"Parag Milk Foods Limited Q4 FY'16 Earnings Conference Call"

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MODERATOR: **MR. KRISHNAN SAMBAMOORTHY -- MOTILAL OSWAL SECURITIES.**

Moderator: Ladies and gentlemen good day and welcome to the Parag Milk Foods Q4 FY'16 Earnings Conference Call hosted by Motilal Oswal Securities. As a remainder, 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishnan Sambamoorthy from Motilal Oswal Securities. Thank you and over to you, sir.

Krishnan Sambamoorthy: Yes, good evening, everyone. Welcome to the Q4 FY'16 Conference Call of Parag Milk Foods. We have with us Mr. Devendra Shah – Chairman; Mr. Bharat Kedia – CFO; Mr. Shirish Upadhyay – VP (Strategic Planning). We can straight move on to the call and with opening comments from the management. Over to Mr. Devendra Shah, first.

Devendra Shah: Hi, good afternoon, everyone. I am Devendra Shah here. It is a great pleasure to have a call with you. This is our first earnings call after we got listed last month. Therefore, I may take your permission a couple of minute to allude on Dairy industry to set up tone of discussion of discussion.

The Dairy industry **witnessing** as a healthy growth or the full buying shifting consumer's preference from the unorganized to organized sector focus on health and hygiene, driving demand for the packaged foods, changing the life style towards western cuisine and healthy diet. Parag Milk Foods is continuously capturing opportunity through its five strategic pillars. The first, all products based on the 100% cow milk; second, well integrated business model to lead innovation; third, wide spread of pan India distribution network backed by strong brand recognition; four, experience in procurement; and fifth, focus on the drive on the consumer value added product business.

Financial year 2016 has been very good year for us, it has delivery financial result in line with the company strategy. While company has been focusing on the top-line growth established it is a market presence and has successfully demonstrated by the pioneering in the cow milk based ghee, having the second largest cheese market share, producing high level whey protein and leading private player in the Dairy based UHT products.

Company has launched various products during the financial year under discussion such a Cheese Chutney Slices, UHT Lassi, UHT Butter, UHT Southern Spiced Buttermilk, Badam Milk, Go Almette, UHT Supremo Milk, UHT Fresh Cream. The Go Low Fat Dahi to drive improvement in the operating profit, while providing the right choice to the consumer's. Company has also rope in shape Ranveer Brar to leverage our brand communication on the cheese.

It is important that we talk about the milk procurement and the pricing. Milk procurement in the financial year has been flat as versus last year while company has been captured sales volume growth through purchases of semi processed milk products, raw milk prices has been favorable in this financial year compare to year-to-year before, however, raw milk prices have started to move up. We are pleasure to see the phenomena as it is important that the farmers get the right price of the milk to drive economy growth in the country.

Our CAGR growth is in the last five years in the revenue is around 17% and our operating profit has been shows CAGR growth of 19%. Our endeavor next three years to five years will be continue to this growth momentum. I request Mr. Bharat Kedia our CFO to highlight our key financial performance before we open the floor for the question-and-answer session. Okay, thank you.

Bharat Kedia: Good afternoon, this is Bharat Kedia here or shall I say good evening, ladies and gentlemen. This is our first call on financial performance. My focus is more on the full year performance based on consolidated financial statement. I will dive into the numbers quickly as you have already seen from Mr. Devendra Shah the operational performance of the company.

Our full year sales revenue has moved up to Rs. 1,645 crores vis-à-vis Rs. 1,444 crores in prior year; this is an increase of 13.9%. Company’s volume growth has been ahead of revenue growth in most of the products that means we have been successful in increasing our distribution, improving our penetration, driving higher consumer’s consumption of our products and driving higher market share.

We have achieved an operating profit of Rs. 147.06 crores in financial year 2016 versus Rs. 107.02 crores in financial year 2015. This is a healthy increase of 37.7% improvement in operating profit margin.

Our operating profit margin improved from 7.4% last year to 9.0% this year; in other words, an expansion of 155 basis points. The key drivers of improvement in operating margin are: first, an improved revenue mix towards value added milk products; second, favorable raw milk pricing; third, an operating leverage of our production facilities across India. This has however been compensated by an increased trade offers to mitigate competitive pressure on pricing and higher spent in advertising.

Company’s profit before-tax almost doubled from Rs. 34.3 crores last year to Rs. 66.8 crores in the current year. As our company’s focus is on profitable growth to drive stakeholder’s value, the increase in PBT by 95% is clear reflection of walk the talk.

Company’s net profit improved to Rs. 47.3 crores in financial year 2016 vis-à-vis Rs. 32.2 crores in financial year 2015; this represents a growth of 42.3%. PAT margin expanded from

2.2% to 2.9% despite the effective tax rate has increased to 29.2% as compared to 6.1% prior year. This is on account of a loss of income tax exemption on sales tax subsidy and a lower income tax benefit under Section 80(IB).

Company's diluted earnings per share is Rs. 7.22 per share vis-à-vis 4.67 per share last year. The board has recommended no distribution of dividend in order to redeploy company's free cash flow in the business. Performance of the last quarter is compared with the unaudited financial results of the prior year that is financial year 2015 and therefore, to be relied upon accordingly.

Revenue grew by 19.6% in this quarter vis-à-vis the similar quarter of last year. Operating margin grew by 38.1% this year while profit after-tax remained flat at Rs. 16.1 crore. Given the raw material which is milk represents about two-third of our revenue and a fluctuation in raw milk pricing coupled with volatility in skimmed milk powder pricing, it is difficult for us to make a prediction of our numbers or guidance for a short-term. Therefore, you have seen and heard Mr. Shah talking about a long-term vision and guidance of the company.

With these highlights, I am happy to hand over the call back to Krishnan to go through any specific questions you might have. Thank you very much.

Krishnan Sambamoorthy: Jennies, you can go ahead with the Q&A.

Moderator: Thank you. We will now begin the Question-and-Answer Session. The first question is from the line of Varun Parasrampuria from Quant Capital. Please go ahead.

Varun Parasrampuria: Sir, we wanted to know if you could please guide us with respect to your CAPEX plans for the coming year.

Bharat Kedia: Hi, this is Bharat Kedia here, if you do not mind I will take your call. The capital expenditure plan for the next three years has already been set out in the IPO documentation. The company has raised Rs. 150 crores in the IPO for the exclusive use of capital expenditure, this money will be invested over the next three years for the growth of the company. In addition to this, company has a regular capital maintenance program of about Rs. 20 crores to Rs. 25 crores year-on-year.

Varun Parasrampuria: Okay, sir. And sir, one more question, sir, when do you expect working capital days might reduce to levels of 45 days to 50 days which were witnessed during FY'10 to FY'12.

Bharat Kedia: This is Bharat Kedia again, I will take this call. The working capital days in our company depends on the business module and mix. As you know the consumer value added products business of our company has been increasing significantly, that growth momentum drives a growth in the business of cheese, cheese drives a high level of inventory for us coupled with market expansion and distribution expansion that we are leading from urban to semi-urban and semi-urban to rural territories that drives more credit requirement of the company and that had been the cause for our organization to have an increased working capital over the last few years as we drove our business strategy to expand distribution and increase the growth of milk products. As this strategy of our company continues to drive as you heard from Mr. Shah's opening statement that has been one of the five pillars of our strategy, we believe the need for working capital for this company would need to be substantiated. We believe the levels at which the working capital currently exists which is about 21% of revenue will probably be at a former stage a slight reduction is quite possible on the debtor side of it, but we are not anticipating a major revamp in the working capital requirement of the company.

Varun Parasrampuria: Okay, thank you so much, sir. And sir, just one last question; sir, what do you expect will be the milk procurement prices given we have received good monsoon till now?

Shirish Upadhyay: Hi, Shirish here. Procurement prices have already firmed up during this lean season and we expect prices to remain around this level on an annualized basis. So this year prices would be better as compared to last year.

Varun Parasrampuria: Okay, sir. And sir, just if I can get one more question; sir, if you could please us what would be the Indian Dairy market size and within that what would be the ghee and cheese market size?

Shirish Upadhyay: So in volume terms Indian Dairy market produces roughly around 150 million tonnes of milk which was produced last year if you convert it into value it is somewhere around 70 billion U.S. dollars so that is the overall value of Indian Dairy market per say and roughly, one-fourth of that is organized centric and three-forth is unorganized. Again, looking at ghee as a market obviously after fresh milk, ghee is the largest market as far as dairy products are concerned and overall ghee market in tonnage is roughly around 4.5 million tonne. And roughly around 10% of that market is organized.

Moderator: Thank you. Next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Sir, just wanted to understand like though our milk procurement has fallen, our revenue has improved significantly I think you mentioned in your opening note that it is because of traded goods or was it core manufacturing because our capacity itself is unutilized, so can you throw some light on these two points?

Shirish Upadhyay: Yes, Saurabh, Shirish here. Basically what we have done is see we had two difficult years in 2014 and 2015 wherein there was an abnormal increase in terms of milk procurement prices and that create a problem in terms of addressing the market available with us as well as in terms of profitability as well. So over the years we have been trying to hedge our self from this volatility in terms of availability of milk as well as its pricing and therefore, we have been trying to source some semi-finished material from the market convert it into finished products and push it into the market and therefore, if you look at it while we have grown by around 15% during this particular year in volume terms we have grown at a much higher space. And especially in milk products we have grown by around 46% in volume terms, in fresh milk we have grown by 20% plus in volume terms. So volumes have increased significantly in spite of the fact that milk procurement is steady at the same level and that is because of this fact and slowly we would like to hedge a little portion of our reliability on commodity purchases from the market as well.

Saurabh Patwa: So we have to assume that going forward the growth will largely come from sourcing semi-manufactured good and less from the increase in direct procurement?

Shirish Upadhyay: No, absolutely not. But as I was trying to say it is a mix of both which we are trying to see and the balance which we are trying to create and that is how we are going forward.

Saurabh Patwa: Okay. But there is no difficulty in procuring milk it is largely the price which is the reason?

Shirish Upadhyay: Yes, largely I mentioned the price volatility because of which we have been trying to move into sourcing of commodities as well.

Saurabh Patwa: What kind of semi-manufactured goods at what stage of manufacturing we are procuring at a milk stage or like…?

Shirish Upadhyay: No, it is a basically commodities like butter and milk power that we procure.

Moderator: Thank you. Next question is from the line of Nisarg Vakharia from Lucky Investment. Please go ahead.

Nisarg Vakharia: Sir, if you could please give me a break-up of your milk portfolio across cheese and ghee and all those value added products for quarter four and for Y-on-Y FY'16 versus FY'15?

Bharat Kedia: Hi, Nisarg this is Bharat Kedia here, I will take that question. So, if you look at the overall growth of 14% in revenue as we go down to detail these revenues into four different product categories, fresh milk; fresh milk for us has grown about 17% which is the average growth of the full year. Our dependence on skimmed milk powder has been reducing and it has shown the impact in the financial year 2016. Our skimmed milk powder has gone down by about 37% compared to last year and our consumer value added products business which is the rest of the products other than the commodity skimmed milk powder and fresh milk has grown with a growth of over 30%. And the combination of these three has actually driven an overall growth of 17% that means we are in line with the strategy of growing, the value added milk products growth at a higher speed then the overall growth of the company.

Nisarg Vakharia: Sir, can you give me a break-up of quarter four, your Rs. 414 crores top-line how do we split it across cheese and other products or growth, I want to understand the growth in quarter four.

Bharat Kedia: So, if you look at the similar number from quarter four, the overall growth of quarter four is 19.6%, of that, the growth in fresh milk is about 9%, the growth in skimmed milk powder which is the commodity is a decline of about 40% so it has been rapidly going down and the growth in value added milk product is over 50% in the last quarter. Having said so, before I close down on the quarter number, I would like to remind the quarter for financial year 2015 has been an unaudited quarter for us as we were not listed we have not been doing quarterly audit. And therefore please relay on these numbers according.

Moderator: Thank you. Next question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead.

Manish Oswal: Sir, my question on again milk procurement thing, so for the full year what is our average milk procurement cost per liter?

Shirish Upadhyay: Our average milk procurement cost per liter in 2016 has gone down by roughly around 10% as compared to the full year cost of 2015.

Manish Oswal: In absolute terms how much sir?

Bharat Kedia: Sorry. The milk prices have actually gone down by 10%, the milk prices defer from territory-to-territory, state-to-state as we procure milk from four different states it is difficult to have unified information. However, the range at which the milk prices had been purchased during the year is from Rs. 20 to Rs. 26.

Manish Oswal: Okay. Secondly, sir, in our presentation slide number 14 we have given the milk procurement led per liter per day numbers 10.4 versus 10.6 in FY'15. So that means in terms of our utilization on manufacturing capacity we are operating at 50%, right?

Shirish Upadhyay: That is different way of looking at it; we would look it in a much different manner because this is basically the input milk processing capacity that we are talking about. We normally look at utilization capacities of output of different value added products that we manufacture and how much of that capacity is utilized. So major capacities of our products like cheese or whey or paneer or ghee all those capacities are well utilized. As we were discussing earlier on another question, this year we have been trying to buy out commodities from the market and convert it into finished products and sell it into the market and therefore, if you just tag it to the input milk processing capacity it would not match up.

Manish Oswal: So I mean in RHP what we have given in Manchar is 12 lakh and Palamaner is 8 lakh total 20 lakh liter capacity that means this capacity is a milk processing capacity, right, sir?

Shirish Upadhyay: Absolutely correct, that is the milk processing capacity and I was mentioning that as the input processing capacity that is the milk that we buy out directly apart from that we also buy out commodities from the market and both put together we convert it into different value added products so for us what is more important is the capacities of various value added products how much we are utilizing that makes better sense in terms of utilization of assets.

Manish Oswal: Okay. So what is our current utilization of total capacity? What is your utilization level?

Shirish Upadhyay: Again as I was telling you for different products, capacity utilization is different. For example, in terms of cheese our average capacity utilization has been around 80% odd. In terms of paneer, it is again around 80% odd. In terms of ghee, it is somewhere around 65% odd so product to product capacity utilizations differ.

Manish Oswal: Okay. Secondly sir, working capital cycle has increased 28 days compared to FY'15 levels and to reach 76 days. So could you explain reason, one is inventory I can understand because of higher cheese production but the debtor days also increase so, what explain debtor days during this year?

Bharat Kedia: Thank you very much, sir. This is right, the both inventory days and receivable days have gone up. As I was explaining in the previous question that the increase in the receivable days are because of the two factor; first one is the company has taken a moment of distribution drive. Thereby we are improving our foot print from urban and semi-urban cities to rural cities, we have designed seven routes to market and that is how we are progressing. As we progress to the length and breadth of the country and drive penetration; at times we have to go ahead and provide credit facilities to our distributors till they build a reasonable size of business where they can actually put in a larger chunk of money on their own. And therefore it has been a phase of increase and expansion and therefore the credit has increased. As we continue our drive into the rural territories, we believe the receivable days would remain for some more time little bit on the higher side, however, we have certain opportunities in certain area and therefore, we would be able to maintain at this level or slightly take it down. But the increase has been primarily driven by distribution. In addition to this our growth of business has primarily come from a consumer value added milk product and obviously as we drive more away from fresh milk and a commodity towards consumer value added products business credit days' changes. So the combination of these two has actually taken the credit days ahead by about eight days from last year.

Manish Oswal: So you mean to say the credit days in value added segment is higher compare to your liquid milk commodity product.

Bharat Kedia: Yes, you are right. So fresh milk is a business where our credit is minimal, the credit days are fairly low on the fresh milk. Our credits are higher on consumer value added milk products and also on commodities.

Manish Oswal: Okay. And if, I put it this way, on the value added products as a business the overall written on the business because you are getting higher margins and you are also keeping working capital for that business so, that means the written profile of that business is better or inferior how to look at it?

Bharat Kedia: The company looks at return on capital employed at a global level that is at the consolidated financial level. We have not gone into analyzing written on capital employed at product or at category level. Simply because we believe at this stage of the life cycle of the company, we need all the portfolio in order to perform our growth. If you look at the ROCE of the company, the last year we had an ROCE of 12.6%, this year our ROCE is a 16.2%, that is a sharp and significant increase in return on capital employed and that is an overall increase that we have registered.

Manish Oswal: Okay. And last this we have creditor days of 37 days, so basically I would like to understand because milk may not we get on credit, so what this 37 days' creditor represent? What kind of expenses we are having on credit?

Bharat Kedia: So the creditor days are combination of various part, raw milk is one part, raw milk credits depend from 7 days to 15 days from territory-to-territory, other than raw milk we purchase various products and services such as packaging material, transportation, consumables, various products that we purchase there are general or standard credit terms of 60 days which we are able to stretch it even at a higher level. So the combination of these two is the credit days that you are seeing. However, the credit days are actually declining with time and we see this trend to continue.

Manish Oswal: Okay. And this one book keeping question impairment of Rs. 4.2 crores, could you explain the underlying connection of cow assessment and all those things, we have to value every year this thing or how it works?

Bharat Kedia: As you rightly said this is a book keeping question, so my answer would be slightly technical in this regard. Impairment of every asset is a mandatory requirement under accounting standards to assess the impairment of every asset. During the course of assessment, we have understood that the value of cow sitting in our books has declined due to the market conditions in which we operate and therefore we have to reassess the values of cow in the balance sheet.

The cow being livestock it is not depreciated in our books and therefore, the only way to reduce the value of cows is through impairment and that is the reason why a one-time hit of the impairment has been taken in the books of accounts.

Moderator: Thank you. We have the next question from the line of Bhavin Cheddha from Enam Holdings. Please go ahead.

Bhavin Cheddha: Sir, just a few questions. Post the IPO what are the debt levels now, you have repaid the short-term loans?

Bharat Kedia: Bhavin, this is Bharat here. The repayment of short-term loan has been done but not yet completed technically. We had the board meeting last Friday so the formalities for repayment are still in process but substantially yes, we have repaid the working capital loan

Bhavin Cheddha: Okay. And the second one, if you can give us the volume number of cheese how much it was sold in quarter and full year?

Bharat Kedia: Bhavin, I think we as an organization are more looking at value added milk products vis-à-vis fresh milk and commodities and therefore, we have dwelled into a particular product having said so, as you have asked for a specific question on cheese volume, would you mind if we take this question offline and share with you on an e-mail?

Bhavin Cheddha: Okay, no problem, sir.

Moderator: Thank you. Next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

Jubil Jain: My first question is on the gross margin, if you look at the current gross margin for FY'15 margin is at 28.4%, it is higher than almost players in the dairy industry, the listed players. And if you compare it versus FY'15 it has increased by around 190 bps, you now said that milk prices have started moving upwards so, where do you see the gross margins going will go back to 26%-25% levels or there is a possibility that you can sustain these margins at 28% levels?

Bharat Kedia: Thank you very much. The gross margin has improved due to three or four various distinct reasons in which the company's strategic pillars have worked with. First one is an improvement in a milk product sale which has a higher gross profit margin compare to the other two categories which is commodity and fresh milk. Second is the company had a favorable milk prices. Third, company has had a list of innovative product which Mr. Shah alluded in his opening comments. And all of those innovation always bring higher profit margin to us. And the last but not least we have also had some operating leverage into the organization which we have en-cashed. So you rightly talked about the milk price. Yes, the milk price probably would take a little bit upside swing, we are very happy to have this because this give our farmer a better strength and our business the core of our business is an existence of farmers. The success of our business depends from the success of our farmers and therefore that is the right way to move. Having said so, we have many other leverages through which we should be able to hold on and improve the gross profit margin. This particular year we have not taken price increase for our products because the milk prices were favorable to us. As the milk prices move up one another leverage that we will be pulling in our organization would be through pricing. So therefore, we remain confident that the gross profit margin continuously remains in the shape and improve.

Jubil Jain: Thank you, sir. My next question is on this distribution trend; can you throw some more light as to you know what exactly you are doing which are the states you are targeting which are the key brands you are pushing some more color on what exactly is being done on the distribution expansion front?

Shirish Upadhyay: Yes, Jubil, Shirish here. So as far as distribution is concerned it is more product specific the kind of territories that we target which acts as a driver product category for us in a particular geography and back on that then we push rest of our categories into a particular product. So just to give you an example, we have been expanding our distribution for say UHT milk in bricks in territories like northeast, west Bengal and those kind of areas as well as Jammu Kashmir, and as far as another format of UHT milk sold **fino** we have been going more intensive distribution into southern states of Karnataka and Andhra Pradesh in much more detail. Similarly, in major metro markets over last one year we have been focusing more into expanding our distribution of beverage portfolio and creating a separate line of beverage and most of our focus has been onto those kind of products and obviously, there will be expansion of rest of the product categories as well on back of this category.

Jubil Jain: Okay. Sir, my last question is a book keeping one. If you compare the numbers given in the RHP for FY'15 there is a difference of around 3% to 4% so when it comes to sales even the other numbers vary a bit so, how should we look at these I mean what is the reason for example the sales number has changed from 1,387 to 1,441 if I am not wrong, how do we reconcile this?

Shirish Upadhyay: Yes, so two reasons for this change, first one is at RHP under the LODR guidelines of SEBI we have to present the accounts under a restated format. Restated means we have to go back and restate the audited financials for the last five years assuming as if we knew everything that we know, we knew them in the right years. Obviously, the accounts are set on certain assumptions and everything is not known some of these things are known in future, if you go back and restate the past then numbers change. So that is the specific requirement of SEBI under which we have to operate. The financials that we are presenting now are non-restated but are actually audited. That is one reason, number two, the difference that you are looking probably comparing the standalone financial numbers with the consolidated financial numbers we have two set of financial numbers in RHP. And the right differentiation is the one we need to compare.

Jubil Jain: No, sir, I was looking at the consolidated numbers. So for example, if you look at revenue from operations, in the current document it is 1,444 crores in the quarterly results whereas in the RHP it is 1,387 difference of around 4 odd percent for FY'15.

Shirish Upadhyay: Yes, so that exactly is because of the restatement.

Moderator: Thank you. Next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: Sir, if you could give us some sense on the current distribution we have in terms of our key value added products and what is the target so, cheese, ghee it will help if you could spell out what is our reach in terms of retail and modern trade and for the next few years what are targeting?

Shirish Upadhyay: So as far as distribution is concerned we basically have different route to markets addressing different product groups and consumer segment that we want to target in as of now we have seven different route to markets in place, one is specifically for fresh milk another is specifically for fresh products like yoghurt, curd, paneer and all those. Another is for milk products which is further divided into general trade into modern trade into HoReCa and then we have separate route to market for large instigations like Pizza Hut or Dominos who buy out goods from us. And then we have route to market for beverages and now we are working on separate route to market for rural. So these are different route to markets based on which we work. If you are looking at absolute numbers, we have around 15 plus depots in place through we distribute our products and we have 100 plus super-stockiest as well. Through both the depots and super-stockists we reach out to 3,000 plus distributors who then service our products to around 200,000 plus retail outlets. So that is the kind of network that we have in place.

Prakash Kapadia: Which would be the most available products in these 2 lakh outlets? Ghee would be the product which has the maximum reach?

Shirish Upadhyay: Sir, it will again differ from territory-to-territory, so as we were discussing earlier if you are moving around in eastern India the most available product would be say Go UHT Milk. If you are moving around in southern part of India it might be Go UHT Buttermilk Southern Spice. If you are moving into western India it might be Ghee and if you are moving into say large cities it might be Go Cheese. And again in the type of outlet, so depending on the type of outlet the products might defer.

Prakash Kapadia: Okay. And secondly sir, what is our plan on price hikes, typically when do we target price hikes, is there a seasonal angle to it or as soon as we see say milk procurement prices going up then so how easy or how difficult is it to change prices, increase prices if you could give us some sense?

Shirish Upadhyay: Okay, so number one in terms of timing obviously as you rightly mentioned it is linked with increase in terms of procurement price so, whenever there are increases in procurement prices we have to take price hikes into effect. As far as difficulty in terms of raising prices is concerned since this is a comparatively lower margin business so there is not much buffer available in terms of absorbing the raw material price increases beyond an extent and therefore prices hikes have to be effected into the market. However, there might be some gap in terms of the increase in raw material prices and effect that we give it into the market depending on product category and the kind of product volume that we have in pipeline.

Prakash Kapadia: Okay. And recently, we have taken price increases it is across the product portfolio or is it specifically on ghee and some of our UHT products?

Shirish Upadhyay: We have taken on select products as of now so, we are reviewing and one by one we are taking increases as and when possible.

Prakash Kapadia: And sir, last question, if you could give us some sense on seasonality of the business, I guess certain products will be more seasonal, ghee would be you know round the year kind of product, so typically in terms of which should be our best quarter on quarterly basis.

Shirish Upadhyay: So number one seasonality's are of two kinds, one is seasonality in terms of availability of raw material which is linked to different seasons and then there is also seasonality in terms of market demand, I think you are referring to market demand so as far as market demand is concerned again there are different seasons for different product categories so, product like ghee would be much more in demand during festival season which may start from August and last till October or November, the product category like cheese would be much more in demand during December, January period. The product like beverages will be much more in demand during the summer months, so different categories have different seasonality as far as consumption is concerned. And last question in terms of best quarter, it would be typically either quarter two or quarter three depending on which month Diwali falls this season.

Moderator: We take the next question from the line of Sunita Sachdev from UBS. Please go ahead.

Sunita Sachdev: Just wanted to get some clarity in your value added portfolio consistent with your thought process on adding a lot very innovative products in the value added portfolio. So just trying to understand your basic cheese which you know obviously is your flagship that would be what percentage of your value added portfolio now?

Bharat Kedia: So, Sunita, thank you for your question. Cheese constitutes roughly around 20% of our total business.

Sunita Sachdev: Okay. And doing the rough math that would probably be approximately half of your value added portfolio?

Bharat Kedia: Yes.

Sunita Sachdev: And the rest is the value added portfolio I am assuming is a lot of new products, right?

Shirish Upadhyay: So our value added products or milk products parse is basically divided into ghee, cheese and newer products. So the newer products will constitute UHT milk, beverages, yoghurt's, curd's, whey proteins all this kind of…

Sunita Sachdev: Right. Now, the margin profile is in the value added products and specifically as you mentioned in earlier questions the newer product. So given that the growth from distribution recovery come through more in the cheese 50% of the value added portfolio, how do we think of the trickle-down effect on some of the more recently launched products and going forward into the next two years?

Shirish Upadhyay: I am still not able to digest your question properly.

Sunita Sachdev: I am assuming cheese which is today 50% of your value added portfolio…

Shirish Upadhyay: So cheese basically again, let me clarify, cheese is not 50% of value added portfolio, cheese is 20% of our total business if you remove commodities then out of total business cheese would be roughly 25%-26% of the business.

Sunita Sachdev: And is that the fastest growing segment?

Shirish Upadhyay: One of the fastest; not the fastest.

Sunita Sachdev: Okay. And how are the gross margins in cheese specifically?

Shirish Upadhyay: I think let Bharat take this up.

Bharat Kedia: Sunita, as you can understand we have been more focused on driving our business into three different categories – one is the fresh milk, the other is skimmed milk power which is the commodity business, and then the third one is the milk products which is the value-added products. We have actually not gone out and gone into the margin levels for each of every product. However, given the size of interest that you have shown in the cheese business we would be willing to share these information offline with you, please bear with us.

Moderator: Thank you. Next question is from the line of Rajesh Kothari from AlfaAccurate Advisors. Please go ahead.

Rajesh Kothari: My question is can you give the break-up of the value-added products?

Bharat Kedia: So the value-added products as Shirish bhai explained a little bit before has four or five structures inside it, cheese is one part of it that we just talked about, Ghee is the other one.

Rajesh Kothari: So how much is Ghee in FY'16?

Bharat Kedia: So if you look at the overall consumer value-added products business if you exclude fresh milk and you exclude skimmed milk powder which is the commodity this is about two-third of our total portfolio of revenue. Within that cheese is roughly about 20% as we talked about, Ghee is roughly about 18% to 20% and then remaining products are the UHT which is milk plus beverages, then we have fresh products such as dahi, yoghurt, etc., and then we have dairy whitener which is the powder and the Gulaab Jamun mix and other products. In addition to that we have all those new beverages and new products that we have launched recently into the company.

Rajesh Kothari: Okay. And is it possible for you to share your market share in Ghee category particularly if possible region wise or you can give some indicator there where you are highest and where you might have entered in last one year or so where probably there is more potential to increase the market share?

Shirish Upadhyay: Yes, I think we can discuss those details overall as we were discussing on call earlier. Ghee is a huge market in India and it is highly fragmented in nature and also only around 1/10th of the market is organized and there are a lot of players were operating in this category. So therefore, taking out market share at a national level does not make any sense. However, we have been trying to focus into high growth and high volume potential markets for Ghee per se and as you were asking we have been focusing into the huge Ghee consumption territories in Hindi heartland of UP, MP, Rajasthan, so these are the target states that we have been trying to work over last few months and terms of increasing our share in the territories.

Rajesh Kothari: Sure. Sir, my second question is milk procurement prices you said that in FY'16 there was about 10%-12% decline what was the average price of milk procurement in FY'16?

Bharat Kedia: See in the business in which we are the milk prices keep fluctuating and therefore it is difficult for us to get a right number to be able to jot it down. The prices defer from territory-to-territory we procure milk from a 29% districts, four different states; there are lean season, there are flush season and all. So as I stated before, the price of milk over the year had been between Rs. 20 to Rs. 26 and it was very different from territory and period.

Rajesh Kothari: Yes, but do not you think one needs to find what is the total approximate average price because from FY'17 perspective you said that milk procurement prices already started moving up so, how much it is up on an average compare to last year?

Shirish Upadhyay: So current increase in prices would be somewhere in the range of around 10% to 12% as compared to FY'16.

Rajesh Kothari: Okay. And in terms of the improvement in margins would you like to share that which one of these reasons which you have mentioned two reasons primarily one is value-added milk products, second is favorable milk price and third is the operating leverage, if you basically could segregate which would have contributed highest to your margins, I am talking about at the gross level before brand investment and promotion then how would you like to break it up?

Bharat Kedia: Very-very good question, thank you. So the maximum growth in the margin expansion has come from an improved mix of the value-added products to the total portfolio of revenue. This has been the most key driver of our growth in margin expansion.

Rajesh Kothari: Understood. And my last question is would you like to share in terms of brand investment how much you did last year as a percentage direct as well as indirect and how much you plan to do it over next one year or two years?

Bharat Kedia: So our marketing spend is divided in two parts. The A&P spend as it is shown in the financial is 1.9% of our revenue. In addition to this A&P spend we do a lot of activities on ground in store through execution sampling and distribution and display drive. All those actually gets reduce from our revenue. The cost of that for financial year 2016 was about 5.5%. If I sum them up together to which our marketing team deals with it, this is about 7.4% of revenue. We believe we are very close to an FMCG level of marketing spend with these kinds of spends that we have. Going forward overall we are looking at maintaining at this level; however, the split between our A&P spend which is the core marketing and advertising would increase from 1.9% current and at the same time we would take away the share of some of our in-store execution expense that we are doing as a percentage of revenue to balance the two together.

Rajesh Kothari: I see. And sorry, one more last question, over next two years to three years how do you see this entire business mix moving as the more focus on value-added products; how do you like to see that as a component?

Shirish Upadhyay: So overall, the business today has come into a shape wherein we have around 15%-16% of the business which comes from commodities around 18%-19% of the business which comes from fresh milk and remaining business which comes from milk products. And as we were discussing we have been seeing much higher growth in terms of newer products which we are focusing much; and therefore, their share as a part of pie would increase even further going ahead and obviously that will reduce the number one would be in terms of reduction in commodity part of the business and also there would be some squeeze in terms of the fresh milk pie of our business.

Rajesh Kothari: Would you like to give any number in terms of next three years how do you think 67% in FY'16, do you think it can cross 80% over the five years?

Shirish Upadhyay: No, it cannot cross 80% over the next three to four years' horizon because the kind of business that we are in commodity will remain a part and parcel of our business we can try to reduce or minimize that business but we cannot wish it away completely so, that is one portion. Another as far as fresh milk is concerned, fresh milk is an important business for us in terms of creating large base of loyal customers who experience our brand 365 days a year across seven, eight major metro markets that we are present into and that creates a highway on which we ride rest of our product into the households. So liquid milk will remain an important part of our business, but the growth rate that we would be experiencing in liquid milk would be a tad lower than what we are experiencing in value-added products and therefore, and therefore in terms of pie of total business there might be slight reduction there.

Rajesh Kothari: Understood. So basically fresh milk one should continue to assume 15% to 20% kind of CAGR would that be a correct statement?

Shirish Upadhyay: Right, somewhere around that.

Moderator: Thank you. We take the next question from the line of Kuldeep Gangwal from HSBC. Please go ahead.

Kuldeep Gangwal: Sir, my question is like in recent past many new players are either planning to venture into the Dairy business or they have already entered into the same. So how you believe like in past whenever the new entrant come into the picture how the industry respond, whether it is a price based competition whether it is an innovation or the distribution led so, what remain the industry response because you are mentioning that in your case the value growth in the milk products and the margin expansion help you in FY'16 and if the new entrants are coming into the Dairy business so, it may put a pressure over there. What is your take regarding that bit?

Shirish Upadhyay: Yes, thank you for your question. The kind of industry we are into as we were discussing earlier with only $1/4^{th}$ of the industry being organized and $3/4^{th}$ of the industry open 'n' number of industry players who can come operate and organize this industry. So we believe more the merrier, competition helps us in terms of growing the package Dairy food business in the country and that accelerates the pace at which conversion is happening from unorganized to organize. So we look it in a positive manner. Having said that looking at your second question especially competition where it affects us so basically pricing is something which becomes very difficult as we were discussing earlier since this is a combatively lower margin business so pricing is something which becomes very difficult for any player to differentiate themselves into the market so, that does not play a big role. Distribution obviously is one of important aspect. Another important aspect is the brand and more importantly it is the backend in terms of having assured quality and quality of raw material available with you and converting into higher and higher value addition how you are able to do it. So, that all determines your staying power and your ability to move ahead in the market.

Moderator: Thank you. We take the next question from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.

Ritesh Vaidya: First question was on the working capital that has actually increased Y-o-Y from I think it was up to almost 23% of sales, can you give us a sense as to where can that go directionally?

Bharat Kedia: Thank you, Ritesh. I think as we have taken up slight detail from this question before, let me start from there. The working capital has three components – inventory, receivable and creditors. Inventory days has been increasing in our business and that is one of the cause of working capital increase and that has been increasing rightly so as our business of value-added milk products has been growing rapidly. More specifically cheese is a business that drives a lot of inventory for us. It is a nature of business where you have to led the product age and ripen before you sell in the market and as our business of cheese is growing having 32% market share in cheese being the largest cheese plant in India, I think this is something that is going in the right direction and we appreciate this.

Coming to receivables – our receivable days have increased; we believe this is a phenomenon because we have expended our distribution leg deeper into semi-urban and rural territories and that expansion will continue for us for a while as our focus drive towards distribution is continuously increasing. As we go down to some of these territories, the business in the beginning or at an early stage is a smaller and therefore we are not able to get the similar level of credit days from those distributors as we get from established one. We have to enhance those credit days for these distributors to live their life for a while till they grow up to a stage where they can self-sustain. And this phenomenon actually drives a little our credit days. Our creditors days actually is decreasing, we have been able to take advantage of stretching some of the credit days with our supplier which we are actually getting contingence of it and therefore managing it down and therefore our credit days has been going down. All these three are actually adding after the working capital. Our working capital percentage has gone up we are cognizant of this fact. We believe that it has gone up but we would be able to sustain to similar levels going forward. We may have slight improvement in debtors' days going forward but at the same time, we will also have some reduction in creditors days to compensate and that is how we see directionally it is going to stay at similar levels.

Moderator: Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Sir, one was question on sir, if you could just give us a sense on the break-up of your raw materials in terms of the raw material cost this time was around Rs. 1,177 crores so, how would you break it up into the commodity and milk procured and if there is anything else?

Bharat Kedia: See if you look these numbers about 80% of the raw material that we consumed this year this percentage have gone down now it has been higher in the past is a purchase of raw milk. After having some difficulty in FY'13-FY'14 we have started to rebalance our procurement strategy we are not completely now dependent on raw milk. We have developed alternative means of producing our products and we have gone out and started buying some of the semi-finished products for our consumer value-added products. And as a result we have reached to a level of about 80:20 roughly as a ratio. We would like to maintain the similar ratio or even further go down below 80% if required, going forward in order to have not a complete dependency only on raw milk. As you all know raw milk supplies are fluctuating by season and the pricing of raw milk is also fluctuating and therefore, that had been an important milestone for our success. We believe this year it has worked really well for us.

Kunal Bhatia: Okay. So 80% is that is what you acquire from outside the raw milk?

Shirish Upadhyay: Yes, this is basically milk that we procure through our own procurement network from the farmers.

Kunal Bhatia: Okay. And sir, how much of this Rs. 1,177 crores was commodity?

Bharat Kedia: Yes, as I stated about 80% of the total raw material is milk and therefore the remaining is the semi-finished products that we have purchased.

Kunal Bhatia: Okay. Sir, and just one clarification, I am sorry to repeat, the question on cheese. You mentioned 20% of our business is cheese so, you mean to say 20% of the Rs. 1,645 crores that comes to around Rs. 330 crores, is it?

Bharat Kedia: Yes.

Kunal Bhatia: Rs. 330 crores is from the cheese business?

Bharat Kedia: Yes.

Moderator: Thank you. Next question is from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.

Ritesh Vaidya: I got your gives on the working capital, just two quick questions. The first one was you said that you are going to depend less on raw milk and use some amount of semi-finished goods for producing your end product. Does that anyway impact the margin that will realize on these products because you will be using semi-finished versus the raw milk does that change the margin that you can make on these products?

Shirish Upadhyay: Fortunately, last year there was not much of an impact and going ahead also if we are able to source right commodities at the right time we may not face any hit in terms of margins so it all depends in our ability to get these commodities at the right times in the market.

Ritesh Vaidya: Okay. So what are the finished products if you can give us some color on that?

Shirish Upadhyay: Yes, so as we discussed earlier on the call it is a mainly butter and milk powders that we procure.

Ritesh Vaidya: Okay. And sir, last question from my end, what is the capacity utilization for the Palamaner plant?And what is the source of milk for this plant, how much was direct and how much was through agents or through tankers?

Shirish Upadhyay: So let us divide it into two parts, as far as capacity utilization of Palamaner plant is concerned it was utilized roughly around 60% in terms of the utilization. As far as milk is concerned, we procure milk from our own network of milk procurement wherein milk comes from farmers directly through our own set-up which is exclusively for us. So I think there is nothing in between I cannot read between the lines what you are trying to state.

Ritesh Vaidya: The milk procurement network that you have for that plant is also directly through farmers is based out of that state or from Maharashtra, where does the milk come from?

Shirish Upadhyay: So as far as procurement network is concerned, our procurement network is spread across two geographies for Maharashtra in western India and Tamil Nadu, Andhra Pradesh and Karnataka in Southern India, we procure milk from around 29 districts and around 3,400 villages.

Moderator: Thank you. Next question is from the line of Nisarg Vakharia from Lucky Investment. Please go ahead.

Pritesh: Yes, sir, Pritesh here. I have two questions - three questions, on this 10% to 12% milk price raise which you said for FY'17 what is the corresponding price raise expected or would be taken on the value-added B2C portfolio if you can give some thoughts there so that is one question. Second, on the milk procurement side, it has been about three years that the milk procurement for us has been flat. And initially in the call we mentioned the value-added portfolio from 67% would head towards less than 80% over the next three years where it will be less than 80. So just wanted to understand when exactly will the milk procurement increase for us if we have to look at that particular number?

Shirish Upadhyay: Thank you. So just want to put it very simply milk procurement will increase this year, okay. If you want to go more into detail as we were discussing earlier we have been trying to balance our requirement some portion of it from utilization of commodities we bought out as well as our own milk. Now since our volumes are increasing and we were saying there is a fine balance that we try to strike between bought out commodities as well as our own milk and that depends on a lot of factors including the quality of raw material that we want, the quantity that is available, the seasonality, rates and whole lot of things. So based on that we try to strike the right balance and as we discuss this year our procurement has been increasing so, again it also depends on the kind of finished products that we are targeting into the market and requirement of those finished product.

Pritesh: Okay. So at this balance or slightly even better balance then this is why the milk procurement number or volume number starts increasing for us?

Shirish Upadhyay: It will start increasing from this year that is what I am stating.

Pritesh: And my first question was on sir, milk price rise and the expected or already taken price hike on value-added if you can comment?

Shirish Upadhyay: Okay. So milk price rise if you are talking about as we discussed on this call, we had seen around 10% decreased in terms of milk price in FY'16 over FY'15. So if you compare our raw milk prices in FY'15 to what they are today as of now, there is a hardly any increase of 2%-3% based on the base of FY'15 prices that were prevalent at that point of time. And as we discussed since the raw milk prices were quite benign in FY'16 as a whole we had been pushing our sales in terms of giving higher discounting and trade schemes into the market and as the prices have started correcting as a first step, we are now trying to correct this trade schemes and discounts that we are pushing into the market once we reach a stage where we think that now, market cannot absorb anything further in terms of reduction of discounts from margins we will have to take price increase; and as we were discussing we have taken those price increases in few categories already and evaluating in other categories as well.

Pritesh: Can you give out the discount and discount as a percentage-to-sales in FY'16?

Bharat Kedia: So our discount structure works on a primary and secondary two structure. Primary is a structure where the discounts are passed on to the retailers through distribution channel which is super-stockiest and distributor. Secondary is a structure where actually the distributor divides the allocation of the discount based on the products, the territory in which he can push certain products. So if you take the blend of the two, our total spent trade offers for the year FY'16 was about 5.5% of our revenue.

Pritesh: That was netted-off against the revenue or shown as expense in other expense?

Bharat Kedia: That is netted-off against revenue.

Pritesh: Okay. And my last question is for FY'16 we have a Rs. 250 crores other expenditure number, if you can just help us what will be the fixed expense number in this Rs. 250 crores and the balance should be variable, so what will be the fixed expense had in your opinion?

Bharat Kedia: There are no scientific mechanism in which a financial number can be bisected into fixed and variable so, there is an element of management judgment to it. Having said so we would love to convert our organization into more fix then variable expenditure given that our organization is growing rapidly at this stage fixed means lowering down the cost year-on-year that is not unfortunately the place where we are and there is a balance between the two we have to bring. So if you look at our freight cost the transportation cost is variable, if you look at the advertising cost, it is primarily variable. If you look at, however, the cost of administration that is more fixed. If I just try and bifurcate with this logic though it may have some element of judgment and differentiation I would say our variable cost are about 65% to 70% and fixed will be only about 30% to 35%.

Pritesh: Of that Rs. 250 crores

Bharat Kedia: That is right.

Moderator: Thank you. We have the next question from the line of Dhaval Mehta from Emkay Global. Please go ahead.

Dhaval Mehta: Sir, my first question is on cheese. So basically currently we have a capacity of 40 metric tonne which we will be engaging to 60 metric tonne in let us say next financial year. So my question is like even if you see the biggest player Amul, it has a capacity of roughly around 60 metric tonne right now and is planning to double its capacity, while there are also other players like Prabhat Dairy and Quality who are planning to set-up the cheese plant with around 20 metric tonne capacity. But overall the cheese consumption in India is roughly around 95 metric tonne. So do not you feel there will be an overall supply in capacity next couple of years, so can you throw some light on that?

Shirish Upadhyay: Okay. Let us address this in three different parts. So first of all let me clarify that our capacity is 40 tonnes a day and we are the largest manufacturer of cheese in India as far as capacity is concerned. So whatever figures that you might have got, you need to re-check that, that is number one. Number two, as far as further expansion and growth in this category is concerned, this category right now is somewhere around 29,000 tonnes -30,000 tonnes per annum and is growing in volume terms also by around (+20%). So it is growing very rapidly. As far as competitive pressure which are coming into cheese as a category yes, there are some players who have entered this category but being competitive in this particular category, what we have been trying to do over the last three years is that we have been now focusing much more into whey proteins as a business and whey is a byproduct of cheese. And we have gone into much more value addition into whey and driving much higher value as whey proteins out of it and the realizations that we are able to get in whey protein as a business helps us in terms of establishing our self and growing ourselves in this market at a much rapid pace.

Dhaval Mehta: Okay. So like what will be the expansion plan for our whey protein business and how you see whey protein as a percentage of revenue going forward?

Shirish Upadhyay: As far as expansion is concerned, it is already part of the current CAPEX as a part of IPO proceeds that we are planning to do, so as we are expanding cheese capacity hand-in-hand we have to expand the whey capacity as well and that has already been put in part of the objects. As of now whey proteins contribute roughly around 3.5% of the total business and obviously with increasing value addition it will occupy a much larger pie going forward.

Dhaval Mehta: Okay. And the incremental cheese capacity from 40 to 60 when it will be affective like during IPO time we had mentioned that it will be done by December this year so, are we on track?

Shirish Upadhyay: We are on track.

Dhaval Mehta: Okay. And my second question is in gross margin front, so ideally during summer we tend to see that the milk procurement prices increases but despite that in our Q4 numbers we delivered gross margin much high as compare to nine-month FY'16 gross margin. So apart from mix is there anything to call out over here?

Bharat Kedia: Yes, so as you rightly said in summer the prices tend to increase for raw milk, the fourth quarter was the pre-summer quarter for us. In this quarter the milk prices were increasing but it has not increased to a level where it now gone up so, we have that advantage continuing. In addition to that most important for us is the whey protein, our whey protein business has been growing quarter-on-quarter. Whey protein business is one of the highest gross margin driver for us. it is the business at the back of which we have been able to grow our cheese business very well and we are one of those who has put on a large modern advance capability of processing whey to refine and lead into the market and that has been the main source of growth that is coming more on margin then on revenue and that has been the driver for our Q4.

Moderator: Thank you. Next question is from the line of Gaurav Joganiá from Prabhudas Lilladher. Please go ahead.

Gaurav Joganiá: Sir, I wanted to know that there has been a sharp decline in the skimmed milk powder contribution over the last two years. Now as we have seen that there has been a sharp decline in the prices of skimmed milk powder so also are we witnessed same quantity of volume decline or how has the volume panned out in the skin milk powder business?

Shirish Upadhyay: So the decline in skimmed milk powder is twofold a) as an organization we are intending to reduce our dependence on the skimmed milk powder. Skimmed milk powder is a commodity business for us as an organization our strategic pillar is to drive consumer value-added milk product business and therefore our focus has been going down and this is actually taking the volume decline on the milk power. In addition to the volume decline there is also a pricing decline that has been happening due to the international market price being influence on the skimmed milk powder. The overall decline which is about 36%-odd, if you look at the volume decline which is smaller than the price decline in this particular year; however, the price is now more stable and therefore going forward our impact would be not sharp in the skimmed milk powder as it was this year because that would only probably most likely going to come slightly from the volume decline.

Gaurav Joganiá: Sir, just a follow-up on this, so now with the skimmed milk prices going up so, do we envisage any gross margin improvement because of this?

Bharat Kedia: Yes, as I stated before the business growth that we are having that business growth has a component of increase in consumer value-added products decrease in skimmed milk powder as of now and flattening increase in the fresh milk. The margin profile of consumer value-added milk product is much higher than that of skimmed milk powder; as the share of pie of consumer value-added milk products business is growing compare to the growth of skimmed milk powder or in this year de-growth of skimmed milk powder there is an obvious increase in the margin and that had been one of the major reasons for margin improvement already in this year.

Gaurav Joganiá: Sir, I would like to rephrase my question so what my question was that since, the last year there was sharp decline in the SMP prices so, because of which definitely our margins for SMP would have come down. Now with the share consumer value-added products increasing a) and with also the improved realization on the skimmed milk prices so, do we think that there is a scope for your margins to go up from here?

Bharat Kedia: Yes, sir, absolutely right.

Moderator: Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just I wanted to have some perspective from you in the EBITDA margin front, as we see in the second-half our EBITDA margin were in the range of about 9.7% whereas for the full year we were clocking somewhat around 9%. So do you expect this second year kind of EBITDA margin to be sustainable as we go into FY'17?

Bharat Kedia: In the business we are in there is an element of seasonality that we have it is not fairly large but still there is an element of seasonality when it comes to revenue. There is an element of seasonality when it comes to cost of milk and the cost of milk seasonality does not necessarily follow the similar trend of sales seasonality. Number three our expenditure on A&P varies from quarter-to-quarter depending on the new launches, depending on the various promotions that we do and therefore, profitability varies from quarter-to-quarter. This is one another reason why in very opening Mr. Shah said that we are actually looking at giving guidance on a long-term of three years to five years because we just see that the quarter-to-quarter it is very difficult to predict in the business that we are or how the margins profile would differ.

Deepak Poddar: Right, I understood that. And as you mentioned in the answer to the previous question, that you still expect margins at a gross level to improve overall in spite of 10% to 12% cost increase that we have seen in the milk procurement?

Bharat Kedia: Right, we continue to believe that our margin would improve going forward both in terms of gross profit margin and operating margin. As we talked about it we continuously see an improvement in mix of our consumer value-added product business which is driving margin. We continue to see that while the milk prices have gone up, we have the ability to also drive some pricing of our products up. We also see the innovation led company called Parag Milk Foods will continue to drive innovation. We are the largest innovator when it comes to Dairy products in India right now and we believe we would lead that show continuously for a while as we now also have an ability to invest behind those through an IPO money that we have raised. Plus we have an operating leverage one of the questions that came in slightly before was that the utilization of our capacity in Palamaner or the Southern plant. We have fixed overheads in that plant that we need to still amortize over a larger sale of business and looking at all of these we continuously see that increase in milk price will get mitigated through various angles and it still gives us an opportunity to further improvement in operating margin.

Deepak Poddar: Okay, I understood. And my second question is on your volume front, so what kind of volume growth did you see in FY'16 on an average basis? I understand that for cheese or separate section it might be difficult but overall if you can give some sense?

Shirish Upadhyay: See in a business in which we are there is no one volume number unfortunately because various products are relative to their importance as various volumes. So if you club all of that together I think it loses its meaning to be able to explain the volume that is why we have been more talking about revenue growth then volume. Having said so, important for us to know that this particular year we have a slightly over expenditure in terms of discounts and offers to mitigate some of the trade pressure because the raw milk prices were down and therefore the volume growth had been higher than the revenue growth in this particular year if you look at product-to-product level and overall it is difficult for me. So now if I go back to consumer value-added product business which has been the focus and drive of our business the volume growth would be at least 20% to 30% higher than the revenue growth. So when I say 20% to 30% is not in absolute terms but on a growth percentage.

Deepak Poddar: Okay. So basically the trend that we might see here in FY'17 is that overall volume growth might be little lower but your revenue growth might be high because you have taken a price hike?

Bharat Kedia: Difficult for us to say right now in FY'17 how the volume and revenue growth will play out, two or three reasons for it a) while the price increases have been taken and are in horizon for some more product we have not taken for all products as of now as you know. The timing of these price increases may or may not match with the time of the cost increase in terms of the milk prices and therefore, the volume versus value may remain still a little bit unknown till we close to get towards the year, that is one. Number two, the volume and value would also defer because some of the new products that we would launch or which are in the pipeline would drive higher value than volume for us and therefore may disrupt some of the volume value equation of scenario for us.

Deepak Poddar: Right. But at least are we trying to better the growth that we have seen in the revenue terms in FY'17?

Shirish Upadhyay: As Mr. Shah alluded in his opening note that we had a CAGR growth of 17% over the last five years in terms of the revenue growth we believe that we have nothing at this stage in order for us to believe something different that we should in three years to five years not able to get the similar growth.

Deepak Poddar: I understood that, that is fair. And my final question is on your debt part, so I think you mentioned that you have already repaid that I think Rs. 100 crores or in the final stages of repaying, so what would be the current debt level like is it close to Rs. 260 crores - Rs. 270 crores for that?

Bharat Kedia : So our total debt level pre-IPO were Rs. 400 crores, post-IPO we have repaid Rs. 100 crores technically yet to formalize some of the documentation and other things but practically we have gone down to about 300 crores in terms of debt.

Deepak Poddar: And we expect to kind of it remain to these levels because we already have fund tied for CAPEX.

Bharat Kedia: Well with time we believe our debt level should further go down we have cash flows that is going to be generated from internal accrual part of that cash flows would manage to deploy against the maintenance CAPEX, part of that will be taken away by the working capital needs of the company as the business is growing and remaining would be deployed through reduction in debt and payment of dividend.

Deepak Poddar: Understood. And what will be equity base post the IPO?

Bharat Kedia : Our current equity base is Rs. 8.4 crore shares.

Deepak Poddar: In terms of like equity capital like total including reserves and surplus?

Bharat Kedia : The total net worth of the company is Rs. 380 crores.

Deepak Poddar: Rs. 380 crores post the IPO, right?

Bharat Kedia : Post the IPO.

Moderator: Thank you. We take the last question from the line of Bhavin Cheddha from Enam Holdings. Please go ahead.

Bhavin Cheddha: Sir, what was the other operating income in the quarter, you have clubbed it with net sales, if you can give the full year figure that is fine.

Bharat Kedia: Other operating income is the income that we are generate in our plants when we have some spare capacity, we are actually doing job work for other temporarily in order to consume those capacity levels primarily in our southern plant and that is basically we are making commodities for others so, that is the other operating income.

Bhavin Cheddha: No, the absolute number I think that is not shared in the quarterly results.

Bharat Kedia: Bhavin, I may not have right in front of me, would you mind if I will share with you later.

Bhavin Cheddha: No, problem. And the other thing is a Rs. 4 crores write-off which we have taken on the depreciation in the value of the cows is it directly accounted in balance sheet or it is routed via income statement.

Bharat Kedia: It is routed via income statement.

Bhavin Cheddha: So you have written it out in other expenses?

Bharat Kedia: Yes.

Bhavin Cheddha: Okay. And what would be the break-up if you do any into B2B and B2C sales if you break that up into?

Bharat Kedia: Bhavin, the nature of business in which we are, are skimmed milk powder business which is about 12% of our total revenue is B2B because it is sold as bulk. In addition to that, we have whey and whey protein sales which are going to institution right now as Shirish bhai said in the previous call is about 3.5%. Having said so whether they are B2B the margin profile, the nature of product, the customization all of that is far ahead of B2C in that sense accept for the skimmed milk powder. In addition to that we also have cheese business that we sell it through QSR and HoReCa so therefore we do not really have a B2B as such other than the skimmed milk powder which is about 12% of our business.

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

Krishnan Sambamoorthy: Thank you everyone for participating for the call today; and please feel free to get in touch in case of any further query. Our contact details are there in the investor presentation which is there on the exchanges as well as on the website. Thank you. Thank you, all.

Management: Thank you very much.

Management: Thank you very much.

Moderator: Thank you. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.