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MUMBAI Nov 3, 2018 (Thomson StreetEvents) -- Edited Transcript of Parag Milk Foods Ltd earnings conference call or presentation Friday, November 2, 2018 at 9:45:00am GMT

Good day, ladies and gentlemen, and a very warm welcome to the Parag Milk Foods Limited Q2 FY '19 Earnings Conference Call.

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

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

I now hand the conference over to Miss Natasha Kedia, Head Investor Relations from Parag Milk Foods Limited. Thank you, and over to you, ma'am.

Thank you. Welcome to Parag Milk Food Limited Q2 FY '19 Earnings Call. I'd like to begin by introducing the management participants for today's call. We have with us Mr. Devendra Shah, our Chairman; Vimal Agarwal, our CFO; Akshali Shah, Senior VP, Strategy, Marketing and Sales; Amarendra Sathe, our Chief Commercial Officer; Harshad Joshi, Chief Operating Officer; Deepak Jain, Senior Manager, Finance; and myself, Natasha; and we also have with us SGA, our Investor Relations adviser.

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

Let me start by giving some recent updates on the company. We have continued our journey to provide our consumers with innovative products according to their needs and convenience and have launched Kesar Dahi, a premium product under the Gowardhan brand in the healthy dessert category. This is an effort towards expanding our fresh product portfolio. Go Chocolate Cheese, our chocolate-flavored cheese, was launched for the first time in the country by us. As part of the marketing campaign, we did a full-blown activity on TV, digital, modern trade, key account sampling, et cetera. The product was very well received by all consumers.

I will now give you some more updates on media and marketing campaigns that we have conducted during the quarter. Our premium brand, Pride of Cows, recently completed its seventh anniversary. As part of those celebrations, we collaborated with celebrity designer, Gauri Khan, who designed a limited edition bottle label portraying the elegance and premium quality of the brand. A huge support was shown by celebrities on their social media pages that appreciated and supported both side of [cups] and Gauri Khan.

A full-fledged media campaign was also done for our product, Gowardhan Paneer, (inaudible) and digital media channels. The campaign emphasized the use of Paneer as a daily source of protein or (foreign language) protein.

Other product campaigns for Go Cheese involve [corporate] MasterChef Mumbai, red carpet such as KPMG secure credentials, WeWork, et cetera, to (inaudible) and use our products of cheese.

We were also the prime sponsor for the Go Cheese Chef Awards, where chefs from all across India participated.

We also organized a Go Gourmet Cheese Fest with Chef Ranveer Brar, who interacted with food bloggers. The event was attended by more than 70 bloggers and garnered a large organic reach.

In terms of our brand of (inaudible), we also participated in International Health Sports and Fitness Festival, IHFF, 2018, which was held in Mumbai and Delhi. This was a very good platform for the brand to showcase the product among the fitness experts and other fitness enthusiasts across the country.

We will continue to engage with our customers with such marketing and media campaigns in the future as well.

I will now hand over the call to Mr. Devendra Shah, Chairman of our company, to share his thoughts on the current business, which would be followed by an update on financials, and then Q&A for all our participants. Over to you, Deven Shah.

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [3]  
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Thank you, Natasha. Good evening, and warm welcome to all participations. We have continued to outperform by industry growth rates in our value-added products business and have grown in overall revenue by 22.4% in the first half of the financial year. (inaudible) that we are well on course to achieve our 2020 vision of top line of INR 2,700 crore to INR 3,000 crore. EBITDA margin [million 12%], and RoC, 18% to 20%.

Now I would like to share with you a few innovative efforts that we have taken to achieve this vision. Firstly, we have to continue to focus and to concentrate our efforts towards increasing our value-added products portfolio. We have also continued to innovate and have launched several new products in regular intervals to expand to all products categories. We have targeted to achieve 70% of total sales from value-added products by 2021. This increased contribution will mainly come from the health and nutrition segment, where we have our whey business, particularly the brand Avatar and the Go Protein Power. We have expanded our product basket in Avatar. We are ramping up various areas and geographies. We are also in the process to launching Go Protein Power in the mass protein segment, which further added to our health and nutrition portfolio.

Secondly, one of the major focus areas for us to drive distribution and retail reach, we have identified 2 unique model with the help of the Vector Consultancy to (inaudible) our reach. Our pilot project, which was continued in the area of Mumbai, has been very successful. And shown significant improvement on all parameters like a number of outlets. We build a higher range of the products sold into the repeat orders by the outlets. We are currently in the process to implementing this model in the entire Mumbai over the next 2 months, which maybe lead our significant increase. Retail touch points. So subsequently, we shall -- to implement this model into the all major metro cities in India.

Thirdly, we are focusing on expanding our (inaudible) in the northern and eastern parts of India. We have appointed an experienced sales rep and the other sales-focused (inaudible) specifically, dedicated to this geography to improve the shares of the business from the sales.

Moreover, after (inaudible) manufacturing operations in the newly acquired Sonipat facility, we have already started the supplies of the liquid milk and the curd from this facility. This facility brings us closer to the consumer regarding in the better freshness and the more product offering. We will be adding other products lines in the first category, which we'll continue to our North and East expansion plans. I'm happy to inform you, the government has increased the export subsidy benefits on the milk and milk products from 10% to 20% currently. This will return of the support to our dairy industry as well as (inaudible). The (inaudible) of the dairy farmers, we will also benefit by this more as we will increase our export opportunity to existing as well as new geography.

Lastly, I would to inform you all, the Parag Milk Foods has been -- will always focus towards creating value-added for all stakeholders.

Now I will request to Mr. Vimal Agarwal, our CFO, to discuss our financial performance for the quarter and half year ended 30th of September 2018.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [4]  
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Thank you, Devendra. Good evening, ladies and gentlemen. I'll discuss the financial performance for quarter ended September 30, 2018.

Consolidated revenue from operations for Q2 FY '19 stood at INR 5,734.8 million, a growth of 13.7% year-on-year from INR 5,045.1 million in Q2 FY '18. This was driven by an increase in revenue from milk products of 14.3% Y-o-Y, which is led by growth in key products categories like cheese, paneer and [whey]. The upside for festive season was partially captured in Q2 FY '19, while the remaining will get captured in the next quarter. Revenue from milk products segment in Q2 FY '19 was INR 3,934.4 million compared to INR 3,442 million in Q2 FY '18.

The share of milk products for Q2 FY '19 was 68.6% of total revenue, while that of fresh milk was 18.4%, and the same for skimmed milk powder was 11.6%.

EBITDA for Q2 FY '19 stood at INR 581.1 million as compared to INR 507.7 million in Q2 FY '18, signifying a growth of 14.5% Y-o-Y. The EBITDA margin stood at 10.1% for Q2 FY '19.

PAT for Q2 FY '19 stood at INR 304.3 million as compared to INR 249 million in Q2 FY '18, recording a growth of 22.2% year-on-year. The PAT margin stood at 5.3% for Q2 FY '19.

Now coming to the financial performance for half year ended September 30, 2018. The consolidated revenue from operations for H1 FY '19 stood at INR 11,229.1 million, a growth of 22.4% Y-o-Y from INR 9,173.9 million in Q2 (sic) [H1] FY '18. Revenue from our milk products in H1 FY '19 was INR 7,565.9 million, a growth of 25.7% Y-o-Y, as compared to INR 6,019 million in H1 FY '18.

The share of milk products for H1 FY '19 is 67.4% of total revenue, while that of liquid milk was 18.9%, and 12.1% for skimmed milk powder.

EBITDA for H1 FY '19 stood at INR 1,177 million as compared to INR 792 million in H1 FY '18, signifying a growth of 48.6% year-on-year. The EBITDA margin increased by 180 bps year-on-year to 10.5% for Q2 (sic) H1 FY '19.

PAT for H1 FY '19 stood at INR 587 million as compared to INR 354.3 million in H1 FY '18, recording a growth of 65.7% year-on-year. The PAT margin stood at 5.2% for H1 FY '19.

We have been constantly working on improving our various KPIs, including our working capital, which you have -- which you would have seen in our balance sheet numbers as well.

This is all from outside for the time being. And now we can open the floor for Q&A.

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#### Questions and Answers

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Operator [1]

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(Operator Instructions) The first question is from line of Percy Panthaki from IIFL.

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Percy Panthaki, IIFL Research - VP [2]

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My first question is on the other expenses line that you have. It has grown by 32%, and that actually is depressing the EBITDA margin. If it had grown in line with the top line, then your EBITDA margin would have probably crossed 12% this quarter. So just wanted to understand what has led to this increase.

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

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See, there are 2 or 3 key aspects. One is, in the other expense line, we do have sales and promotion advertisement expenses. And specifically for the quarter, those have gone up by about 0.6, 0.7 percentage points, and that's the key driver. Having said that, our full year guidance on marketing expense continues to be the same at about 2.7%, 2.8%, and that we should hold on, that's one. Second one really is the overall logistics costs. And when I say logistics, I am also referring to the investment. We either directly, which is not so much, but through third-party also need to do. And that logistics spend, one is your volume is growing, and second is that we are building strong food chain infrastructure through third-party. That is leading to some disproportionate increase for the quarter. So we are -- again, it should be in line. The third fact is that the

volume growth for the quarter is more than the total revenue growth, which you are seeing in the financials, which means that 14% is our total revenue growth, the volume growth is about focusing higher. And therefore, the logistic cost will move in sync with the volume growth. And therefore, it is slightly on the higher side. So these 2 or 3 other key drivers in the entire other expenses.

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Percy Panthaki, IIFL Research - VP [4]

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So sorry. If I just to summarize this, approximately in rupee, crore, how much would be the amount, which is either one-off or it is a phasing issue and, therefore, one step together in this quarter?

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

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Broadly, I'll say about point -- 7.8% of EBIT -- of revenue will be phasing.

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Percy Panthaki, IIFL Research - VP [6]

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Okay, okay, okay. That's helpful. Secondly, just a question on the balance sheet line as well. Your other current assets, if I see what you reported this quarter, it is INR 217 crores. The same 6 months back was INR 187 crores. And 12 months back, it was INR 167 crores. So this has continuously increased this other current assets line. So could you throw some light on that as well?

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

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Yes. So see, one aspect is, I'm sure you would have attended the previous calls and you have been tracking the company, there is this PSA incentive which is there. In March '18 -- subsequent to March '18, Q1 and Q2, their further accruals, which have happened in this line. And the other thing is really the Maharashtra government had announced subsidy of INR 5. Now the way this INR 5 works is that we are expected to give this INR 5 for every liter of milk which you purchase in Maharashtra to the farmers first and then expect the Maharashtra government to reimburse it to us. So there is a lag effect, right? And this subsidy was available until 31st of October, and we don't have clarity as to what happens in this quarter or subsequent quarters. But this is really driving the current [SS] lineup, which we believe is temporary, and that should come back to normal.

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Percy Panthaki, IIFL Research - VP [8]

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Understood, sir. So there is no increase in the loans to farmers, which is driving this lineup?

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

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Not really. However, we may have slight increase to drive the continuous supplies of procurement of milk from long-term freshness perspective, and that is something which we will continue to do continuously. But that number is not a substantial

change versus what you would have seen earlier.

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Percy Panthaki, IIFL Research - VP [10]  
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Understood. And Mr. Shah mentioned that this export subsidy has been increased from 10% to 20%. Just wanted to understand, this export subsidiary is available on what type of dairy products? It is only on SMB or it is available on each and every type of dairy exports?

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [11]  
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It is available on each and every product.

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Operator [12]  
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Percy, I'm sorry to interrupt. May I ask you to come back in queue for any follow-up questions? (Operator Instructions) The next question is from the line of Nitin Gosar from Invesco Mutual Fund.

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Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [13]  
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I just wanted to understand the reasons for improvement in (inaudible) and the recent sharp drop in (inaudible) payables, too, if you can shed some light on that.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [14]  
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So that's an interesting one. (inaudible) why it's high. Now it's moving in -- probably in the right direction.

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Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [15]  
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Good to know the reasons for the improvement.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [16]  
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A couple of points here. What is -- so as far as inventory is concerned to -- significant part of reduction is driven by the sales, which are increasing. Therefore, you have been able to utilize on the inventory, which is more about the semi-fresh products like butter. And that exactly is the reason we tend to procure butter, when the season is -- getting into a new season. So February and March, whatever butter you procure, that is getting liquidity right now, and that's driving this one. Credit

payables, I don't know -- I don't think there's a substantial reduction, but this is something which we will (inaudible) and we'll continue to rationalize to the extent possible.

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Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [17]

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Okay. So the payment is -- payment to the creditors is, I think, at a faster rate as compared to earlier?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [18]

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Yes. See, the movement is not substantial. It's about INR 12 crores. So I'll not want to say that it's being done at a faster rate. But yes, given an option, we would want to move to (inaudible) with the payments terms, which we have tied up with the farmers -- with the creditors.

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Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [19]

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Okay. Got it. And the second question is pertaining to the revenue share. If you could throw some light on revenue shares from Mumbai, (inaudible) Maharashtra and [AP]?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [20]

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So I will not be able to give you exact numbers. What I can talk about, really, is, so far as our North and East markets are concerned, we are seeing significant progress in those markets, and that is largely driven by the fact that we had the Sonipat commercial production, which has started. And then there is overall distribution improvement, which we are seeing in North and East. To that extent, the share of North and East will continue to progress northwards versus South and West.

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Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [21]

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Okay, okay. But you are wanting to call out the share of (inaudible) that you typically get from Maharashtra?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [22]

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That number, we usually don't share.

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Operator [23]

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The next question is from the line of Viraj Parekh from KRChoksey.

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Viraj Parekh, [24]  
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So just in addition to the question asked by the first speaker, what would be our advertisement and selling expense in absolute terms? If you could share it with me for this quarter as compared to the previous one.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [25]  
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It's about -- just give me a second. It's closer to about INR 13 crores to INR 15 crores, slightly rough numbers, but this is the range.

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Viraj Parekh, [26]  
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Okay, sure. And as from what you stated, around 2%, 2.5% of the revenue would be add spend even going forward?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [27]  
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2.7% to 2.8% is the full year number projection, which is in sync with what we have been spending in the past couple of years as well.

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Operator [28]  
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The next question is from the line of Nihil Parekh from Dhanki Securities.

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Nihil Parekh, [29]  
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So I had a few questions. One is that continuing from the question earlier asked. So as far as our margins are concerned, the core EBITDA margins, we had touched -- or, rather, we had crossed 11% a few quarters back. And slowly, in the last 2 quarters, 3 quarters, we have trended downwards. So from the last answer that you mentioned, there are a few items which are one-off. So therefore, can we expect the EBITDA margins to sort of scale up to that 11%-plus number?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [30]  
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So when I say one-off, it was about that quarter. On a full year basis, for example, marketing spend will get [dominated]. So it's not one-off, it's more phasing. That's one. Second is, EBITDA full year, we would want to stay with the guidance, about range of 10% to 12%. And that's where you see the trend in the last few quarters as well. That's how we are heading. That's one. There's one more point which I wanted to add. If you look at the gross margin numbers, you will see that on a Y-o-Y

basis, there is an improvement of about 270 basis points, and that is largely driven by our software commodity prices as well as the overall value-added products for the [mid-base] product mix, which is moving in the right direction.

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Nihil Parekh, [31]

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Okay. So the second question was pertaining to a subsidiary company. There seems to be a sharp jump in the margins over there. So if you can shed some more light on that.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [32]

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Can you say that again?

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Nihil Parekh, [33]

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So I was saying that there seems to be a sharp jump in the margins in the subsidiary company. So if you can throw some more light on that.

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

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That is because of a lot of value additions that has happened in waste streams there. So we had discussed earlier in terms of producing fertilizers and lots of other value-added products out of cow dung and cow urine. So that is what is leading to increased profitability gain.

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Nihil Parekh, [35]

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So that is coming in the subsidiary company. Is it the Bhagyalaxmi company?

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

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Yes, it is.

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Nihil Parekh, [37]

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Okay. And one final question. So if you can add some more color on some of our brands. I mean, most of our brands are now more than 2 years old, fairly well established in the market in terms of the traction that they are -- and also some color



on the initiatives that we have taken with respect to improving our inventory days, et cetera, with help from a consulting agency.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [38]

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So, see, the first part of the question you talked about is, what's happening on the brands per se. What is the second part?

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Nihil Parekh, [39]

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So the second was, the benefits that we are seeing from the exercise that we are doing on the working capital and inventory cycle with Vector?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [40]

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So far as the Vector is -- Vector part is concerned, so it's about -- it's almost 5-quarter engagement now. And there were 2 parts to the engagement broadly. One was the back-end optimization or the network optimization, which includes the overall operations enhancements and, therefore, production. On the inventory side, you will see that the number of days have dropped so far as this quarter is concerned. So overall, the number of days were about 160. Now that [hundred], that's one change which has happened. The second one which is not really visible in the numbers is the product freshness, which used to not be very, very -- at a very great level. That improvement, we have seen. That's second. The third one really is the overall engagement which we had with Vector on the front-end side of the sales side. Vector was -- which we are doing with them in Mumbai, is yielding results, and the KPIs are moving in the right direction. So to that extent, Vector engagement seems to be paying off. However, the engagement is obviously much, much longer in the association. We'll give some results in the quarters to come as well. Now coming back to the overall brand point, which we made, I'll request Akshali to just add on, please.

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Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [41]

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So on the brand, so as mentioned, we're also increasing our solution in North and the East. (inaudible) brand is really well accepted. With liquid milk coming in, we are able to reach more households. And with also the brand (inaudible) premium in the northern region that was able to (inaudible) product, the liquid milk, almost INR 2 higher than the other established brands. We also lately launched Go Protein Power, which is a health and nutrition segment, which is mass consumption protein that we've launched lately. So that is also being well accepted. We are starting that off with Mumbai as a pilot. And we'll be soon doing a lot of marketing activities [on the same]. We received an award from Jago Grahak Jago, being the safest brand of paneer available in the market. A lot of activities on cheese. We launched a couple of products. We're doing a lot of new stuff. We also changed our packaging lately. So communication on that is also [flowing up].

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Operator [42]

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The next question is from the line of Rishab Bothra from Sharekhan.

Rishab Bothra, Sharekhan Limited, Research Division - Equity Research Analyst [43]

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I just wanted to check in case -- if you exclude the Sonipat Plant, what would have been our revenues and profitability? You mentioned that you had been increasing a lot on the nutrition in Northern and Eastern markets, which would help certain costs attached to it. So if we exclude these 2, what could have been our revenues and profitability?

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

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So as far as Sonipat Plant acquisition is concerned, that's more off a strategic acquisition to ensure that we have very strong presence and distribution in North. That was a key driver. The acquisition really got executed in Q1 of this year. And the commercial production, while cup curd had started production somewhere in July, fresh milk really got launched about -- on 23rd of August. And to that extent, the contribution which we are seeing in the financial numbers for the quarter is not very significant. However, next quarter, we are targeting a very good improvement in Sonipat Plant and the Delhi-NCR region in terms of contribution to P&L from revenue or top line point of view. And we -- as we said earlier, we should be delivering about INR 60 crores of our revenue on a full year basis from this plant.

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Rishab Bothra, Sharekhan Limited, Research Division - Equity Research Analyst [45]

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And costs attached as of now in other operating expenses for advertisement or penetration in these markets?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [46]

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Fairly low, not significant right now. There are some activations we have done in terms of, for example, bus shelters, folding, radio activation, [dealer boats] and the [POS material]. But the amounts are not significant at this stage. But yes, we will make important investments to ensure that the brand and the on-ground team is very well supported there.

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Rishab Bothra, Sharekhan Limited, Research Division - Equity Research Analyst [47]

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Okay. So nothing major being contributed either on the top line or expense front on Sonipat Plant?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [48]

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For the quarter, yes, you're right.

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Rishab Bothra, Sharekhan Limited, Research Division - Equity Research Analyst [49]

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Bur overhead, (inaudible) overhead would definitely be there?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [50]  
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Very, very low, insignificant right now.  
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Rishab Bothra, Sharekhan Limited, Research Division - Equity Research Analyst [51]  
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Okay, okay. Sir, could you spilt the revenue growth in value terms and volume terms on an overall basis, not the product category-wise, where we have grown?  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [52]  
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So overall, at an entity level, the volume growth would have been closer to 17%, 18%. And the revenue growth we are seeing is [about 14%].  
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Rishab Bothra, Sharekhan Limited, Research Division - Equity Research Analyst [53]  
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So there is a realization slight (inaudible) realization because of excessive milk glut?  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [54]  
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Yes.  
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Operator [55]  
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The next question is from the line of Shikha Mehta from Equitree Capital.  
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Shikha Mehta, [56]  
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So I had a few questions. I wanted to know the milk procurement for the quarter.  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [57]  
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Milk procurement for the quarter were about 13, 13.5 and -- yes, that's it. Anything else?

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Shikha Mehta, [58]  
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So we have around 3,400 chilling centers, right?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [59]  
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No, collection centers because of...

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [60]  
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[400 roughly].

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Shikha Mehta, [61]  
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So this would roughly translate into around 400 per center, is that the correct way of looking at it?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [62]  
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That is not the way it is looked into. So it all depends on the concentration of procurement in different geographies. But yes, you can take an average.

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Shikha Mehta, [63]  
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An average. All right, sir. And in terms of margins...

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Akshali Shah, Parag Milk Foods Limited - SVP of Strategy - Sales & Marketing [64]  
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It takes time to develop, yes.

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Shikha Mehta, [65]  
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And so on the margin trend, [dual] margins -- gross margins have improved substantially this quarter. When we compare them to our competitors, who do a lot less value-added, it doesn't seem so far off. So can you help me understand that?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [66]  
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You see, our business is divided into 3 parts. One part is commodity like SMP. Second part is fresh milk. And third part is value-added products. So as far as commodity and fresh milk is concerned, we would be similar to any other player in the market. And obviously, margins would also reflect a similar trend. Whatever improvement that we are able to make is only in terms of the value-added product portfolio, which is significant for us as of now. But we are still a new entrant per se in that space. And we have to do a lot of investment in terms of brand building, distribution and a lot of other things. So if you look at EBITDA or PAT margins, it won't reflect the true margin potential that is lying in those business as of now.

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Operator [67]  
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The next question is from the line of Anupam Singh from Florintree Advisors.

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Anupam Singh, [68]  
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I just wanted to follow up on one of the questions discussed earlier. So inventories of about INR 400 crores as of September-end, could you just throw more color on what has changed since March? Like a split of, say, butter and cheese and SMP, maybe, if you could give. What has led to the substantial reduction in inventories?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [69]  
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So this point had come in about 10 minutes back, and I had responded. The only thing which I wanted to add to this is, for example, item like SMP, we are expecting further reduction to come in, largely driven by the export subsidy, which has been announced [in the prepared comments], and the quantum has been taken up.

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Anupam Singh, [70]  
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Okay. So I just wanted to understand the numbers. So say SMP as of March versus SMP as of September, what's the change? If you could just split the inventory in terms of, say, SMP, butter and cheese, that could give us a sense.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [71]  
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So overall inventory number is about INR 395 crores. The breakup -- the way it's divided in annual report, annual communication, it talks about finished goods, semi-finished goods and WIP. And that's the level at which we provide the detailing.

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Anupam Singh, [72]  
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Okay. So I just wanted to get a sense of, say, in terms of percentage, how has, say, SMP changed or butter changed.  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [73]  
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There is a significant reduction in the butter inventory overall. SMP is something which we are expecting to see a change in quarter 3 and quarter 4, if everything goes as per plan.  
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Anupam Singh, [74]  
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So it could improve in the coming quarters maybe?  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [75]  
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And the key driver really is, as I was saying, the overall export benefits and the number of (inaudible) which we have started getting. We should see that really materializing in a month or so. And the trend should sustain.  
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Anupam Singh, [76]  
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Okay, okay, got it. And the milk procurement, you mention 13, 13.5. This is per day. Like what's the unit for this?  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [77]  
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Measurement unit is LLPD, which is lakh liter per day.  
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Operator [78]  
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The next question is from the line of Aniruddha Joshi from ICICI Securities.  
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Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [79]  
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Yes, sir, I just wanted to check, what is the subsidy outstanding at the end of September? Or if you can share at the end of October? And when do you expected it to receive?  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [80]

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Overall, the way the process works is it's slightly time-consuming although pretty transparent from a state government perspective. It's a transaction-level upload, which we need to do on a defined portal, which the government has sort of extended us to. And in terms of lag, it has started off with a lot of time. So month 1, it took a substantial time. And we are seeing that improvement coming in with every passing week or every passing fortnight. All the subsidy, we should have -- I don't have exact number readily available with me, but it should be in the range of about INR 9 crores to INR 14 crores, roughly.

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Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [81]

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Okay. And anything -- any further notification from government regarding the subsidy as well as the subsidy on the SMP?

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [82]

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SMP subsidy already in the -- for the export, 20% is set for the oil products.

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Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [83]

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No, sir, the subsidy announced by the state government of Maharashtra, that is INR 50 per kg?

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [84]

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Yes, per kg. And again, either, INR 5 rupees to the farmers.

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Aniruddha Joshi, ICICI Securities Limited, Research Division - Research Analyst [85]

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Yes. So any further update from the government? Because it got overall...

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [86]

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There is that indication from the government (inaudible) in next 3, 4 days. They are coming with a new GR and extending this in -- for next 3 months.

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Operator [87]

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

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Jasdeep Walia, [88]

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So first of all, I wanted to know the gross movement in gross and net debt from March to September.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [89]

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So Jasdeep, if we'll see the borrowings, borrowing has come down around close to INR 40 crore, INR 45 crore, okay.

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Jasdeep Walia, [90]

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For March?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [91]

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Yes, yes.

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Jasdeep Walia, [92]

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Okay. So what's the gross debt number as of now -- and gross and net debt number as of now?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [93]

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So gross debt is close to INR 240 crores. In the March, it was around INR 260 crores -- INR 260 crores, INR 264 crores.

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Jasdeep Walia, [94]

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Okay. And net debt?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [95]



Net debt would be if we'll see the September, it will be around INR 240 crores minus around INR 30 crores, so it would be INR 210 crores.

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Jasdeep Walia, [96]

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Okay, got it. And sir, when the subsidy scheme was launched by the government, I remember you commented in the first quarter that we are hopeful that the subsidy -- or the government has promised that the subsidy will be given in 10 days, but it doesn't seem to have happened. I think the payment from the government are happening with a significant lag.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [97]

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Yes, no. So see, I'll tell you. First, August is when the subsidy scheme got announced. It took them about, I think, 10 to 13 days to come out with a process based on which the subsidy's reimbursements to the private company or to the organizations will happen. Then it took about another 2, 3 weeks for them to really get the processes right. Now August month subsidy, really we got in month -- in week 2 of September. However, as I was saying in the previous discussion, we have seen the improvement in the tenure. The overall TAT seems to have improved significantly. And as we go along, in case government decides to extend it further, we would want to call out that usually, we expect the delay not to be beyond 2 weeks or so because now the system is much more settled. This, by the way, is a significant improvement versus all subsidy reimbursements, which we have historically seen coming to us from the state government.

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Jasdeep Walia, [98]

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Got it. And sir, what has been the payment from the government on the PSI subsidy front in the first half? Cash payments?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [99]

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See, there was about INR 19 crores of subsidies we are to get in quarter 4. And that's the reason you see the March number on the higher side. That money has come in, in April. And with this year's trend, [sure] we expect to receive in quarter 3 end. But going by the trend, that may see a delay of a month also.

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Jasdeep Walia, [100]

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So in the first half, you have received INR 19 crores of subsidy from the government on the PSI incentive scheme?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [101]

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Yes.

Jasdeep Walia, [102]

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Got it. Sir, what's your view on raw milk prices? There have been some news articles that milk production has started declining in Maharashtra. So what's your view on raw milk prices going forward?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [103]

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So overall, one is we are not seeing a dip right now so far as our procurement and collection is concerned. The price, Maharashtra is pretty much fixed at 25. So there is nothing in terms of variability. So far, it is 3.5:8.5, fat to SNF. That's the price. And right now, it's pretty stable. I just want -- I just request Shirish to add a couple of points on the procurement scenario right now.

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Shirish Upadhyay [104]

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Yes. So in terms of production, we don't see any impact, and same remains for procurement as well. So situation is stable. Pricing also with the current level of inventories, which are lying and being carried forward and the country entering into first season now. So we don't see any further movement, upward or downward, in terms of milk pricing also till the end of March. Beyond that, with the onset of summer, things might change.

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Operator [105]

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The next question from the line of [Sedan Chappa] from HDFC Securities.

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Unidentified Analyst, [106]

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I just wanted to get some color on the performance of SMP. The growth has been faster than what we've seen from milk products. So considering the realizations currently to SMP. So can you explain the first half performance of SMP?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [107]

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So SMP, we have been discussing this in every call, that SMP is something which depends on market situation and cannot be looked at on quarter-on-quarter basis because it's more of a commodity. And based on market situation still also, this commodity happens. And number 2, especially in our case, as we have been discussing over the last few calls, we have gone more into specialized SMP, customizes for requirements of select large customers. And that is what is driving our sales. And the major part of SMP business today is generated from that. So commodity SMP is not that significant portion of our portfolio now.

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Unidentified Analyst, [108]

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Okay. And the second thing I wanted to understand was our performance in Ghee considering it's a seasonally strong quarter for us. So how has the performance been? And do we see any rise in competitive intensity?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [109]

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There are a couple of points, and I'll request Amar to add later. The one point, Ghee, because of the overall brand pool continues to be strong, and you're absolutely right there that we are seeing good volume. The only point I wanted to mention here is the Q2 numbers. Ghee growth will be slightly subdued because the base quarter has got a full-slated season versus this quarter where the seasonality or the festive season at least, 50% of that is falling in quarter 3. That's one. In terms of operating intensity, Amar, you wanted to add anything?

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Amarendra Vishnu Sathe, Parag Milk Foods Limited - Chief Commercial Officer [110]

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I think yes, there was a lot of competitive intensity, what we have seen. Especially in modern retail, we have seen a lot of smaller brands trying to compete on the pricing bid. And there are regional players. They are also trying to compete on the pricing bid. But maybe thankfully, our brand image is strong. So we were able to maintain our own pricing. And we were able to distribute properly with -- charging a premium on our pricing, in fact.

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Operator [111]

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The next question is from the line of Nidhi Agarwal from Angel Broking.

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Nidhi Agrawal, Angel Broking Private Limited, Research Division - Senior Research Analyst [112]

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My first question is, how much is the export and export incentive this quarter?

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

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Export is roughly around 4% -- 4% to 5% of our business as of now. And incentive kicked in very late. So it is not material for the quarter and the business, yes.

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Nidhi Agrawal, Angel Broking Private Limited, Research Division - Senior Research Analyst [114]

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Okay. And we are taking a lot of initiatives to expand our distribution network. So how has been the addition during this quarter?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [115]

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I'm trying to understand that. Can you repeat that?  
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Nidhi Agrawal, Angel Broking Private Limited, Research Division - Senior Research Analyst [116]  
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Yes. So how much distributors, dealers have been added this quarter?  
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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [117]  
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So I won't be able to tell you the exact number. But definitely, our little weakness was in the far areas of North and East, where with the plant acquisition, we have deployed the team also. And we are giving high focus on the distribution in those areas primarily. And almost 200 distributors we have added in those areas. And around 25,000, I think, stores spanning that, we have added. And our weakness was a little bit in pharma channels because we don't have any pharma-related products. But we have recently launched protein power, Go Protein, under the brand of Go. And it is competing with all the leading protein powder. So definitely, that product will be duly endorsed for the pharma channel, which is much, much higher in India.  
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Nidhi Agrawal, Angel Broking Private Limited, Research Division - Senior Research Analyst [118]  
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Okay. And how is the sales for Avvatar in first half?  
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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [119]  
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Avvatar, the sales is growing. And we have seen very good response from couple of exhibitions also. The brand is getting good popularity. And we are going to launch a couple of more variants soon.  
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Vimal Agarwal, Parag Milk Foods Limited - CFO [120]  
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See, I just want to reiterate here. One aspect, which we had spoken in the last couple of quarters as well, is the health and nutrition segment and the contribution which we expect from this segment. Right now, we are about 2.5% to 3%. This number is expected to go up to 6% by FY '21. And the key drivers of it, Amar also spoke about, will be 2 or 3. One is Avvatar as a brand, which is picking up momentum. Second is Go Protein Powder, which has been recently launched. And the initial response in terms of distribution or acceptance from retail outlet and pharma channels has been good. And third really is the overall supply of whey protein to the Insti channel. So all 3 put together, we are doing decent on health and nutrition journey as well.  
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Operator [121]  
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The next question is from the line of Bhavin Chheda from ENAM Holdings.

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Bhavin Chheda, [122]  
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Sir, what has been the PSI incentive, which has been booked in this quarter? And which area book? Do you book it under revenues?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [123]  
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Yes. So Bhavin, so the total PSI incentive available is around INR 265 crores, which is spread around 80 years. So every year, the maximum cap is INR 35 crores, okay. And on every quarter, it is -- depend upon the sales, which we are doing in the Maharashtra. And it is booked under the revenue from operations. So it is a part of the revenue.

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Bhavin Chheda, [124]  
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Okay. And so you get it from the government with what time line? And how much has been now the outstanding in the balance sheet as of September?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [125]  
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So the time line is around 12 to 15 months because the assessment is done like in a period of around 9 to 12 months. So we'll receive after 15 -- 12 to 15 months. And as of now, if we'll see in the March '18, it was around INR 60 crores, INR 60 crores. So we have received first tranche in first quarter.

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Operator [126]  
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The next questions is from the line of Mehul Desai from IDFC Securities.

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Mehul Desai, IDFC Securities Limited, Research Division - Research Analyst [127]  
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I just wanted to know your view. I think in our previous interaction, you have said that there are 3 levers, which you had described to drive margin expansion. One was in terms of playing with the trade schemes and promotion. Second was the curtailing inflation in the non-milk COGS. And the third was driving operating efficiencies. Purely, you had given an example of savings on logistics cost, recalibrating your distribution network and vehicle turnaround time. How have these 3 levers played in this quarter? And how do you see it going forward?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [128]  
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So far as operating efficiency is concerned, we have been able to create a little more restructure around it in the sense that we now have got identified projects and identified teams. They're working on various productivity or efficiency initiatives across the organization, which means that while the fuel prices are rising disproportionately, we have some ideas and productivity initiatives, which hopefully will mitigate all of it. And that's the case in a lot of other areas, for example, plant production. In both our plants, there are energy efficiency ideas or labor rationalization ideas, which -- on which we are working on. So to that extent, we are overall doing good. Now so far as other aspect is concerned, on the other 2 levers, we continue to play as is, which is trade promotions. If need be, we are doing those trade promotions. And the second one really is the marketing expense. Wherever need be, we are making those expenses as well.

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Mehul Desai, IDFC Securities Limited, Research Division - Research Analyst [129]

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So has there been any reduction and -- or any reduction in intensity in terms of promotions or schemes? Or do you see it as going up? And also, how is the inflation on the non-milk COGS, especially the packaging or the rest [of it]?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [130]

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I'll give you one example. And for example, 3 years back, the overall total brand awareness of cheese was about 17 or 18. That has gone up to about 58, 59, which is best in class across all 3, 4 players we have. Now that is driven by the investments we are making in the channel. And that is something which we would not want to drop at this stage because it's a category which is growing at a disproportionately faster pace.

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Operator [131]

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The next question is from the line of Rahul Ranade from Goldman Sachs.

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Rahul Ranade, Goldman Sachs Group Inc., Research Division - Research Analyst [132]

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Just been wondering if it is possible for you to give a split between general trade and modern trade across products.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [133]

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Overall product-level breakup, I will not be able to provide. But what I can tell you is the modern trade is about 10%, 11% of our total revenue. But then there are other significant channels outside of general trade. There is a HoReCa segment, which is hotel, restaurant and catering. Then there is Institutional channels. Then there are Insti clients, which are [milk]. Then there is fresh division, which is liquid milk. And all those channels are pretty important, including export, which right now is about 4%.

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Rahul Ranade, Goldman Sachs Group Inc., Research Division - Research Analyst [134]

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Okay. And just wondering, so on the subsidy mechanism, how does this work in case of aggregators from whom we purchase the milk? As in we pay it to the aggregator, is it?

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Devendra Prakash Shah, Parag Milk Foods Limited - Executive Chairman [135]

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Yes.

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Vimal Agarwal, Parag Milk Foods Limited - CFO [136]

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No. So see, the guideline from the government is to pay directly to the farmers, which means that all the transactions we are doing needs to be uploaded on the portal, which government has provided, and along with the bank details. And the money transfer really happens through that.

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Rahul Ranade, Goldman Sachs Group Inc., Research Division - Research Analyst [137]

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Okay. So farmer level -- like kind of individual farmer data, we need to upload even if we are purchasing from aggregator?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [138]

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Yes. There are [10,000] of line items.

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Operator [139]

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The next question is from the line of Kush Gangar from Care Portfolio Management.

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Kush Gangar, [140]

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Sir, last quarter, I think we had mentioned that we had targets of adding 9,000 to 10,000 retail outlets per month. And in H1, our addition has been around 25,000-odd retail outlets. So what has led us to slow down on our targets?

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Vimal Agarwal, Parag Milk Foods Limited - CFO [141]

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No. So see, what's happening is the number which you saw on the presentation talks about North and East expansion. And the reason we specifically called out North and East expansion is because we know that's going to be our biggest source of growth in (inaudible). So 25,000 is the outlet addition only in North and East, which they are -- like used to be ours but we linked an entire chain. So far as overall outlet addition is concerned, there are 2 things which are happening. One is the

Vector project, which is getting scaled up. And we will see significant addition of outlets, and therefore, our improvement in revenue. And second is inherent. As we've said that we are adding about 7,000, 8,000 outlets, that journey we are continuing. It has started up slightly slow in quarter 1, and it has picked up pace as we speak right now.

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Operator [142]

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Due to time constraints, that was the last question. I now hand the conference over to Ms. Natasha Kedia for closing comments.

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Natasha Kedia, Parag Milk Foods Limited - Head of IR [143]

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I would like to thank all the participants for taking the time out to join us. Please feel free to get in touch with me or SGA, our Investor Relation adviser, for any further questions. Our coordinates are provided at the end of this Q2 FY '19 result update presentation, which is uploaded on the stock exchange as well as our company website. Thank you all for participating.

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Operator [144]

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