



July 26, 2025

Compliance Department, BSE Limited Phiroze Jeejeebhoy Tower, Dalal Street, Fort, Mumbai - 400 001	Compliance Department, National Stock Exchange of India Ltd. Exchange Plaza, Plot No. C/1, G-Block, Bandra Kurla Complex Bandra - (E), Mumbai - 400 051
Scrip Code:- 539889	NSE Symbol:- PARAGMILK

Dear Sir / Madam,

Sub: Transcript of earnings conference call under Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

In continuation to our letter dated July 17, 2025 and pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the earnings conference call held on Tuesday, July 22, 2025 for discussion on the financial and operational performance for quarter ended June 30, 2025.

The aforementioned transcript has been uploaded on the Company's website www.paragmilkfoods.com.

You are requested to kindly take the same on records.

Thanking you.

For **Parag Milk Foods Limited**

Virendra Varma
Company Secretary &
Compliance Officer
FCS No: 10520

Parag Milk Foods Ltd.,

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“Parag Milk Foods Limited
Q1FY26 Earnings Conference Call”
July 22, 2025



MANAGEMENT:

MS. AKSHALI SHAH – EXECUTIVE DIRECTOR – PARAG MILK FOODS LIMITED

MR. RAHUL KUMAR SRIVASTAVA – CHIEF OPERATING OFFICER – PARAG MILK FOODS LIMITED

MR. ANKIT JAIN – CHIEF STRATEGY OFFICER– PARAG MILK FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Parag Milk Foods Limited Q1 FY26 Earnings Conference call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Brian D'Penha, Head of Investor Relations, Parag Milk Foods Limited. Thank you and over to you, sir.

Brian D'Penha: Thank you. Good day and good evening to everyone who have joined this call from various geographies and all those who joined us from Mumbai. We have with us today from the Management, Ms. Akshali Shah, our Executive Director, Mr. Rahul Kumar Srivastava, our COO, Mr. Ankit Jain, who is the Chief Strategy Officer and myself Brian D'Penha, Head of Investor Relations.

I would now like to hand over the mic to our Executive Director, Ms. Akshali Shah to take this forward.

Akshali Shah: Good evening everyone. It's a pleasure to welcome you all to the Q1 FY26 earnings call for Parag Milk Foods Limited. I hope you and your families are doing well. We are delighted to share that Q1 FY26 has set a strong and promising tone for the year ahead. We delivered our highest ever first quarter revenue of INR 852 crores, reflecting a 12% Y-o-Y growth backed by consistent execution of our focus strategic priority.

This growth was driven by robust volume expansion across our core categories that is cheese, ghee and paneer, which grew by 9% in volume and 14% in value. These categories now contribute to 57% of our total revenue, affirming their strength in our portfolio. We continue to retain leadership position with Gowardhan ghee commanding 22% market share in branded cow-ghee segment and Go cheese holds 35% market share in the cheese category.

We have witnessed a strong operational execution despite of challenging macro factors. Average milk price increased by 18% Y-o-Y to INR 37 per litre, yet we were able to sustain margins and deliver 6% EBITDA growth. With a margin of 7.7%, our average milk procurement has now reached to 16.5 lakh litres per day, marking a 10% increase over the last quarter.

This demonstrates the strength of our procurement network and our deep connect with the farmer community. Our gross profit margins improved sequentially from 25.1% in Q4 FY25 to 27.4% in Q1 FY26. This was aided by improvement in product mix and the ability of our premium branding to command pricing power.

The standout of this quarter is contribution of our new age business. So the quarter, the new age business now contributes to around 9% of our total revenue over last year which was 6%. Both the brands Avvatar and Pride of Cows have exhibited robust growth of 57% Y-o-Y, reinforcing the consumer demand for good quality products.

Parag Milk Foods steadily evolved from a dairy led enterprise into a diverse FMCG company and now we are heading towards health and nutrition segment. This move was driven by our foresight into India's shifting dietary patterns with protein becoming a key component in everyday nutrition.

The Indian sports nutrition Whey protein market is expanding. Currently it's valued at INR 1,600 crores and it's growing by 30% CAGR. Despite being cluttered with international brands, the market still lacks transparency and localized innovation. This is where Avvatar India, our home grown 100% vegetarian farm to shaker whey protein brand has carved its niche.

The milk is directly sourced by us and processed at our state of art integrated facility. Avvatar brings unmatched quality and traceability. In just a few years, Avvatar has scaled eight times over the last three Q1s, establishing itself as one of the top players in the Indian sports nutrition space.

With a robust 360 degree marketing engine and a modern multi-channel distribution strategy, we are present across from our own website, quick commerce, e-commerce, organized trades. Avvatar is gaining a rapid consumer trust and innovations like protein wafer bar is expanding our footprints into functional snacking, providing the brand's adaptability. As Parag Milk Foods continues to strengthen the presence in nutrition, Avvatar stands as a shining example of how we can lead India's protein revolution and unlock the significant future growth.

Our second business in the new age business that is Pride of Cows has reported a 36% value growth driven by new product launches such as Greek yogurt with eight grams of protein and low fat high protein paneer and deeper penetration through quick commerce platform.

Pride of Cows launched a destructive brand campaign titled as 'what is the source?' to spark a critical conversation around the origin and authenticity of everyday products, especially milk. The campaign aims to educate consumers on the importance of choosing safe, clean and traceability source, highlighting our single origin farm-owned model as a mark of purity and trust.

To amplify the message, we adopted a 360 degree integrated marketing approach. Print media, where we took over the front page of Times of India, key city supplements such as Bombay Times, Delhi Times and Bangalore Times and even regional dailies like Sandesh and Gujarat Samachar.

Digital campaigns engaging diverse and credible influencers across the industry like fashion, sports, journalism who resonate with the theme of what is the source. So when it comes to news and you check the source, so we got Faye D'Souza who is an award-winning journalist, a popular cricket commenter Jatin Sapru, Founder of Curly Tales Kamiya Jani and influential podcaster and entrepreneur Raj Shamani.

This campaign not only strengthened our brand recall and the trust, but also reinforced Pride of Cows' unique positioning as premium single origin dairy brand in highly common market. Our

other brand building initiatives remain robust and sharply focused through a 360 degree marketing approach.

We engaged with diverse consumer segments via traditional media or digital campaigns and influencer collaborations. Just to highlight a few, we were present on the Zee Cine Awards and we also did an integration with Maharashtra Hasyajatra.

As we approach the festive season, we are well prepared with a diverse portfolio of value-added products including ghee, now forayed into traditional sweets, cheese to meet the seasonal demand. Our vision remains clear to transit from a dairy company into holistic FMCG and now into health and nutrition. With a strong foundation in place, we are confident of sustained profitable growth while continue to deliver value of our stakeholders and nourishing life across India and beyond.

Thank you so much for your continued trust and support. Over to Brian to take this forward.

Brian D'Penha: Thanks Akshali. We'll just wait for a couple of few seconds for the questions queue to line up.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question comes from the line of Param Vora from Trinetra Asset Managers. Please go ahead.

Param Vora: Hi, good evening. Thank you for the opportunity. What I would like to ask is can you elaborate on your Whey protein and sports nutrition strategy? So are you planning any international partnerships or D2C brand expansions in this space?

Akshali Shah: Sorry, your voice was a little foggy. Can you repeat the question?

Param Vora: Okay, am I audible right now?

Akshali Shah: Yes, it's better.

Param Vora: Okay, so what I wanted to ask you is can you elaborate on your Whey protein and sports nutrition strategy? So are you planning any international partnerships or D2C brand expansions in this space?

Akshali Shah: Hi, Param. So if you know our Whey protein is probably one of the fastest growing category that we have and we in fact have tailor made and created a Whey protein which is Avvatar and did a lot of research for almost five to six years on developing a product and we did a collab with an international scientist to get us the right product formula.

Going forward, we are now forayed into a protein snack functional category where we have launched Whey protein bar and we're soon going to expand into products which are similar to that. We'll have newer flavors and into a snacking category of protein. So that's the plan for Whey protein moving forward.

We're already a B2C brand because 75% to 80% of our protein business comes from our website and Quickcom and Ecom websites and 20% of it comes from the traditional platform.

Param Vora:

Okay, understood and what I wanted to ask was are you planning any international partnerships with other brands so that you can you know maximize your reach and increase your exports?

Ankit Jain:

So as of now this brand is catered to -- hi this is Ankit here, I'm just adding this. This brand is catering to Indian markets only. We know India being a protein deficient market. So we worked upon it as Akshali mentioned in her opening remarks. We have worked consciously to solve the problem for the protein deficiency for the country in India itself the Whey protein is imported. Most of it is an imported one and that is where the problem lied where you didn't know the source. There was a lot of adulteration in the market and from all considering all this problem I think the solution came out was Avvatar and this is what you see as Avvatar now.

Akshali Shah:

Just to add to that Param that we are the pioneers and the only Whey protein manufacturers of sports nutrition in India. So from scratch, from sourcing of milk to making cheese and drying of protein everything is done at our facility and which we say that we do not need any international collaboration to take this forward because we have everything in house.

Plus you are talking about exports, the Indian market is growing at almost 30%, 35% CAGR and we see a great potential here in India. So we continue to grow this brand in India itself.

Param Vora:

Okay, understood. Thank you.

Moderator:

Our next question comes from the line of Kiran D from Table Tree Capital. Please go ahead.

Kiran D:

Hi, thank you so much for the opportunity. I have two clarifying questions.

Moderator:

Kiran sir, sorry to interrupt. You are sounding very low. If you can just increase the volume or if you can use the handset please.

Kiran D:

Okay, perfect. I had two clarifying questions. So just on core categories, we are at INR487 crores this quarter. I don't have an equivalent number of Q1 FY25 because the company's presentation didn't have it. But if I look at Q3 onwards from where you started reporting core category, liquid milk and all that stuff.

So core categories was a INR530 crores revenue business. Now in Q1 it is INR487 crores. I am sure we have taken pricing actions, we have increased distribution, we have increased advertising. So what amount of seasonality should we kind of consider because this is actually degrown like INR530 crores in Q3 to INR487 crores in Q1?

Ankit Jain:

Yes, I would like to clarify.

Akshali Shah:

Can you see this slide number? I don't know if you have the presentation open. We have this Slide Number 8 where we have given you the previous year breakup as well of core categories.

Ankit Jain:

I would like to clarify here. Till last year we were reporting value-added products which was an addition of overall portfolio. So we have classified core categories as ghee, cheese, paneer separately. And we have given the breakup for all the last Q1s for the past four quarter ones. And similarly for the last five years in the similar slide in the investor presentation itself.

So overall 56% was the composition of the overall turnover for core categories last year Q1 which is up 14% and hence the turnover composition now is 57%. We have mentioned the growth as well. It is 14% growth, value growth over the previous year.

Kiran D:

Got it. So there is immense amount of seasonality, sir. So that is the point I wanted to understand. Is it Q3, Q4 highest in core categories and Q1, Q2 is lower?

Ankit Jain:

Q3, Q4. See overall we cannot compare. You are looking at season of course. During festive, during winter, there is definitely a product mix which plays. But core categories is something which has been at 57% for the year as a whole last year also. So the core remains core. It has remained at 57% of last year versus same as current year Q1 FY26.

Kiran D:

Got it. That is helpful, sir. So my second clarifying question, you have had good growth in new age business. My only request is at least if you could give us a percentage split between avatar and non-Avvatar. Again, I am not looking for Pride of Cows and other new age business products. But just Avvatar because there is an immense focus on Avvatar just like you gave it in the initial commentary and the last question as well. Immense focus on Avvatar.

What is the percentage, should we assume a 50-50 percentage split between Avvatar and non-Avvatar within the new age business? Is that a fair assumption?

Ankit Jain:

I am sorry. I would like to differ over here. See the way we gave our core categories where we combined ghee, cheese and paneer, same way we have created a new age business which is right now Avvatar and Pride of Cows and tomorrow there could be addition to this business stream.

So we are focusing new age business. It is a strong premium business. Both are on high gross margin EBITDA margin and hence we have combined this category which we are focusing as a new age business which is more of a premium business. So we are not giving a split between the revenue for the both. However, we have given the growth numbers. Avvatar has grown 8x over the past three quarters, past 3 Q1s if you look at and Pride of Cows has grown 36% Y-o-Y.

Kiran D:

Sure sir. Okay. Thank you so much.

Ankit Jain:

Yes, we just wanted to clarify. We are focusing on both. So there is an equal focus on both and hence we do not get into splitting the numbers and in fact there will be additional premium products which are going to come and which will get into this new age business as we move along.

Kiran D:

Yes, so the only reason sir, again just to clarify my question. The Whey protein business or the protein business per se, there are many private players who are getting a lot of good valuations.

So our business, given the market cap and where it is, it would be really helpful, again something for the management to think about.

If you could split Avvatar and non-Avvatar. Again, I am not asking for Pride of Cows and other premium category business splits. But Avvatar and non-Avvatar would give a very helpful insight to the investors as well in terms of where are, how are Avvatar businesses growing and what kind of valuation can be ascribed to this Avvatar business?

Ankit Jain: See, again as I mentioned, we are not looking at one brand, Avvatar and Pride of Cows. Both are core to the heart or close to the heart. So both these brands are growing phenomenally and hence you see an overall evolution in the percentage contribution. However, we have given you an indication we have given the growth numbers in terms of how both brands are performing. And overall new age business has grown 57% Y-o-Y. Again, that combined number has also been provided. So I hope that suffices.

Kiran D: Got it. Okay. All the best. Thank you so much.

Moderator: Thank you. Our next question comes from the line of Resham Mehta from Green Edge Wealth. Please go ahead.

Resham Mehta: Yes, thank you for the opportunity. So the first question is if you could just talk about the unit economics of the cow from your BhagyaLakshmi Farm. Typically, let's say what would be the per cow cost, at the time of purchase what would be the lifetime value of the cow, like how many, what would be the yield, potential revenues over the lifetime of the cow?

What is the typical lifetime of the cow? And then typically, then what is the residual value of the cow? And a related question would be that on your balance sheet, there are biological assets. So how exactly is the accounting treatment for that?

Rahul Kumar Srivastava: Good evening. As far as cow is concerned, we don't buy any cows. It's our own generation, since last 15 years. So we don't have to buy any cows. We have about 4,500 cows and then with the natural birth and all, then we are adding our stocks. So just to clarify that there is no buying of the cows in our system. As far as accounting is concerned, I think Ankit can elaborate.

Akshali Shah: Yes, so I think the question was on the yield and the cycle.

Rahul Kumar Srivastava: Yes. So we have our own specific needs. So one is that very important for getting the yield. And second is the feeding. So feeding, for feeding we have our own crops, which are converting to silage, which gives a better quality of milk with a better yield per cow. So just to give you the indication that if you the same cow it is in with the farmers, they give out 8 to 10 litres of milk, but in our farm, the average yield goes to 26 litres.

So almost three times. So that is that is one with a better protein and fat content. So this is also result of the better feed and management. And as a cycle, the cow can give birth for 8 to 10 times in the life cycle. It can go up to 14 also, but average 8 to 10 times. So after that the cow becomes dry.

- Ankit Jain:** So I'll answer the question on the accounting treatment. Resham, right? So hi, Resham. So the accounting is done as per Ind AS 41. So as per Ind AS 41, all the biological assets are measured at, of course, the initial recognition is done at a fair value, less cost to sell. So there is a separate accounting standard which applies to it. And as on the balance sheet date of March 25, the overall cow valuation was INR 87.6 crores in the balance sheet.
- Resham Mehta:** So, just trying to understand that, what would be like the potential revenue from the cow over its lifetime and what would be the cost that you would kind of incur from a feed and maintenance standpoint? And also at the end of the life cycle, you'll sell the cows and if yes, like typically, what is the value that one cow yields?
- Ankit Jain:** 10 to 12 times, there is a cycle which runs for a cow. Typically, what happens is we have the cows for 5 to 7 cycles and then we sell the cow. So the cow is generally sold to our farmer connects because we have a strong farmer connect. So we sell it to the farmers.
- Akshali Shah:** So even the next generation for them and the yield that they achieve from that is far superior because these are our farmers which we have from our connect. And eventually, perhaps, benefits out of this.
- Resham Mehta:** And what is the value that you know, at the end of the cycle that the cow yields like one cow on an average?
- Ankit Jain:** See, again, because the cow has a life cycle, the assets is valued considering the revenue potential, etc. But however when we sell in the market, because all the cycle, all the milking cycles are not exhausted. So typically, it ranges. Of course, we can sell between 1 lakh to 1.5 lakhs after the 5 to 7 cycles.
- Resham Mehta:** And then what does that reflect in your other income?
- Ankit Jain:** Yes, it is -- if there is a profit on sale, then it, of course, reflects in other income or if there is a loss on sale, it gets part of the other expense.
- Resham Mehta:** And typically, your other income in the past few years has been in that range of INR30 crores, INR40 crores. So that is in lieu of this sale of cows or is there some other element to it?
- Ankit Jain:** No, there will be other elements to it as well. Because typically, the cow valuation, for example, I'll take a last year example. Last year, total cow valuation was about INR 13 odd crores for the year as a whole.
- Resham Mehta:** Okay. And would it be possible to give some rough sense of your cheese revenue between B2B and B2C?
- Ankit Jain:** See, cheese as a business, we have not given a specific split. Our core category comprises 57%. However, we have given a separate split in terms of the B2B and B2C business of the overall business as a whole, whereby 65% is the B2C business and almost 35% of the business is the B2B business.

- Resham Mehta:** But would it be fair to say that B2B cheese would be like 70% or thereabouts or perhaps more or less?
- Ankit Jain:** We would not like to share those specific details.
- Resham Mehta:** No problem. And lastly, you know, on the...
- Moderator:** Resham ma'am may we request you to return to the question queue for follow-up questions, please? As there are several other participants waiting for their turn.
- Resham Mehta:** Sure, thank you.
- Moderator:** Thank you. Our next question comes from the line of Bharat Gupta from Fair Value Capital. Please go ahead.
- Bharat Gupta:** Hi, sorry to correct. It's Bharat Gupta from Fair Value Capital. A couple of questions from my side. So first, can you provide some breakup of revenues in terms of the regional split like what will be the contribution coming in from the North, South, East and West?
- Akshali Shah:** So to give you a regional break-up will be very difficult because we have around five to six route-to-markets which are indifferent in nature. So to tell you specifically from how much of it is coming from which region would be very difficult to give this break-up. And plus, it's very different for each business category versus if you check the new-age business versus your fresh milk, which is very South and West-centric to Gowardhan and Go cheese, which are very, very different in nature. So we do not share break-up of region-wise.
- Bharat Gupta:** But any market share which you can highlight with respect to any of the territories which you are catering to?
- Akshali Shah:** We've already shared that we have around 22% market share in the branded cow-ghee segment and 35% market share in cheese.
- Bharat Gupta:** That is, I think, on the pan-India basis. But with respect to Western market or with respect to Northern, so what will be the contribution from the core categories, I'm just asking with respect to the market share?
- Ankit Jain:** With respect to the market share?
- Bharat Gupta:** Right.
- Ankit Jain:** See market share with respect to core category, we have given, of course, we subscribe for the core category as market share only and thereby while we have a full dairy report from IMARC, but we report branded cow-ghee segment separately for the flagship brand Gowardhan for our ghee product and for cheese also we report 35% market share based on the IMARC report. I think that report will be available, maybe you can source it from IMARC, definitely.

Bharat Gupta:

Secondly, with respect to the RM prices, I think the milk prices have gone up by odd 18%, as you mentioned in your press release. So what kind of pricing hikes have we already taken? And going forward how do you see the RM prices trend to play out in the foreseeable future, given out a strong monsoon season this time?

Ankit Jain:

See, while as you rightly pointed out, there is a 18% Y-o-Y increase in the RM prices. And so with this commodity push, we have been able to maintain the gross margins, which is almost at flat Y-o-Y. This only demonstrates, of course, there are two parameters about it. Of course, our ability to command pricing power in the market and pass on the price increase as well as the product mix, which has improved and we have been able to balance with the gross margin.

So I think both these parameters have worked together to help us maintain our gross margins. Versus sequentially, while the milk prices are 2% up sequentially, but we have been able to improve our gross margin largely due to product mix.

Bharat Gupta:

And any further hike which you are taking?

Moderator:

I am sorry to interrupt sir. Maybe request you to return to the question queue for follow up question, please.

Bharat Gupta:

Sure.

Moderator:

Our next question comes from the line of Ankush Agarwal from Surge Capital. Please go ahead.

Ankush Agarwal:

Hi, thank you for taking my question. So my first question is about gross margins. So if I look at your listed peers, most of the dairy companies have a gross margin anywhere between 25% to 30%, like high 20s. Whereas we if we look at us, our product mix is mostly on the value added wherein 75% of businesses value add versus 25% being liquid milk or bulk S&P, but still our gross margins are in the similar range of high 20s.

So I'm just trying to understand why so, because our value added is like 75% versus 25% for other peers?

Ankit Jain:

So, see, while you are comparing versus the listed players, please note that the listed players, there is no direct comparison because most of the listed players are region based players. And they are largely selling milk and curd that to specific geographies, limited geographies as well as largely into ice creams.

So if we were to see, there's no direct competition when it comes to ghee or a cheese or the Whey protein kind of products. While your observation is looking at all the financials, but please understand that when we have a Pan India network for these kind of products, there is an investment behind each of the brand, which goes which is the pricing, which is about the margin to operate at, so that we can penetrate into the category.

It could be even if you can take example of Avvatar. We have been able to grow phenomenally well, we have been able to price it right, because there is a competition across that category as

well. So we have invested that and more so as an investment, you can say, a market penetration strategy to have it.

So we have been able to maintain certain gross margins. Typically, our gross margin profiles have improved over the past three years that you would have seen. And naturally, the natural progression will be to further increase as we move forward. So we look forward to increase as the product portfolio expands for the newer business. But there is no direct comparison. That's what I wanted to highlight.

Ankush Agarwal:

No, I get it. I think the comparison was because our working capital cycle is very different from our peers, which is understandable because we have a much higher value added share. But at the same time, the gross margin is not compensated in terms of higher gross margins. Then obviously the ROC either way is much lower. But I got your point.

The second question was around debt and the interest cost. If I see last two years, our debt is fairly stable at around INR 600 crores, but our interest cost on the P&L has gone up from say about INR 55 crores to almost INR 90 crores. So I'm trying to understand why that is happening?

Ankit Jain:

Sorry, sorry, your question, I could not follow your question.

Ankush Agarwal:

So your debt over the last two years is broadly stable at around INR 600 odd crores. But the interest cost on the P&L has jumped from INR 55 crores in FY23 to INR 93 crores in FY25. So even though the debt is not increasing, but the interest cost has almost doubled. So you can explain why is it happening?

Ankit Jain:

Yes, I'll explain that. But continuing to the previous question, which is more about see we are a brand which is a national play. And we are able to set up that distribution network, Pan India. So that is where it is not direct comparable. Now coming to your question on the interest cost, see overall our net debt is INR 560 crores, which is broadly flat across both the years. And gross debt has marginally increased if you look at.

So that is why your interest cost sits in the interest line item. And there is a other income on the fixed deposit or the investments goes in the other income part. Having said that, there is an additional interest which is being seen because of the multiple assets on lease. And as per ROU accounting, the interest cost on the lease also resides in the interest cost, which over the past two years we have invested and got into the operating lease aspects.

So hence you can see as per the schedules also of the interest cost that largely it has increased in the ROU part.

Ankush Agarwal:

The ROUs are fairly small for us. I think, I don't have the FY25 schedule, but FY24 the increase in interest cost is primarily because of other interest expense, which I want to understand what it is?

Ankit Jain:

See other interest expenses are largely related to the bank charges, the lead bank charges, any discounting which happens with respect to the receivables. These are all miscellaneous financing

related transaction whereby, for example, if a receivable is 90 day, we can discount it and we can get it in advance. So these are charges pertaining to that only.

Ankush Agarwal:

Okay, fine. Thank you.

Moderator:

Thank you. Our next question comes from the line of Siddharth Vaid Please go ahead.

Siddharth Vaid:

Good evening. Just wanted to know on a Y-o-Y basis, there was a marginal decline in the EBITDA percentage due to a higher advertisement and promotion spending. So how are you viewing the return on investment on these trends?

Ankit Jain:

See, first of all, your observation is right. There is a marginal decline and there is a higher Ad pro, which we have specifically called out as per our investor presentation. How do we look at is more of a return on the Adpro is more on the long term. So we continue to focus on brand building initiatives. That's why we are present across and we are focusing on consumer cheese.

We are focusing on Avvatar for all the digital campaigns. There are several campaigns on Pride of Cows. All these get reflected in the of course, the overall revenue growth. And that's where you see the portion on the skimmed milk powder or the ingredient business has declined. But however the other core categories as well as the new age business has done phenomenally well.

And we are happy to invest behind the brands and we will stay put on to the strategy for investing into the brand. However, we understand and we will be able to we will manage it within a certain threshold. We are not here to go overboard on the expense. And there is a certain plus or minus in particular quarters. That is what we overall manage.

But besides the brand investments, if you look at the gross margins are flat, mainly because of the product mix as well as because of the pricing, which we have been able to pass on to the consumers.

Siddharth Vaid:

Makes sense. I hope you guys have a good day. Thank you.

Moderator:

Thank you. Our next question comes from the line of Yash Sinha with MIPL Family Office. Please go ahead.

Yash Sinha:

I wanted to broadly understand the variation in gross margin between the core categories. So your core products, your new age products, skimmed milk, etc. Just to kind of understand the movement quarter-on-quarter in your margins?

Ankit Jain: Yes, Yash, I'm sure you will appreciate that the category wise gross margins are core part of the business to operate for the company. And it is maintained at the company level. Even if you were to look at the peers or benchmark, whether Nestle or Marico, you will not be able to get the gross margin at a category level because it is generally the price sensitive information. and of course the company's confidential information. And hence, we would like to abstain from sharing.

Yash Sinha:

Okay, that's fair. But would it be a fair assumption to make that given that your value added products have grown about 50% year-on-year, would your margins have either stagnated or declined marginally, that those entities are currently more of a drag on your margins and the profitability is yet to come?

Ankit Jain:

So there are two aspects. I'll help you understand. One, the core categories have not grown 50%. They have grown 14% year-on-year for the quarter 1. While new age business has grown 57%. And hence that has of course contributed to the overall gross margin. But having said that in core categories, when there is a commodity push you will be able to appreciate that whenever you pass on certain cost push and whenever, if you are trying to pass on the same quantity, in the value terms on a per litre or per kg basis on the same thing, then because of the fraction, the overall percentage margin comes down always in an inflation cycle because you tend to pass on only the relative cost push, protecting your absolutes.

So I think that is why you look at, there is the percentage margin drops. But however, with the improved profitable mix, I think we have been able to maintain our overall profit margins. And that's why you see the P&L where it is.

Yash Sinha:

Got it. And last question is, across our categories, would you be able to share what volume we've been able to do through slightly newer age e-commerce channels like Quick Commerce?

Ankit Jain:

While we have not given the volumes at a channel level, but just to highlight that our volume growth for the core categories was 9% for the quarter 1 and value growth was 14%. So the delta 5% is nothing but the inflation, which is and hence we see overall 14% growth in the core categories. Now coming to your question specifically on the channel, I think channel composition is something which has not been specifically shared.

However, we can update you that overall the total business comprises of B2C and B2B business, whereby 65% is a B2C business and 35% is a B2B business. Of course, Quickcom is a faster growing channel, etc, but we do not share a particular number. See, we have been able to ride on, I'll update you on Quickcom, I think, thanks to Quickcom, we have been able to ride on to that network. That's where you see in Pride of Cows, there is a stupendous growth with respect to the other portfolio other than the milk, which is ghee, paneer and curd. Similarly, we look at, we have launched a travel pack for Avvatar and Avvatar is also listed in Quickcom. Similarly, you look at paneer as a category which is growing significantly on Quickcom.

So, of course, Quickcom has their own advantages whereby so we have to be agile enough to be able to ride on to that network and which is the proactive call, I think the company is there across the channels. So, it's not that we are not present in any of those channels.

Yash Sinha:

Got it. That's helpful. Thank you.

Moderator:

Thank you. Thank you. Our next question comes from the line of Debashish Neogi from Aban Capital. Please go ahead.

Debashish Neogi:

Okay. First of all, congratulations to the team, actually. You all have created great brands, which is evident. Now, my question is allow me two minutes to give a context to the question. So, on one hand, we are seeing our B2C channel sales is more than two-thirds. Our value-added product, our contribution to the total revenue again is more than 65%, 70%.

Now, this compares to Hatsun of only 30%. While I understand they are regional players and we are national players. But in the previous concall, I think Ankit mentioned that our new-age business actually has more than double the margin of the base business. So, my question is, if the new-age business is growing and we have a double margin on those businesses.

Why it is not reflected in the operating margin? Because essentially, it's all about brand. The brand is very, very strong. So, why is it not reflected in the numbers? Is it because there are expenses for Pan-India distribution, which is significantly higher and which is not yielding that throughput which it's supposed to yield or there are some strategic funding because of which the profit is coming down because you're giving at the consolidated level?

There could be strategic funding for the new-age business. So, what is it which is not reflecting in the number? Because essentially, it's about pricing power. So, we don't have pricing power in the rest of the geography?

Ankit Jain:

I would answer each of your questions. See, you started with competition. See, competition is a regional play. Milk has traditionally been a regional play where it is not economical to transport water. So, hence, the dynamics on a regional play with respect to EBITDA margins is absolutely different versus the national player.

And that too who spends heavily on the Ad pro, I think make and focusing on building the brand is something a different strategy. So, we are on to maybe you can say a dairy FMCG who wants to create brand, build brand with a focus efforts on brand building initiatives. Also I would like to reaffirm what I mentioned in the last call versus this call. Yes, the gross margins are superlative in new-age business and almost double of the average of the company's gross margin. However, when we look at the percentage increase is only from 6% to 3%, which would ideally translate to a certain mathematical number. But as I mentioned in the previous question, what happens is when we pass on a certain cost push, the cost push is passed.

When we look at percentage terms, we are not able to pass on that in percentage terms. It is always that the cost push is passed on to the consumers so that the consumers do not take that additional beat of the additional margin on the increase in the price. And hence, we see the mix of Q1 is improved product margin offsetted by a marginal decrease in the pricing.

It is not our ability to command pricing in the market. We are a premium brand when it comes to ghee. Today also we are priced significantly higher than Amul, maybe INR 100 a litre or maybe more than that. And similarly with Patanjali. So, it is our ability to command pricing in the market which is evident that we have been able to grow the core categories at the 9% volume growth despite a significant price increase.

Maybe just to give you an example, ghee which was priced at MRP of INR 700, now it is priced at INR 780 a litre. So, that is the kind of change in the pricing profile which market has been able to absorb and despite we have been able to grow. So, again that builds our confidence that we are on the right track and we continue to stay focused with brand building initiatives. I hope that answers.

Debashish Neogi:

I understand what you are saying Ankit. My question is not with respect to last quarter. I don't look at quarter, I am looking at next 3 year to 5 years. I am seeing as a business and if it is FMCG, we are severely, as per me we have very strong brands and we are severely undervalued because if you see how the market is seeing it, it is not an FMCG company because otherwise our market cap to sales is less than 1. Severely undervalued.

And we have been talking about that we are professionalizing the company, we are moving from a commodity to FMCG, but the market doesn't believe that because why it is not believing? Because it is not reflecting in the number. Why it is not reflecting in the number? Because of two reasons. Because ROE and ROC is lower than competition.

And it is lower because our is capital intensive. That is one of the reasons. We have biological assets on our books. And the profits are lower. The margins are lower. There my question is, we are dealing in brands. So if we are dealing in brands, why I can understand that we will see some time lag in passing the price increase. I am not talking quarter, I am talking year, I am talking 3 years. Why the margins are lower because it doesn't speak about brand power?

Ankit Jain:

Over the past three years. Yes. So, hi, can you hear me.

Debashish Neogi:

Yes, I can hear what are you saying Ankit is that. Yes you are audible. I am saying why with the value added products, our margin is so low with market share of 21%, 25%.

Ankit Jain:

Yes, very much. And let me answer. See there is a conscious effort. I will apprise you with the details. See overall if you look at the past 3 years and then coming 3 years will be separate. So in the past 3 years of course our EBITDA margins have improved from 5% to 7% to 8.5% year-on-year. Largely because, see of course we have been able to grow with 18% CAGR for the past 3 years. We already have a setup distribution network completely. Because the supply network over here is a three method supply chain for the wet transport, the cold transportation for cheese and the ambient transportation. Besides the Pan India distribution network, even on the sourcing front we are able to capitalize much because our yields for the procurements are improving per BMC, etc. So of course the efficiency, as the scale improves, the efficiency is coming and which is reflecting in the overall EBITDA margin profile which is improving year-on-year.

Our aspiration is also to grow it consistently, move to a double digit and then of course slowly enter into the teens category. So this is what our conscious efforts and as a company we are all targeted towards that. So for the next couple of years definitely you will see us moving up the ladder from a single digit or a high single digit to at least to a double digit level over the next couple of years. I would say maybe in 12 months or 18 months or 24 months. Not giving a specific time frame, but yes that is what our aspiration is to be.

- Debashish Neogi:** Fair enough. Good answer, Ankit. So I am not looking at guidelines or I am not looking at specific numbers. So I think the internal aspiration in two years on a ROC point of view should be above 20%. That is a fair internal aspiration?
- Ankit Jain:** Yes. So with the improved margin profile, of course, the ROC should significantly improve because we have taken again, you will see in the last investor presentation, overall we have worked upon reducing the working capital cycle which is again one of the important part of the capital employed. So we have put in a conscious effort to reduce the overall working capital.
- So that is where we see upliftment in the ROC also in the past three years in the same way as the margin profile improves with the same debt. See as you know even with the same credit lines that have been in the last five years we have been able to double our turnover with the same credit lines. So we have not added genuinely any additional credit lines.
- So besides that if you are able to jump shift it, so hopefully with the improved aspiration for the improved EBITDA margin we would be able to jump shift on ROCE as well. But again here we are not giving any particular guidance.
- Debashish Neogi:** Yes. I fully understand.
- Moderator:** Debashish sir, may we request you to return to the question queue.
- Debashish Neogi:** Thank you very much and all the best.
- Ankit Jain:** Thank you so much.
- Moderator:** Thank you. Our next question comes from the line of Aditya Khandelwal from Securities Investment Management. Please go ahead.
- Aditya Khandelwal:** Yes, hi there. Thanks for the opportunity. So I just wanted to understand how much of our milk procurement is through agents and how much is from our own distribution network?
- Rahul Kumar Srivastava:** So whatever milk we collect we procure 40% our own and 60% is through agents. And we are trying to increase our own milk procurement because we want to have sustainable milk procurement with the quality. So we are increasing our own milk procurement. So right now it is 40-60, 40 our own and 60%.
- Ankit Jain:** Also just on a lighter note, both the milk are our own only. From our own network.
- Rahul Kumar Srivastava:** Yes, they are same farmers so it's only just method of channelizing.
- Aditya Khandelwal:** And the next question, any reason why we have such a higher share from agents? Because what we understand is other players, other listed players majorly procure from their own distribution network which gives them an advantage in pricing and also in terms of supply availability. So why do we have 60% coming from agent network?

Rahul Kumar Srivastava: Even if we have what you call it from the other sources, they are just like our own. These parties are associated with us since last two, three decades and they are consistently supplying the milk with the quality what we need. So it's not that they are on and off and we keep adding the suppliers.

They are our own suppliers. And then also we are increasing our own milk procurement by putting the bulk milk cooler in the villages. But even the other sources also, they are consistent suppliers to us with the quality what we want. So it's just a matter of how we channelize the milk.

Aditya Khandelwal: Okay. And sir now I just wanted to understand the economics of cheese and Whey. So for producing 1 ton of cheese, how much Whey do we get as a by-product?

Rahul Kumar Srivastava: Yes. So just to give you some rough figure that for making 1 kilo of cheese we need about 9 liters of milk. And when we make cheese then 90% comes as a Whey. So that gives you the equation of milk to cheese to Whey. So for 1 kilo of cheese you need 9 liters of milk. And when you take 9 liters of milk, 90% goes as Whey and 10% as cheese.

Aditya Khandelwal: Understood. So now when we are producing our quantity of cheese, so the amount of Whey which we are getting, is it now purely sold as Avvatar or there is also some B2B sales of Whey?

Rahul Kumar Srivastava: Yes. It's a very complicated filtration system which we have a very high technology state-of-the-art plant. So we keep extracting Whey protein. Then out of Whey protein we also have lactose. So lactose goes to all the pharmaceutical companies as a replacement of the sugar for the baby food. And also basically it's all Whey derivatives, what you call it, depending on what percentage of protein we have.

So we can have protein from 28% to 60% to 80% to 90%. And some of that protein is used as raw material for Avvatar or it can be sold as B2B also. But right now because Avvatar consumption is increasing, so we consume more of our protein for Avvatar.

Aditya Khandelwal And what would be the rough proportion of the total Whey which you produce?

Ankit Jain: Yes, please understand. See institution business is a separate business. Ingredient business split we have already shared. And overall our B2B sales comprises 35%. So we do not get into specific in terms of how much Whey do we sell or how much Whey do we consume in-house. I hope you appreciate it.

Aditya Khandelwal: Sure, sir. Thanks for answering our questions.

Moderator: Thank you. Our next question comes from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So a lot of my questions have been answered. So just wanted to just get that. I think in the last call we were thinking like we have a goal of reaching INR10,000 crores revenue. So like I don't

want maybe like a short-term guidance, but over the long term we should maintain our guidance like we can grow at 18%, right, sir?

Ankit Jain: Yes. Sorry, you want the breakup of 10,000?

Akshali Shah: Breakup of 10,000?

Darshil Jhaveri: No, I was saying that we have an internal target of, I think, reaching INR10,000 crores revenue. So wanted to know, is that still, like in a play for the next four years or how do we see our revenue growth trajectory, sir?

Rahul Kumar Srivastava: This is what we are targeting for next, I would say, next five years from whatever status what we have today. And that is possible because we have all the ingredients to do that. And that's what we have been telling you, the way we are expanding our distribution, the way we are building our brands, the way we are creating new categories and value-added products. So all these channels are already put into the system.

And now we have to just take the benefit of all the inputs, what we have done to reach to those figures. Of course, we need a lot of milk. For that also we have done a lot of efforts in getting more milk from our own system. So this is possible now.

Ankit Jain: Yes, see, I would like to add some. Fundamentals have been taken care of. See, I think we have all this while we have worked upon focusing on having the right fundamentals in place, building blocks in place, to ensure that we are geared up for the INR10,000 crores aspiration. It continues to be our aspiration and we are certain that we will be able to achieve it soon.

Darshil Jhaveri: Okay. That's great to hear, sir. And I just wanted to know, like, I'm a bit new to the business, so I just wanted to know, is there like a seasonality impact for us like because I just wanted to see, like quarter-on-quarter, how does our flow go through or is it similar business? Just wanted to chew your brain on that a bit?

Rahul Kumar Srivastava: Yes, there is a little bit pinch of seasonality. As you know that as a part of the consumer community, we know what kind of seasonality is there in our kind of business. Of course, festive seasons have a little bit more consumption. That also depends on kind of monsoon we have in India and that also drives the consumption post-monsoon because of the farmers have better crops and income and all.

So it all depends on, you know, the seasonality from the point of view of the agriculture economy, how it's growing or overall economy is growing, as well as the festival season is coming. So in coming season, we know that monsoon is very good in this year. Perhaps this will drive more consumption in coming festive seasons.

Darshil Jhaveri: Okay.

Akshali Shah:

Darshil just to add to that, if you see the past three years trend, we've actually done far better in the Q2, Q3 and Q4 quarters and we see a lot of growth in numbers during the festive season and the winter because of the cheese consumption goes high.

Darshil Jhaveri:

Yes, correct. So in general, Q2, Q3 are better than what Q1. Q1 would be the slackest quarter for us if that's the fair inference?

Rahul Kumar Srivastava: You enjoy pizza in December more than June.

Darshil Jhaveri:

Fair. Yes, that's a very fair thing. And I know a lot of people have asked about EBITDA and you've given a good explanation, but just wanted to know like, in general what would be our aspiration like, where do we see as the business that our EBITDA can reach?

Ankit Jain:

See, again, thank you for noting on the previous questions about answering on the Y-o-Y changes in EBITDA. But as I just mentioned in the previous question itself, we are looking at our aspiration is, of course, inching up ahead the way we have been inching up from 5 to 7 to now 8.5 in the last year. So, of course, this year's target is to, of course, inch up from the previous year. Having said that, we look at, in the medium term, we look at moving, inching up to double digits and then getting into teens slowly. So, that's our aspiration.

Darshil Jhaveri:

Okay. That's really grateful to you. That's it from my side. So, all the best. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we'll take that as a last question. Ladies and gentlemen, that concludes the conference call for Parag Milk Foods Limited for today. On behalf of Parag Milk Foods, thank you all for joining us and you may now disconnect your line.