes sense. Yes, that's it for me, sir.

Operator [74]

The next question is from the line of Manoj Bahety from Omniscient Capital Advisors.

Manoj Bahety, [75]

Am I audible?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [76]

Yes, yes.

Vimal Agarwal, Parag Milk Foods Limited - CFO [77]

Yes, loud and clear.

Manoj Bahety, [78]

Yes. Sir, my first question is in respect of working capital as we keep on growing our consumer-centric business. If you can give us some guidance or color that what will be the additional requirement of working capital. And also, it will be great, like, if you can share some numbers on the composition of working capital, especially inventory, credit receivables.

Vimal Agarwal, Parag Milk Foods Limited - CFO [79]

Yes. So see, overall working capital cycle, as I mentioned in my earlier discussion was 72 days, which is down to 60 and which basically means an improvement about -- of about 15% on a revenue growth of 20%. And if you do the numbers backward, it means that the absolute working capital need has more or less stayed where it was in March '18. See, the endeavor will be to ensure that we are not going up in absolute working capital, so far as this financial year is concerned. Now having said that, to the point which we have mentioned in our previous calls as well, as you grow and distribute deeper, it will always be important to watch out the receivables part because you tend to extend receivables. Our intent here is to ensure that our number of days receivables also improves. And similarly, the inventory should come down as we -- as our base goes up, but the related part really is on the capacity utilization. I just wanted to highlight that as well. Our revenue right now is about we should exit, say, anywhere between, say, INR 2,300 crores, INR 2,400 crores, which means that we should be able to grow for about 5, 6 quarters subsequent to that without any substantial capacity-led CapEx. So these are the 2 critical points which I thought I'll just clarify, yes.

Manoj Bahety, [80]

On the working capital side, like, as you mentioned, that the absolute level of working capital has been maintained as compared to March '19, so just wanted to understand that. You also mentioned that the debt level is, more or less similar, right? Or has it come down vis-à-vis March '18?

Vimal Agarwal, Parag Milk Foods Limited - CFO [81]

It has come down a bit, Manoj.

Manoj Bahety, [82]

Okay. And how much it has come down because we have generated over 9 months good amount of EBITDA? And I think in terms of CapEx, what is the CapEx number during these 9 months? Just wanted to understand the cash flow equation during these 9 months.

Vimal Agarwal, Parag Milk Foods Limited - CFO [83]

If you go back to the initial guidance, we have said that we'll try and do CapEx of about 2.5 percentage points of revenue. So our CapEx for first 9 months is about INR 59 crores, right. And I don't see any

substantial CapEx coming in, in the next 3 months also. So largely, we should be included for this number itself or maybe INR 5 crores, INR 10 crores higher.

Manoj Bahety, [84]

I think that's a bit -- also, if you can shed some guidance on the...

Operator [85]

May we request you to come back in the queue for a follow-up, please.

The next question is from the line of Sangeeta Tripathi from Edelweiss.

Sangeeta Tripathi, [86]

My first question is on the distribution footprint. What will be our distribution footprint right now?

Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [87]

Sangeeta, currently, our distribution is around 3 lakhs retail outlet, pan-India. And we're also expanding, so we're adding outlets every day, yes.

Sangeeta Tripathi, [88]

Okay. And if I do understand it on the northern front because it has been around, let's say, 9 to 10 months since we have been very focused on the northern part of the region. So if a broad split across the regions, that would be very helpful of these 3 lakh outlets, what we have.

Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [89]

It will be very difficult to share regions per se because we are looking at, you know, cities where it's more populated, where outlets per population is much lesser. Wherein the rural area, it's much higher. So it will be very difficult for us to give a split of how much in the Northern industry. But, yes, we're also expanding very much in the Northern region. Especially with liquid milk and Dahi coming in, we're also reaching out to the Delhi outlets in the North.

Sangeeta Tripathi, [90]

Okay. And my second and the last question is on the growth -- the value-added product mix, what we have achieved for the 9 months and third quarter, quite decent one, 19% for this third quarter. Now within this value-added product mix basket, if you can just give some indication as to which of the category which is

growing much faster or any color on the further segregation. I understand we don't share the numbers category-wise but still some subjective analysis on that would be helpful.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [91]

Cheese and ghee, basically these are 2 products. And the new whey (inaudible) are so low, but these 2 categories are very fast growing.

Sangeeta Tripathi, [92]

But cheese would have grown -- cheese and ghee, these 2 products, would have grown at the higher level of 19%?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [93]

Yes.

Operator [94]

The next question is from the line of Mehul Desai from IDFC Securities.

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [95]

This is Harit here. So just 2 questions. Firstly, looking forward to next year, I mean, this year, we had a tailwind of very strong mix as well as milk product prices which were in our favor. And you also said that you will see a normal inflation. I just wanted to understand what will be your EBITDA margin driver for next year. Will it be largely only overhead operating leverage? Or would there be a positive effect on gross margin also? That's my first question.

Vimal Agarwal, Parag Milk Foods Limited - CFO [96]

So there are 3 things which will be happening here. One is the value-added mix will continue to improve, led by categories which are growing at a substantially higher rate, which is paneer, cheese and whey protein. That's one part. The second part is also the operating productivities or efficiencies which -- on which there are 2 projects which are large ones on which we are working. That should start giving us some upside. So a combination of both these will mean that gross margin should improve a bit. And EBITDA margin, as we said, our guidance continues to be between 11% and 12% for next year.

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [97]

Okay, fine. And the second thing was on the tax rate. Sir, I think you had, I think, guided for 26%, 28%. First 9 months has been far lower. Would the assumption be that the fourth quarter will be much higher and hence will be in that same band?

Vimal Agarwal, Parag Milk Foods Limited - CFO [98]

Yes. So on a full year basis, for next year, you can assume the tax rates to be sub-24%.

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [99]

Okay. This year and next year will be 24%?

Vimal Agarwal, Parag Milk Foods Limited - CFO [100]

Lower than that, yes.

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [101]

Lower than 24%. Okay, okay, okay.

Operator [102]

The next question is from the line of Sagarika Mukherjee from Elara Securities.

Sagarika Mukherjee, Elara Securities (India) Private Limited, Research Division - FMCG Analyst [103]

Sir, just wanted to check with you what has been the PSI benefit/export incentive, et cetera, that you provide for the quarter?

Vimal Agarwal, Parag Milk Foods Limited - CFO [104]

See, overall, our export mix and revenue is about 3.5%, 4%. And -- so earlier in the conversation, we were talking about SMP. See, SMP is one part. The value-added product is largely where the max upside we get. And to that extent, the subsidy is what government announced, which was 10% beginning. And after that, it improved to 20%. Other important point here one should note is the subsidy fully will never get into the P&L because there are -- all of the players are getting similar subsidies. And to that extent, the competitive bidding or the prices also tends to vary, yes.

Sagarika Mukherjee, Elara Securities (India) Private Limited, Research Division - FMCG Analyst [105]

And, sir, just the PSI benefits like other operating income for the quarter.

Vimal Agarwal, Parag Milk Foods Limited - CFO [106]

PSI benefits, we should be getting it about in the range of INR 20 crore to INR 25 crore this year.

Sagarika Mukherjee, Elara Securities (India) Private Limited, Research Division - FMCG Analyst [107]

Yes. And, sir, average milk procurement size for the quarter?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [108]

Our average milk procurement price will vary depending on which district or geography you're talking about. In South, it's high. In West, it's low. The range is anywhere between INR 23 to INR 27.

Operator [109]

The next question is from the line of Vishal Punmiya from Motilal Oswal.

Vishal Punmiya, Motilal Oswal Securities Limited, Research Division - Research Analyst [110]

Just 2 questions. What was the overall volume growth for the quarter?

Vimal Agarwal, Parag Milk Foods Limited - CFO [111]

It's about 3.5%, 4% better than the revenue growth.

Vishal Punmiya, Motilal Oswal Securities Limited, Research Division - Research Analyst [112]

Okay. And what was the contribution from the Sonipat plant in terms of revenues?

Vimal Agarwal, Parag Milk Foods Limited - CFO [113]

See, overall, we expect by the time we exit quarter 4, we should have about -- just give us a second. We should be closer to, I think, about 3 to 5 percentage points. I'm not very sure of the number, but this is the range.

Operator [114]

The next question is from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [115]

Yes. So just one request regarding IRIS business solutions. So earlier, it was part of promoter, and then we see -- we're seeing it as part of non-promoter. And now it doesn't appear in the shareholding pattern. So can you just clarify on it? And second question is the Bhagyalaxmi Dairy revenues as well as PAT in this quarter and same numbers in Q3 FY '18.

Vimal Agarwal, Parag Milk Foods Limited - CFO [116]

Can you just repeat the second part as well?

Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [117]

Yes. So, sir, Bhagyalaxmi Dairy revenues and PAT in this quarter as well as Y-o-Y. That is Q3 FY '18.

Vimal Agarwal, Parag Milk Foods Limited - CFO [118]

Yes. See, so why the IRIS business solution is concerned, the reason it was getting classified as promoter group entity was because one of the director was common. After the relationship ended, it was classified in the non-promoter group. And till that time is when we are tracking that entity. The second point is as far as Bhagyalaxmi is concerned, we are about INR 40 crores, INR 42 crores of revenue with a PAT of about INR 5.5 crores, INR 6 crores.

Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [119]

Okay. And same numbers last year, last year Q3?

Vimal Agarwal, Parag Milk Foods Limited - CFO [120]

For Q3, you really have to give us a second. The number is not readily available. I do not have the number readily available right now.

Operator [121]

The next question is from the line of Nitin Raheja from AQF Advisors.

Jai Tewani, [122]

This is Jai Tewani. One question from my end. As we go to 7% health and nutrition by '21, how will our gross margins look?

Vimal Agarwal, Parag Milk Foods Limited - CFO [123]

See, health and nutrition gross margins are usually -- while the category is matured and we are more stable in that segment, it's upwards of 40%. The key part is that in year 1, it will not be 40%. But the potential, say, for example, Avatar, once we stabilize on distribution and all, it should be upwards of 40%. So that's how we are looking at this category.

Operator [124]

The next question is from the line of Amarjeet Maurya from Angel Broking.

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [125]

Sir, I have some couple of questions. First, on tax rate. Currently, we have -- for 9 month, we have a 22% tax rate. And compared to last year, it was 27%. So why it's low? And you said in the conversation, you were expecting 24% tax rate in FY '20. So what is the reason behind that?

Vimal Agarwal, Parag Milk Foods Limited - CFO [126]

Yes. See, the direct tax rate for the quarter is low driven by incremental deductions allowed for revenues and profit generated through new CapEx investments which we have done. These investments include cheese and whey CapEx. And so far as other CapEx like plants CapEx is concerned, tax department allows you high rate of deduction. So that's the key driver why the tax rates are lower. And I do expect it to stabilize at about 24% for this year and next year.

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [127]

Okay, okay. And, sir, just wanted to -- I know you don't have a number for working capital. Just give me a rough sense, like, for the 9-month number inventory receivable and payable. Just give me a sense like in terms of numbers, if you don't have exact number.

Vimal Agarwal, Parag Milk Foods Limited - CFO [128]

Yes. Overall, working capital, as I said, at a cycle level, as what I had mentioned in my speech, it's about 60 days, and that's where we stand. Now if you look at the March '18 number of inventory, debtors and creditors, we expect inventory to drop versus March '18, debtors to remain flat or slightly high, and creditors to be similar to March '18 numbers.

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [129]

Okay, okay, okay. Sir, I just wanted to understand one thing on the business front. Like, as of now, your selling of Go Protein from -- in 1,200 outlets. So what is a response from customer like? And what is a competitive scenario in that segment?

Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [130]

So we are available in across 2,000 outlets, and we started -- we have only launched in Mumbai per se. And right now, it's a pilot that is going on. And we're doing all our marketing activities also around there. So we're doing, in short, we're explaining why protein is required. So far, the response has been really great. We are getting repeat purchase from the same outlet, so this is a good sign. Plus, we're the only ones, we're talking about milk-based protein and 100% milk protein, so that's like an advantage.

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [131]

Okay. So just wanted to understand one thing, like for the Avatar brand, like this is a whey protein. So actually, even I'm using a whey protein. So I'm always using multinational brands -- I mean, U.S. brand like Optimum Nutrition protein or Ultimate Nutrition whey protein. This is a Prostar whey protein. So how are you facing your competition with these guys and in domestic front like MuscleBlaze. So what are -- and for the -- with respect to Avatar whey protein, so how is the competitive scenario for you?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [132]

Thank you very much. First, you should explain how were your experience for the product and other.

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [133]

Actually, I'm sorry, but I have not used Avatar whey protein, so I'm not able to give a comparison. But I'm just asking you, like, in the market front, how are you facing that?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [134]

Yes. In this segment, look, all consumers doesn't have any trust on any international brand because all they are repackers mostly. And this is the first -- India, the first brand. We have very freshly made -- manufacture very fresh. That's why in very -- vastly with this product because they lack situation from these -- the consumers compared to the other international brands: solubility, taste.

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [135]

Okay, okay. Sir, just wanted to understand because where are you selling this product because -- I mean, you're selling in the chemist shop or you have a unique distribution network for this particular whey protein?

Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [136]

Yes. So our health and nutrition, we have a different sales team working on it. And these are going to specialized whey protein shops.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [137]

Post-nutrition shops.

Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [138]

Post-nutrition shops. We're also going to chemists. Around -- a large portion of it is also -- like a big good number is coming from your online portals like Amazon and shipskart. So we're doing...

Amarjeet S. Maurya, Angel Broking Private Limited, Research Division - Senior Research Analyst of Mid-Caps [139]

So what is the mix between the -- I mean, distribution of -- distribution and online?

Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [140]

20% all would be coming from online.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [141]

We are making good business through all our channels.

Operator [142]

The next question is from the line of Sunil Kothari from Unique Investment Consultancy.

Sunil Kothari, Unique Investments (Private) Limited - Partner [143]

Sir, in the end of quarter 2, we had -- in a presentation we have mentioned, we had 2.8 lakh to 3 lakh outlets. And also, in the quarter 3, we have mentioned that we have 3 lakh outlets, and we were at a run rate of 10,000 outlets a month adding that number. So -- I mean, has anything been started?

Vimal Agarwal, Parag Milk Foods Limited - CFO [144]

Sorry. Your voice is not clear in the end.

Sunil Kothari, Unique Investments (Private) Limited - Partner [145]

Sir, has there been a change in strategy because between quarter 2 and quarter 3, our number of retail outlets remains the same versus our earlier run rate of 10,000 outlets a month.

Vimal Agarwal, Parag Milk Foods Limited - CFO [146]

No. So, see, one thing that you're -- I'm sure we all appreciate is the fact that first 25 years, we opened about 2.5 lakh outlets and then went on and said that we'll expand this opportunity because that's a single biggest bet which we are putting as an organization. Now on that, we have added approximately 50,000 outlets in the last 8, 9 months, and I think that is a commendable job what the frontline has done. We'll continue to build on the distribution network.

Sunil Kothari, Unique Investments (Private) Limited - Partner [147]

So should we assume that it would get 6,000 to 7,000 outlets a month addition over a longer period?

Vimal Agarwal, Parag Milk Foods Limited - CFO [148]

Yes. You will not be able to measure it on a month-on-month basis. I'll say that take it as a...

Sunil Kothari, Unique Investments (Private) Limited - Partner [149]

Yearly basis, sir?

Vimal Agarwal, Parag Milk Foods Limited - CFO [150]

And then our desire also -- there are 2 things happening. One is the GTM, which we are changing right now, will give us disproportionate increase or addition. Apart from it, the normal increase in outlet base. I think we should start hitting anywhere between 8,000 to 10,000 outlets as we go along.

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [151]

End of [next] or March.

Sunil Kothari, Unique Investments (Private) Limited - Partner [152]

Okay, okay. And, sir, my second question is regarding this interest expense quarter-on-quarter, and you have improved on the working capital, too. So I mean, why has the interest expense gone up from INR 7.5 crore to INR 10 crore this quarter?

Vimal Agarwal, Parag Milk Foods Limited - CFO [153]

No. So, see, interest first 9 months is about INR 27 crores, INR 28 crores, and then that is at a short-term and long-term debt put together. The number also includes few processing charges we have paid and a small component of ForEx fluctuation which we had. But on a longer-term price on, say, next quarter, you can assume it to be in sync with what you have seen for 9 months at a consolidated level.

Sunil Kothari, Unique Investments (Private) Limited - Partner [154]

Okay. So we have some ForEx loans as part of our debt?

Vimal Agarwal, Parag Milk Foods Limited - CFO [155]

Yes.

Sunil Kothari, Unique Investments (Private) Limited - Partner [156]

Can you quantify that number, please?

Vimal Agarwal, Parag Milk Foods Limited - CFO [157]

Yes. It's there in the balance sheet. We had taken a loan around 4, 5 years back from IFC World Bank of about INR 110 crores, of which we are left with about INR 50 crores, INR 55 crores right now.

Operator [158]

The next question is from the line of Shan (sic) [Shradha] from Edelweiss.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [159]

This is Shradha from Edelweiss. Two questions. Wanted to understand when we give this guidance of 11% to 12% of EBITDA margin for '20, what is the milk price assumption and inflation that we are assuming for 2021?

Vimal Agarwal, Parag Milk Foods Limited - CFO [160]

The normal inflation of around 5%, 6%, which we calculate, and that applies both in terms of input as well as output.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [161]

Okay. So we are assuming a growth from a decline in the last 2 years. We're assuming they should start picking up. And after that, we'll be able to grow our margins because of the improvement in product mix, right?

Vimal Agarwal, Parag Milk Foods Limited - CFO [162]

It is mainly improvement in product mix, which we are targeting moving up the ladder in terms of whatever categories that we are in, and that is what is going to drive the improved margin expansion. So just increase in terms of value is not going to drive it.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [163]

Sure. And just lastly, wanted to understand how are we progressing with Vector Consulting. If you can give some color, how many outlets we have covered and what has the progress been there.

Vimal Agarwal, Parag Milk Foods Limited - CFO [164]

Yes. Shradha, I will not be able to share the exact outlet count because in the past, we have seen that any such information sharing has been shared further in the public domain. So we'll not be really keen to share the Vector progress, specifically for the Bombay city.

Shradha Sheth, Edelweiss Securities Ltd., Research Division - Research Analyst [165]

No. I mean, probably some qualitative aspect, how are we progressing with them, any improvement?

Vimal Agarwal, Parag Milk Foods Limited - CFO [166]

We believe that we are doing exceptionally well, and therefore, we'll continue to be on this Vector scale of journey.

Operator [167]

The next question is from the line of Jayant Mamanian from Care Portfolio Managers.

Jayant Mamanian, [168]

I was just comparing the inventory and data with our industry peers like Hatsun Agro and Heritage Foods. Hatsun Agro has debtors of INR 10 crores only on the sales of INR 5,000 crore and an inventory of only INR 278 crore. And that Heritage Food had debtors only INR 13 crore and inventory of INR 56 crore on sales of INR 2,500 crore. Whereas our sales, debtors of INR 262 crore on sales of INR 2,200 crore and inventory of INR 383 crore on sales of INR 2,200 crores, which is substantially higher. So can you explain this?

Vimal Agarwal, Parag Milk Foods Limited - CFO [169]

Yes. That's right. So that's a valid point and observation you had. Only difference is that Heritage and Hatsun are in a different business segment versus Parag Milk Foods. The conversation and the discussion till now you would have heard is that value-added product is about 67%, 68%. And out of that 1/3 for us is not very big, which means that if you just compare at a product level is extremely different. You'll never be able to compare it. Just to quote one example. Some of these companies operate in a specific sort of radius versus Parag, which has got about 20 depots, 3,000 distributors spread across all 29 states, which makes it very, very different. And the fact that your value-added products are more comparable with the FMCG because the shelf life is very, very high. So I'll request not to compare the 2 because the models are very different. The products are extremely different.

Jayant Mamanian, [170]

What happens if Hatsun Agro, with their sales of INR 5,000 crores, if it has 20% of its sales in value-added milk products, which comes to INR 1,000 crore. So if we would take 15% of that, then also it comes to around INR 150 crore, but their debtor is only INR 10 crore.

Vimal Agarwal, Parag Milk Foods Limited - CFO [171]

So that may be the right data point, but I'll not be able to comment on their business model.

Jayant Mamanian, [172]

Because our interest burden is higher with most of the amount is lying in the working capital. So...

Vimal Agarwal, Parag Milk Foods Limited - CFO [173]

That's right. Moving away from value-added products and coming into the fresh milk business is not the strategy which Parag Milk Foods has taken from long-term perspective.

Operator [174]

The next question is from the line of Nisarg Vakharia from Lucky Investment Managers.

Nisarg Vakharia, [175]

Gentlemen, there was a B2B business segment also in the whey market in India. Do we have any contribution in our sale as of now by selling whey into the B2B market?

Vimal Agarwal, Parag Milk Foods Limited - CFO [176]

Yes. We do have.

Nisarg Vakharia, [177]

Sir, can you please quantify that number for the first 9 months out of the INR 1,700 crore sales?

Vimal Agarwal, Parag Milk Foods Limited - CFO [178]

See, I'll not be able to quantify specifically for B2B and whey protein. But overall, health and nutrition segment does have this number in sales. When I say 3.5 percentage points, I'm including the institutional part of it, which is not a substantial portion of the 3.5 percentage points.

Nisarg Vakharia, [179]

Sir, how large is the institutional market in India?

Vimal Agarwal, Parag Milk Foods Limited - CFO [180]

Just give us a second. The overall -- you're saying whey market?

Nisarg Vakharia, [181]

Yes.

Vimal Agarwal, Parag Milk Foods Limited - CFO [182]

About INR 1,000 crores is our estimate.

Nisarg Vakharia, [183]

And all of that is completely imported right now, right?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [184]

No. The consumer brand is around INR 1,500 crore, INR 1,800 crore. And also, B2B is around INR 1,000 crore.

Nisarg Vakharia, [185]

So B2B, INR 1,000 crore is completely imported right now, right?

Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [186]

Around INR 130 is local, and the rest is imported.

Nisarg Vakharia, [187]

So then why are we not able to capture a large part of the market share of the 66% market which is available? It would -- because it make logical sense for the customer to buy from you rather than importing their product.

Vimal Agarwal, Parag Milk Foods Limited - CFO [188]

That is right, but there are 2 things. So see, as a company, our focus is the consumer value-added products. And especially the kind of investments and efforts that we have put on in protein business over the last 4, 5 years, it does not make any sense to get into commodities and sell it against current players who are selling it dirt cheap because ultimately please understand that the current Indian whey protein market, especially in the lower end, which constitutes around 80%, that it is a -- it was a whey stream 2 years back. And now people have tried converting into some dried form and selling it into the market. And therefore, it is a highly competitive B2B market and does not make any sense to get into that as of now.

Nisarg Vakharia, [189]

So, sir, for you, it is just an incremental sales -- I'm saying, sir, for you, it is just incremental sales, right, because...

Vimal Agarwal, Parag Milk Foods Limited - CFO [190]

We are already selling it. So we are already selling it into the market, but we are not targeting the lowest end of the market, and we don't want to get there.

Nisarg Vakharia, [191]

Okay. Sir, my second question is that you have done a INR 60 crore CapEx in the first 9 months. What is the maintenance CapEx that we have to incur on our gross block annually?

Vimal Agarwal, Parag Milk Foods Limited - CFO [192]

This INR 60 crore does include the Sonipat plant as well. However, on an ongoing basis, our estimate is that our compliance CapEx, it should be -- last time I had said 2.5 percentage points. My sense is that it will drop because the revenue base will go up. And the number of plants that are manufacturing units, we are not increasing.

Nisarg Vakharia, [193]

So, sir, out of the EBITDA that we do for the 9 months, what percentage of that EBITDA is direct cash flow to us, post working capital?

Vimal Agarwal, Parag Milk Foods Limited - CFO [194]

I don't have exact number right now with me.

Nisarg Vakharia, [195]

Sir, it's a basic number. I mean, what percentage of the EBITDA is direct cash flow to you.

Vimal Agarwal, Parag Milk Foods Limited - CFO [196]

Yes. My sense it should be closer to 65%, but I don't have exact number.

Operator [197]

Ladies and gentlemen, we take the last question from the line of Akshay Bhor from Premji Invest.

Akshay Bhor, [198]

When is it possible to share the cash flow from operations for the first 9 months? And how much was this for last year 9 months?

Vimal Agarwal, Parag Milk Foods Limited - CFO [199]

Operating cash flow should be about INR 100 crores here this year. I don't have the last year number readily available with me.

Akshay Bhor, [200]

Okay, okay. Sure. And in terms of -- so as we understand, the next 2 years are going to be good in terms of free cash flow generation because we don't have a large CapEx. What is your -- how are we going to deploy this free cash flow because we still see good chunk of interest expense coming through? Any plans of paying down debt from this one? Or what is going to be the strategy?

Vimal Agarwal, Parag Milk Foods Limited - CFO [201]

Yes. Actually, that's a valid point. See, there are 2, 3 options we have. And still, we are evaluating as to what we can achieve or do out of this cash flow. One is obviously to evaluate part of the debt which we can retire, and our sense is that we'll continue to invest part of this cash in building of the infrastructure from long-term point of view.

Akshay Bhor, [202]

Okay. But then you also mentioned that year-on-year much of CapEx, right, and infrastructure building would be part of that.

Vimal Agarwal, Parag Milk Foods Limited - CFO [203]

Yes. No. When I say infrastructure, usually from plant point of view, I don't want to increase, say, the number of plants. Within the plants, so I just wanted to do the planned CapEx. And maybe, for example, cold chain in the last 1 year, we have made significant progress, for example, the writeoffs of the inventory, which used to happen, has significantly dropped for us. So when I refer to infrastructure, I'm also referring to indirect investments which we made in transportation or cold chain development.

Akshay Bhor, [204]

Understood, understood. And just, again, in terms of 2 product categories, paneer and curd, could you give us, ballpark, how much you've done in the first 9 months? And tell me what's the business structuring there, specifically paneer and curd?

Vimal Agarwal, Parag Milk Foods Limited - CFO [205]

Like any other category, which is nascent and not matured like ghee, we are seeing growth which is upwards of our average growth rates for the company. To that extent, we are experiencing good growth in cheese, curd and paneer.

Akshay Bhor, [206]

Understood. And any ballpark numbers in terms of the overall sales, what percentage would contribute to paneer and curd?

Vimal Agarwal, Parag Milk Foods Limited - CFO [207]

Yes. I'll not be able to give you the specific numbers on a category level.

Operator [208]

Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Natasha Kedia for closing comments.

Natasha Kedia, Parag Milk Foods Limited - Head of IR [209]

Thank you. I'd like to thank all participants for taking the time out to join us. Please feel free to get in touch with me or SGA for any further questions. Our coordinates are provided at the end of the quarter 3 presentation, which is uploaded on the stock exchange and our company website. Thank you.

Operator [210]

Thank you very much. Ladies and gentlemen, on behalf of Parag Milk Foods Limited, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.

