



“Parag Milk Foods Limited Q1 FY2020 Earnings Conference Call”

August 05, 2019



MANAGEMENT:

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Parag Milk Foods Limited Q1 FY2020 Earnings Conference Call. This conference call may contain certain 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 the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. We have with us today on the call Mr. Devendra Shah, Chairman of Parag Milk Foods Limited along with the senior management team of the company. I now hand the conference over to Mr. Shah for his opening remarks. Thank you and over to you Sir!

Devendra Shah: Good Evening and a warm welcome to everyone on the call.

I would like to begin by introducing our new additions to the top management team.

We have with us Mr. Venkat Shankar, our new CEO. Venkat Shankar has more than 15+ years of experience in the FMCG (Food) space and has worked in reputed companies like Britannia Industries Ltd as the VP & Head of the Dairy Business and Pepsico in Sales & Marketing. He has a PGDM degree from IIM Ahmedabad and an Engineering degree from IIT Kanpur.

Mr. Shashikant Dalmia, our new CFO. Shashikant has been with the group for the last 7 years and has handled various functions which include Direct Taxation, Costing, Treasury & Risk Management, Corporate Finance & Accounts. He is a qualified Chartered Accountant.

We are delighted to have these seasoned professionals as part of the Parag Team. As you can see, we have consciously strengthened our top management keeping the long-term horizon in mind. Going forward, we are confident that the management team's combined skills and abilities will greatly benefit the company.

Now, moving on to our quarterly performance.

Overall, the economy is facing a lot of headwinds with tight liquidity and a reduction in demand. We have seen businesses across segments fighting to maintain their performance in this situation. However, we are fortunate enough to be in the consumer food business and therefore have been able to keep ourselves on track.

We have started the new financial year on a positive note by achieving healthy numbers which was driven by a growth in our consumer products segment. However, drought situation of last year in key milk producing areas of the country and delayed monsoons led to significant increase in prices of feed which disturbed the viability of farmers. Further, milk production drops during lean season in summers and raw milk prices are required to be increased to compensate for fall in

production. In order to help the farmers in this situation, we have sequentially increased the prices of raw milk during the quarter.

Being a consumer products focused company, we have been able to successfully pass on the increased raw milk prices by reducing trade schemes and discounts as well as increasing the consumer prices of our products. Our brand strength and consumer loyalty has helped us in passing on these price increases with ease. The full effect of this price increase will be reflected in the financial numbers from next quarter onwards.

Despite the significant increase in raw milk prices, we have been able to maintain a good level of profitability due to our continued focus on manufacturing efficiencies, cost control and launching innovative value-added products. With good rains witnessed around the country during last 2 months, we are looking at improvement on milk production scenario going ahead. Further, Q-2 and Q-3 would be covering high demand periods because of festivals. We are therefore hopeful of ending the year on track to achieve our Vision 2020.

We are very happy to inform you all that we have now fully covered all of Mumbai city under our new way of working based on the principle of Theory of Constraints (TOC). Through this model, we have almost doubled our retail presence in Mumbai and have witnessed a significant improvement in depth as well as width of distribution from this geography. We have now set our eyes on the implementing the same in the Delhi/NCR region and have started ground-work and the mapping of outlets. Further, we are continuously upgrading our retail presence throughout the country with special focus on the North and East region.

In the quarter gone by, we have launched a new variant under the Avvatar brand called 'Rapid' which is the only hydration drink in the category fortified with whey protein. It is an ideal intra workout drink with a combination of glucose and electrolytes to replenish the sweat losses and energize post intensive training.

In order to strengthen the Health and Nutrition portfolio further, the company has acquired "Proliva" brand at a lump sum consideration of Rs. 86 lakhs. The brand already has a range of consumer focused health and nutrition products with a topline of Rs. 2 crs achieved last year. With the addition of this brand and products, we are looking at further tapping the consumer market in the nutrition space.

We are also very happy to inform you that our Farm-to-Home premium milk brand Pride of Cows has been launched in Singapore. With the objective of providing a farm fresh experience to consumers in Singapore, the company is airlifting the milk from our dairy farm, located in Manchar, near Pune to Singapore. Singapore has one of the highest per capita income in the world with emerging affluent millennials who are aspirational and are looking for healthy and organic food options coupled with new experiences. Further, it is a milk deficient market lacking farm fresh milk. Hence, we believe that it is perfect market to expand our brand globally.



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Additionally, the ongoing activities of brand building and marketing are continuing with the same momentum and we will continue to invest behind our brands and operating capabilities to perform better going forward.

Now I would request Mr. Venkat Shankar, our new CEO to share a few thoughts.

Venkat Shankar:

Thanks Devenji, for the kind introduction, and very good evening to everyone on the call. I am quite delighted to be a part of the Parag Milk Foods story. Actually, it has been exactly a month since I came on board and over this period I have been spending time and getting to know the different business verticals in Parag and the people that drive the organization across our different markets and plants. In fact even as I am speaking now, I am on the road to yet another market. Even from earlier times, I have always admired and respected Parag's expansive and innovative product portfolio, brand strength and deep category expertise. My personal sense over the last one month is that we have a very solid platform to scale from.

Now I do believe that the first set of priorities will be around deepening our position in the categories that we already have presence in, even as we will continue to lead innovation in the dairy category. So to that extent, I guess my initial focus will be a little more front facing in terms of intensifying our distribution, our product availability across channels and sharply focusing our marketing efforts.

However, I must say that these are still early days for me. I am on a pretty intense learning curve here, and I look forward to sharing my thoughts about the future direction of the business in subsequent interactions with you all very soon. Thanks, and I would request Mr. Shashikant Dalmia, our CFO, to take you through the financial performance for the quarter.

Shashikant Dalmia:

Thank you. Good Evening to all.

I am happy to present before you, the financial performance for quarter ended 30th June, 2019.

- Consolidated Revenue from Operations for Q1 FY20 reported a growth of 14.6% year-on-year to Rs. 6,297 million as compared to Rs. 5,494 million in Q1 FY19. Growth was driven by an increase in revenue from Milk Products by 16% year-on-year to Rs. 4,211 million.

The share of Milk Products for Q1FY20 is 67% of total revenue, while that of liquid milk was 18% and the same for Skimmed Milk Powder was 13%.

- Gross Profit for Q1 FY20 registered a growth of 1% year-on-year to Rs. 1,684 million as compared to Rs. 1668 million in Q1 FY19.

As highlighted by Devendra Sir earlier, the compression in Gross margins were caused by slight lag effect in passing on the increased milk prices to the trade and end consumers. We expect this to stabilize from Q2FY20 onwards.

- EBITDA for Q1 FY20 stood at Rs. 569 million as compared to Rs. 596 million in Q1 FY19. EBITDA Margin for Q1 FY20 stood at 9.0% which was impacted mainly due to a decline in Gross margins
- PAT for Q1 FY20 stood at Rs. 275 million as compared to Rs. 283 million in Q1 FY19. PAT Margin were healthy at 4.4% in Q1 FY20

I would also like to take this opportunity to inform you that our rating by ICRA improved from ICRA A to ICRA A+ for Long Term Borrowings and from ICRA A2+ to ICRA A1 for Short Term Borrowings.

On the working capital side, we are largely in line with the FY19 days.

That is all from our side and now we can open the floor for Q&A. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Hi. Good evening everyone. Just wanted to understand this milk price inflation, how much is it on a Y-o-Y basis for the June quarter and what is the procurement price standing at currently?
- Shirish Upadhyay:** So in terms of Y-o-Y basis, the inflation in raw milk prices is roughly around 12% to 13% on an average basis and milk procurement prices during last quarter were in the range of roughly around Rs.28 per litre.
- Percy Panthaki:** Rs. 28 per litre, okay and do you see now that the monsoons in Maharashtra have been sort of progressing, do you see the procurement price cooling off or it still continues at that level?
- Shirish Upadhyay:** So it will definitely start cooling off. We have seen good monsoons across all parts of the country and it is definitely going to improve the production scenario. So immediately we can see some improvement in the raw milk prices and some effect will be felt after conclusion of the festival season.
- Percy Panthaki:** Right and this passing on the burden to the trade, which was delayed, so has it been passed on completely and will Q2 see the complete benefits of that or Q2 will also see only partial benefit and only Q3 will see the full benefit of sort of those reduction in trade margins to the trade partners?
- Shirish Upadhyay:** So it has been completely passed on during the quarter; however, being a consumer product company there is always a lag in terms of passing on and that is the only thing, which has been



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felt in terms of slight compression in gross margins. So going ahead, Q2 and Q3, we are quite confident in terms of recovering not just the gross margins back, but also recovering whatever we lost in Q1 as well.

Percy Panthaki: Fine and finally on Avvatar, just wanted to know what the traction is, can you share some numbers because it has been now two, three years since we have this brand, so can you share what is the kind of topline generated by the brand Avvatar?

Shirish Upadhyay: It is too small of a brand and too new for us, so it is just one year, in fact when we started branded sales under Avvatar. So it would be too premature to comment on numbers for Avvatar as of now. We will come back to you when it attains a decent size.

Percy Panthaki: Okay Sir. That is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy Services. Please go ahead.

Sudhir Bheda: Good afternoon Sir. Just I want to know your Vision 2020, if we take the lower end of your vision and Q1 performance, I believe that it is almost impossible to recoup and achieve the vision in the next three quarters. For that you have to record at least more than 40% growth in EBITDA. So I am a little bit surprised in spite of Q1 performance you have maintained your Vision 2020?

Shirish Upadhyay: Sir as we mentioned, we still stick to our Vision 2020 and in fact our topline is in trend with whatever we have provided the guidance on. In terms of EBITDA also we have achieved 9% EBITDA margin during Q1. So there is a small gap that we need to bridge, so we are confident of reaching.

Sudhir Bheda: No. Average if we want to attend 11% to 12% that is what you have said in our Vision. Even if I take 11% and the lower guidance of Rs. 2700 Crores to Rs. 2800 Crores of turnover, still you need to have like 40%, 50% kind of growth in EBITDA in next three quarters.

Shirish Upadhyay: No. That would not be necessary Sir. As I told you, there is a small gap that we need to bridge, and we are confident of bridging that in Q2 and Q3.

Sudhir Bheda: So in spite of Q1 you are still confident of achieving 2020 am I right?

Devendra Shah: Yes, absolutely.

Sudhir Bheda: And just I would like to invite your thoughts, since 2010, we are growing traditional products at the rate of 15% and new products at the rate of 26%, but since listing I am not seeing any kind of gain. So just I want your thoughts on that.

Shirish Upadhyay: So that gain, I suppose you are thinking about the increase in share price. Am I right?



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- Sudhir Bheda:** Right. So growth oriented company and you have reported a 15% CAGR in your traditional and more than 25% in your new products since your listing price, there is no gain we are seeing, so just I want your thoughts on that?
- Shirish Upadhyay:** That is function of market Sir. It is not in our hands.
- Sudhir Bheda:** Okay. So you do not like to comment on that?
- Moderator:** Sudhir, I am sorry to interrupt you, may we request you to come back in the queue for followup questions. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Hi. Good afternoon team. First question is on SMP inventory. What kind of SMP inventory are we sitting on right now and the numbers that we are seeing for the first quarter, does it see any kind of benefit of SMP pricing going up right now?
- Shashikant Dalmia:** See, the overall inventory, it is in same line of Q4. We would not be able to share a segment wise inventory of our products.
- Shirish Upadhyay:** And in terms of pricing, I do not think there will be any further increase in realization of SMP. As we were discussing we would now see some softening of milk prices and accordingly there will be some softening of prices for commodities as well going forward.
- Nitin Gosar:** Okay. So we have not sold any kind of SMP versus March, is that the reading?
- Shirish Upadhyay:** We have sold SMP - that is not the case, and it is still roughly around 13% of our portfolio in Q1 sales as well. So we have sold SMP and we will be holding some inventories to take care of the festival period.
- Nitin Gosar:** Okay. Second question is with Vector Consultant, now that we have covered whole of Mumbai, would you please highlight what kind of inventory and debtor saving we would have done of this whole exercise?
- Shirish Upadhyay:** I think this is an experiment, which we have conducted in Mumbai and it is still one or two months down the line where we will have full results available for the market. So it will be a bit premature for us to arrive at some numbers especially for this market, which is being done on experimental basis.
- Nitin Gosar:** But Sir, I believe when Vector Consultants were appointed, I think Mumbai was one of the key market that has been highlighted, that once completed, the sales through it will be extrapolated to other cities. Now that we have done with Mumbai, do you not think it is the right time for us to articulate what kind of benefits we are seeking from this exercise?

- Shirish Upadhyay:** Yes. So I think the opening statement by Chairman itself mentioned that we have seen very good results in Mumbai and we are now contemplating launching similar exercise in Delhi-NCR. So that proves the fact, only thing is there are definite improvements, which are visible, but it would be a bit premature to arrive at a specific number and that was the only point here.
- Nitin Gosar:** When should be the right time for us to again ask you this question?
- Venkat Shankar:** Maybe in two, three months down the line.
- Nitin Gosar:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.
- Bhargav Buddhadev:** Good afternoon team. In terms of quantification, is it possible to know what could be the extent of price hikes we would have taken in liquid milk and value-added products and also the frequency how many times have we taken price hikes?
- Shirish Upadhyay:** Yes. So overall, see, we have done three things, one was reduction in terms of trade discounts and schemes that we did initially and then there were two rounds of price increases that we had done into the market during this quarter. In terms of quantum, overall the price increases are in range of around 8% to 9% that we have done across categories.
- Bhargav Buddhadev:** Okay and the price increase would be on the higher side of the value-added products?
- Shirish Upadhyay:** Yes.
- Bhargav Buddhadev:** Okay and Sir in terms of the sequential, Q-o-Q, what could be the increase in milk procurement price?
- Shirish Upadhyay:** Increase in milk procurement price on an average or for the quarter?
- Bhargav Buddhadev:** Q4 and Q1.
- Shashikant Dalmia:** Yes. It would be roughly around 12%-13%.
- Bhargav Buddhadev:** In terms of balance sheet numbers, is it possible to know what could be the inventory, debtor and creditor days as on June 30, 2019 and how are they moved on a Y-o-Y basis?
- Shashikant Dalmia:** In terms of working capital days, we are in the same line of last year and in terms of the absolute number for inventory, debtors, we are almost in same line as last year.
- Bhargav Buddhadev:** Last year meaning March 2019 or June?



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- Shashikant Dalmia:** March 2019.
- Bhargav Buddhadev:** Okay March. So on a sequential basis, the working capital days are at about 68 days, is it fair to say?
- Shashikant Dalmia:** Yes. Somewhere in range of 67-68 days.
- Bhargav Buddhadev:** Okay. On this ESOP, is it possible to know how many employees would be covered under this ESOP scheme and what would be the impact on the P&L of this scheme?
- Shirish Upadhyay:** As of now, we have just proposed the policy for ESOP, which has been now recommended to AGM for its approval. So once the policy has been approved at the AGM, then we will formulate exact details and revert back to you.
- Bhargav Buddhadev:** Okay and lastly on this PSI incentive, is it possible to know what would be the amount as on June 30, 2019 outstanding?
- Shashikant Dalmia:** It is somewhere in absolute terms of Rs.52 Crores that is pending.
- Bhargav Buddhadev:** And what was it Sir as of March 2019?
- Shashikant Dalmia:** Somewhere Rs.47 Crores.
- Moderator:** Thank you. The next question is from the line of Aejas Lakhani from Edelweiss Asset Management. Please go ahead.
- Aejas Lakhani:** I wanted to check with you that in 4Q investor presentation, there was a mention that Mr. Vimal Agarwal was the CFO, so has he moved on to a different role?
- Shirish Upadhyay:** We have already informed that he has resigned and has been relieved from the services and Shashikant Dalmia has been appointed as the CFO of the company.
- Devendra Shah:** He joined another company as a CFO.
- Aejas Lakhani:** Okay Sir and Sir the Chief Commercial Officer and Chief Operating Officers who were mentioned in the 4Q presentations they still continue in their role, is that correct?
- Shirish Upadhyay:** No.
- Devendra Shah:** After the joining of Venkat, they have left.
- Aejas Lakhani:** Sir, Mr. Harshad Joshi and Mr. Amarendra Sathe as well?



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- Devendra Shah:** Yes, both.
- Aejas Lakhani:** Okay Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Hi. Sir thanks for taking my question. Sir, the Y-o-Y growth in the others segment, which you report in your results, is only 1% does it mean that the growth in Avvatar has been much lesser than expectations in this quarter?
- Shirish Upadhyay:** No. Sorry, Jasdeep, let me clarify. Avvatar gets clubbed under consumer product portfolio and some other income that we generate mainly interest and some conversion that we do so that is a different thing.
- Jasdeep Walia:** I thought health and nutrition was part of the others segment?
- Shirish Upadhyay:** No. It is part of consumer product portfolio.
- Jasdeep Walia:** Okay. Got it. Sir, what are the outstanding subsidy receivables from the Maharashtra government?
- Shashikant Dalmia:** As on June 30, 2019 total outstanding somewhere Rs. 35 Crores, but we have received Rs. 12 Crores on July 31, 2019. As of now it is Rs.25 Crores outstanding with Maharashtra government.
- Jasdeep Walia:** Got it and also could you mention the number of retail outlets you reached directly as of end of first quarter?
- Devendra Shah:** We are mapping 55,000 stores in the Mumbai and 80% we achieved.
- Jasdeep Walia:** Pardon?
- Devendra Shah:** 80% we achieved.
- Jasdeep Walia:** Sir, earlier, you used to give the direct reach for pan India...
- Shirish Upadhyay:** Yes. So Jasdeep, we informed last time it is 3.5 lakhs and we inform these figures on an annualized basis. We will update you again by end of next year.
- Jasdeep Walia:** Got it Sir. Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.



- Pritesh Chheda:** Sir, I want to know the operating cash flow generated for the first quarter?
- Shashikant Dalmia:** In absolute terms, it is somewhere Rs. 5 Crore to Rs. 6 Crores.
- Pritesh Chheda:** Which is the operating cash flow?
- Shashikant Dalmia:** Yes.
- Pritesh Chheda:** So working capital is flat and you have received some money from the subsidy also?
- Shashikant Dalmia:** Yes.
- Pritesh Chheda:** So the operating cash flow should be a higher number than the Rs. 6 Crores right because we have Rs. 57 Crores EBITDA?
- Shashikant Dalmia:** We have sales of SMP in June 2019, so that is why the number of debtors increased in June. So the accrued cash flow is invested in debtors.
- Pritesh Chheda:** But your net working capital is same, 67 days?
- Shashikant Dalmia:** Somewhere in the range of 67 to 68 days. One day's impact will be somewhere around Rs. 5 Crores to Rs. 6 Crores.
- Pritesh Chheda:** Yes. So you have Rs. 27 Crore PAT and Rs. 13 Crores depreciation that takes you to Rs. 40 Crores and your working capital, you said, is the same in days. So there is Rs.100 Crores extra revenue on which there is 68 days working capital, so there will be about Rs.18 Crores of working capital. So 40 minus 18 it should be Rs.20 Crores - Rs.25 Crores operating cash flow number.
- Shashikant Dalmia:** We have also made some repayment of bank loans as well after repayment of term loan from IFC, it is somewhere around Rs.12 Crores to Rs.13 Crores.
- Pritesh Chheda:** So what is your net debt?
- Shashikant Dalmia:** Now it is Rs. 260 Crores at gross basis and somewhere around Rs. 225 Crores on net basis.
- Pritesh Chheda:** Gross is Rs. 260 Crores and Rs. 225 Crores is net debt?
- Shashikant Dalmia:** Yes.
- Pritesh Chheda:** And on the gross margin side, I was just looking at the past years as well, so last three, four years we do not see any improvement in gross margin despite the mix change. This time also there is this price increase, which has happened in the milk side. So incrementally do we see a gross



margin change and this price increase that you have taken is sufficient enough to offset the current rise in milk price, if you could give some direction in terms of gross margin and your EBITDA margin?

Shirish Upadhyay: Yes. So Pritesh, as we were discussing earlier, we have passed on the raw milk price increase into the market and are confident of recovering and maintaining our margins on an annualized basis. We have also been discussing earlier that being dependent on agri commodities as a raw material, there are bound to be some fluctuations and therefore in our kind of business maintaining performance solidly quarter-on-quarter may not happen in a linear fashion. There may be some ups and downs, but on an annualized basis the business looks good and in line with whatever guidance that we have given.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Can you update a bit more on the Provilac acquisition?

Akshali Shah: So we are expanding the health and nutrition segment, we acquired the brand, Provilac, which has sales of approximately Rs.2 Crores. Moving forward we are trying to see how we are going to put the entire brand architecture and it is going to go into our current distribution system itself. So with one more brand we will be reaching around 3.5 lakh retail.

Aniruddha Joshi: This brand will compete with Pride of Cows, if I am correct?

Devendra Shah: No.

Akshali Shah: Provilac is nutrition brand, which is in a similar category of whey protein and/or Go Protein are the same. We are just strengthening up our entire basket by adding another product. So we have around 15 SKUs on this health and nutrition, basically the milk additive kind of a product.

Aniruddha Joshi: Provilac is a milk additive?

Akshali Shah: Yes, it is protein basically. It is milk protein.

Aniruddha Joshi: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Thanks for the opportunity. A couple of housekeeping questions. What has been our average milk procurement during first quarter of FY20?

Shashikant Dalmia: It is between 12 lakh and 12.5 lakh liters per day on an average in Q1 FY20.



- Shailesh Kumar:** And what is the cash position as on June 30, 2019, cash on books?
- Shashikant Dalmia:** It is around Rs.25 Crores to Rs.26 Crores.
- Shailesh Kumar:** Rs.25 Crores to Rs.26 Crores?
- Shashikant Dalmia:** Yes.
- Shailesh Kumar:** And I have seen some movement in other expenses. Q-o-Q basis is down drastically, so if you could elaborate further?
- Shashikant Dalmia:** If you compare number with Q4, we had a one-off item, which is not going to continue and we have incurred lower expenses on marketing and branding side in Q1.
- Shailesh Kumar:** What was the quantum of exceptional item in Q4 FY19?
- Shashikant Dalmia:** It is in range of Rs.7 Crores to Rs.8 Crores.
- Shailesh Kumar:** And this was towards?
- Shashikant Dalmia:** GST write-off.
- Shailesh Kumar:** And what has been the change in marketing expenses?
- Shashikant Dalmia:** See, we have festival season, which starts from second quarter and third quarter. So we have higher side expenses on marketing and branding.
- Akshali Shah:** So most of our marketing expenses really happen during the festive season, now that Shravan has started and Diwali period is approaching that is when we really spend a lot of our marketing initiatives.
- Shailesh Kumar:** I will really appreciate if you could just tell me the number what was it in Q4 FY19 and what is there in Q1 FY20 it will help me understand better?
- Shirish Upadhyay:** Yes. So that we will inform, but I think what you are trying to point here is what would be the normalized range of other expenses as a percentage of sales and I think on a normalized basis that would range somewhere around 14% to 15% of topline.
- Shailesh Kumar:** Okay. Thanks.
- Moderator:** Thank you. The next question is from the line of Amarjeet Maurya from Angel Broking. Please go ahead.



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- Amarjeet Maurya:** Hello Sir. Sir, just wanted revenue growth for FY19 as well as first quarter FY20 for segment such as ghee, cheese, paneer, butter, curd and whey protein if possible?
- Shirish Upadhyay:** Sir, I am sorry, but we do not provide product wise figures, so we would not be able to do that.
- Amarjeet S. Maurya:** So, okay, no problem. So can you provide what is the market share of cheese in retail segment currently in India?
- Shirish Upadhyay:** Our overall market share is 34%.
- Amarjeet S. Maurya:** 34% in cheese?
- Shirish Upadhyay:** Yes.
- Amarjeet S. Maurya:** And what is the market size?
- Shirish Upadhyay:** Market size?
- Amarjeet S. Maurya:** Yes.
- Shirish Upadhyay:** Another big player is Amul, which has around 41%, 42% market share and remaining all are smaller players. That is how the market is spread.
- Amarjeet S. Maurya:** No, just wanted to understand that in terms of numbers, you see the market size?
- Shashikant Dalmia:** Yes. That we will update you definitely.
- Amarjeet S. Maurya:** Okay and Sir just wanted to know recently you launched one product in Singapore. So what was the reason behind that and are you not seeing any further opportunities in India or something like you wanted to expand in the international business or how much you are expecting of volume in terms of revenue in Singapore, like what is your strategy behind that because I believe India has a lot of untapped market?
- Devendra Shah:** Yes. India has a lot of untapped market, but for us this is a niche type of the product. After Mumbai, Pune and Surat, we launched in the Delhi market and we had a good experience of the supply chain. We have successful partnered with the airlines and Singapore is definitely the nearest market and is a good hub to expand into as I mentioned in my speech also. There is a lot of milk deficiency over there and all the milk comes from New Zealand and Australia. We are very confident to be successful in this market. Once we succeed in Singapore there are about 40 metros in the country and nearby the country where there is a good opportunity for Pride of Cows brand as you know we have a farm-to-home concept. The brand and the farm is growing significantly and we will continuously expand domestically and internationally.



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- Moderator:** Thank you. The next question is from the line of Rishabh Bothra from Sharekhan Limited. Please go ahead.
- Rishabh Bothra:** Sir, continuing on the same question, what is the quantum you want to scale up to in terms of the Pride of Cows international business and how is the cost or profit metrics, as of now are we losing out money because it is in the initial phase?
- Devendra Shah:** No, we are selling at par with our Indian price and we add the extra logistics cost to it.
- Akshali Shah:** In the next five years, we see ourselves supplying to 40 odd cities in India and moving forward even the neighboring countries like Dubai, Hong Kong, and Singapore is something that we are trying to explore. The profit margins are more or less the same because we are passing the air cargo services or whatever charges that is there are to the end user. So it is similar to what it is right now and it will be similar moving forward.
- Rishabh Bothra:** I understand 40 metros, but can you quantify the quantum, which we can be selling in these markets, what we are selling now and what we will be selling let us say three years, five years down the line in these 40 metros?
- Shirish Upadhyay:** Yes. So we have already informed in the presentation that we are looking at doubling the Pride of Cows business over the next two years.
- Rishabh Bothra:** Okay and secondly on the distribution side, we are expanding aggressively on the distribution network in the northern and eastern geographies. So when can we see the benefits reaping out on these distribution investments, which we are making at this stage?
- Shirish Upadhyay:** It will take some time. So hopefully next two, three years, we will start seeing some good results from those areas as well.
- Rishabh Bothra:** So margin expansion would be in the range of, what is the target margin expansion?
- Devendra Shah:** So we have provided our guidance till FY2020. As of now we will stick to that guidance and we will come out with new guidance later on.
- Moderator:** Thank you. The next question is from the line of Nikhil Parekh from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir, this is Kaushal from Dhanki. Sir, if you can share your thoughts on Bhagyaxmi, I believe the performance there in the last current quarter and even in the March quarter has been a little weaker than before, so your thoughts on that and also some thoughts on the northern market where, I think, for roughly a year now we have had operations. So how has that particular Sonipat plant scaled up?



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- Shirish Upadhyay:** Yes. So Sonipat plant has scaled up quite well. We are roughly at around 65% of utilization in that facility. By end of this financial year, we would be exiting somewhere around Rs. 100 Crores kind of revenue from that plant. So it is doing quite well for us. In terms of Bhagyalaxmi, as Mr. Devendra Shah explained in his briefing earlier, there had been significant increase in cost of feed and while we have paid increased prices to farmers, at the same time we have borne in our farm as well and we had to pay higher prices for the feeds, that has led to some deterioration in margins there as well.
- Kaushal Shah:** We are expecting a recovery as the festive season starts and the milk production increases, also our procurement prices reduce?
- Shirish Upadhyay:** Yes, definitely.
- Kaushal Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.
- Akshay Bhor:** Thank you. A couple of clarifications from earlier participant questions. First is the quarter-on-quarter increase in Q1 for milk price was about 12% to 13%, is that right and just wanted to understand from Q1 to Q2 what kind of milk inflation or deflation do you expect?
- Shirish Upadhyay:** Yes. So, Akshay, as we were just discussing, the quarter-on-quarter increase in terms of milk pricing was in the range of around 12%, so that was the kind of increase that was for the average Q1 as compared to Q4. However, during peak, the increase was somewhere around 20%, that was for a few days.
- Akshay Bhor:** Understood and now on a sequential basis what is your expectation, will it be a sequential increase as well?
- Shirish Upadhyay:** No. We do not expect any further increase in milk prices as of now because now we have got ample quantity of rain all across and we see production improving further. There are chances of prices softening a little bit now and little bit maybe post festival season.
- Akshay Bhor:** Understood. Just wanted to clarify on that operating cash flow math, but before that borrowings for the quarter because I think last quarter you ended up with Rs. 213 Crores of gross debt, what is the number for this quarter?
- Shashikant Dalmia:** On a gross basis it is Rs. 260 Crores.
- Akshay Bhor:** The gross debt has gone up sequentially is what you are saying?
- Shashikant Dalmia:** No. In last quarter if you look at the number for year-end then it was somewhere Rs. 260 Crores.



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- Akshay Bhor:** It is flattish you are saying on a sequential basis. Understood, but then you said that you also paid down some debt at the end of quarter?
- Shashikant Dalmia:** Yes. We have paid some term loan installment in this quarter, Q1, which is roughly Rs. 8 Crores to Rs. 9 Crores.
- Akshay Bhor:** So Rs. 8 Crore to Rs. 9 Crore debt you repaid.
- Shashikant Dalmia:** And there is some increase in the working capital utilization because our subsidy payment is stuck with the government, so there is some increase in working capital utilization in this quarter.
- Akshay Bhor:** Understood. Net operating cash flow is Rs.6 Crores?
- Shashikant Dalmia:** Yes.
- Akshay Bhor:** Understood. Okay. Thanks. That is very helpful.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Sir, just if you can little bit clarify on this Mr. Sathe leaving and Mr. Vimal Agarwal leaving in July because they just joined I think sometime back and I think Mr. Shirish Upadhyay is supposed to join since July?
- Akshali Shah:** Yes. Shirish Upadhyay has already joined us and he is also on the call right now. Mr. Vimal actually got a very good opportunity somewhere else, so he has moved on to a much larger organization. Talking about Amarendra Sathe due to some personal issues he had to leave.
- Sunil Kothari:** Okay and my second question is I think last quarter we explained on call that we have written off some Rs.16 Crores one-off item and just now Mr. Shashikant has told it was Rs. 8 Crores, Rs. 9 Crores, so if you can clarify what was the amount last quarter we have written off I think it was related to some receivable and something related to inventory, so please, if you can clarify on this?
- Shashikant Dalmia:** If you look at the one-off item number, in totality, it was somewhere around Rs.16 Crores and it was due to two items; one is PSI GST write-off and the other one is related to receivables.
- Sunil Kothari:** And Shashikant, can you throw some light on this receivable from the government, which is not happening, and I think we have given advances to farmers, so on this amount, any comments from your side?
- Shashikant Dalmia:** Yes. We have outstanding receivable of milk subsidy from government, somewhere it is Rs.25 Crores, which is pertaining to March and April. Farmer advances are in line with last year



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because there is a reduction in milk production, so we have given more advances to farmers, but it is in same line with last year.

Sunil Kothari: Are you receiving from farmers now?

Shashikant Dalmia: Yes. We are deducting the same from the milk supplies that we get from farmers.

Sunil Kothari: And if you can provide us volume growth in this quarter?

Shirish Upadhyay: Our volume growth is roughly around 9% to 10% during this quarter.

Sunil Kothari: Thank you Sir. Thank you very much.

Moderator: Thank you. Ladies & Gentlemen due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

Natasha Kedia: I would like to thank all the participants for taking the time out to join us. Please feel free to get in touch with me or our investor deck for any further questions. Our coordinates are provided at the end of our Q1 FY20 Investor Presentation, which you can find either on our company website or on both the stock exchanges. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Parag Milk Foods Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.