



*Ideas for a new day*

## PARAG MILK FOODS LIMITED

INVESTOR PRESENTATION

February 2017

Gowardhan

GO

PRIDE OF COWS

TOPP

Parag Milk Foods Emerges as Fortune India's 'Next 500' Company

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# COMPANY OVERVIEW

## EVOLUTION – MOVING UP THE VALUE CHAIN

### 1992-1998 Commodity player

- ❑ Established in 1992
- ❑ Primarily involved in collection and distribution of milk



### 1998-2008 Milk Products Player

- ❑ Developed the 'Gowardhan' Brand
- ❑ Started manufacturing Ghee and Butter at Manchar
- ❑ Launch of Bhagyalaxmi Dairy Farms
- ❑ Launch of 'Go' Brand for targeting youth of India.
- ❑ Raised first round of private equity funding from MOSL



### 2008-2016 Branded Foods Player

- ❑ Established 40 MT per day capacity cheese plant at Manchar
- ❑ Launched dairy plant in Palamaner
- ❑ Launched Farm-to-Home brand 'Pride of Cows' & beverages range with 'Topp Up'
- ❑ Raised second round of private equity funding
- ❑ Expansion of cheese product ranges
- ❑ Focus on brand building and distribution



# COMPANY OVERVIEW

## ABOUT US: BRIEF PROFILE



### BUSINESS OVERVIEW

- Strong Promoter Pedigree with over 2 decades of rich industry experience. Incorporated in 1992, with collection and distribution of milk, we have now developed into a dairy-based branded FMCG company with an integrated business model.
- Diversified product portfolio catering to wide range of customer - Established "4 Brands" - 'Gowardhan', 'GO', 'Pride Of Cows' & 'Topp Up', having a large customer base & strong brand recall targeting specific customer segments through strategic positioning.
- Derive all of our products from 100 % cows' milk. Our aggregate milk processing capacity is 2 million litres per day and our cheese plant has the largest production capacity in India, with a raw cheese production capacity of 40 MT per day.

### KEY STRENGTHS

- Integrated Business Model Encompassing the entire value chain - Procurement, Manufacturing, Distribution and Branding.
- Robust brand portfolio with 4 well established brands targeted towards distinct consumer groups - Gowardhan, Go, Topp Up, Pride of Cows
  - Parag Milk Foods is identified as Fortune India's 'Next 500' Company.
  - Gowardhan' ranked among the top 25 most trusted brands in the food products category.
  - 'Go' Cheese was awarded "India's Most Promising Brand 2014-15" in the FMCG category.
- World Class Manufacturing with 2 state-of-the-art Manufacturing facilities and Strong R&D capabilities
- Established Strong Relationships at grass root level with farmers, distributors & institutional customers and a large retail customer base.
- Established Pan-India Distribution Network of 16 Depots, 104 Super Stockists and over 3,000+ Distributors.

### STRONG FINANCIAL PERFORMANCE

- Consolidated Revenues, EBITDA and PAT were Rs 16,451 mn, Rs 1,476 mn and Rs 473 mn in FY16 having grown at CAGR of 17%, 18% and 58% over FY12-FY16.
- Share of Commodity products reduced from 22% in FY15 to 12% in FY16.
- Significant De-leveraging Efforts have helped improve PAT Margins from 0.9% to 2.9% over FY12-FY16.
- ROCE improved from 9.1% in FY 14 to 12.3% in FY 15 and 16.2% in FY 16, due to strong growth in Top-line and improving Operating Profitability and improvement in FY16 Debt : Equity ratio to 1.1:1.

### WE FOLLOW 3 TIER MILK PROCUREMENT SYSTEM

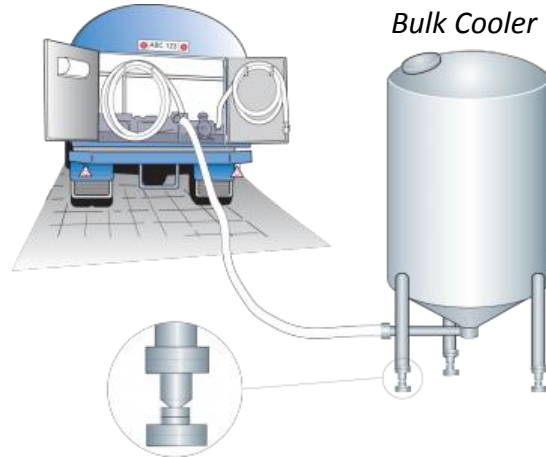
#### 1<sup>st</sup> Tier Village collection centre



Everyday ~1.2 MN LPD of milk is deposited at 3000+ VCC



#### 2<sup>nd</sup> Tier Chilling centre



This milk is transported to nearby chilling centres and chilled at 4°C



#### 3<sup>rd</sup> Tier Dairy Plant



The chilled milk is then transported to our dairy plant

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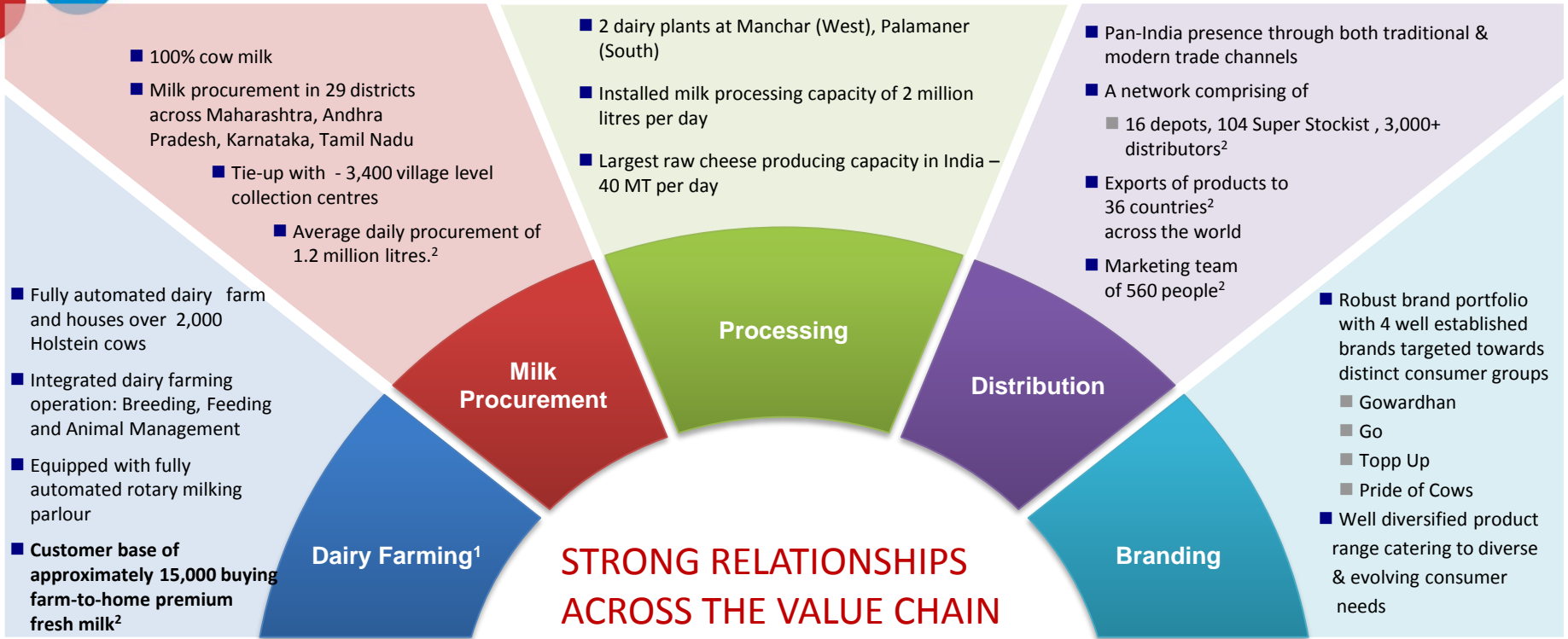
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# COMPETITIVE STRENGTHS INTEGRATED BUSINESS MODEL



Integrated Business Model that encompasses the entire value chain of the dairy based food and beverage business

**Notes:**

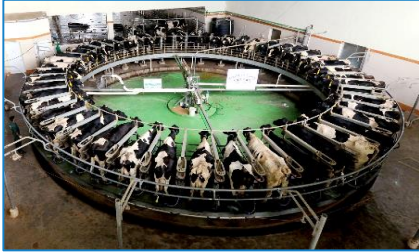
(1) The dairy farming business is housed in Bhagalaxmi Dairy Farm which is owned and operated by Bhagalaxmi Dairy Farms Private Limited

(2) As of 31<sup>st</sup> December, 2016

# COMPETITIVE STRENGTHS

## WORLD CLASS MANUFACTURING FACILITIES & PRODUCTS

### Processing Facilities



Bhagalaxmi Dairy, Pune



Palamaner Plant, Andra Pradesh

### Leadership in Dairy FMCG space



Second largest market share  
in Cheese



Most trusted & attractive  
Brand Recognised by TRA in  
Ghee



Branded player in "Farm to  
Home" premium milk



Leading private player in UHT  
category



# COMPETITIVE STRENGTHS

## PRODUCT INNOVATION – KEY TO OUR SUCCESS STORY

### PIONEERING PRODUCT INNOVATION WITH STRONG R&D THRUST



Premium quality cow milk -  
“farm-to-home” concept  
through Subscription model



Go “Cheezooz” awarded the  
“Best Children’s Dairy  
Product” in the product  
innovation category



Wide & innovative variety of  
cheese including gourmet  
cheese, jalapeno cheese  
spread, herb cheese cubes



Pioneering and Leading  
player in India to market  
fresh paneer in retail stores  
with a shelf life of 75 days



Leading producer of Whey  
protein powder in India

2013

- Emmental cheese
- Consumer packs of mozzarella cheese
- Yogurt in three new flavours of saffron, pink guava and vanilla
- Topp-up in four flavours
- Cheese spread in six flavours
- Parmesan cheese
- Cheezlets
- Vital milk in all markets

2014

- New flavours in Topp-up of pistachio and butterscotch
- Cheese sandwich slices
- Cheese toppings for pizzas
- Spiced buttermilk in UHT
- Fresh cream in UHT
- Spiced buttermilk in Fino pack

2015

- Whey proteins
- Sachet packs of ghee
- Buttermilk in southern spices variant
- Go Badam Milk
- Go Almette Creamed Cottage Cheese in two flavours
- Go Chutney cheese slices

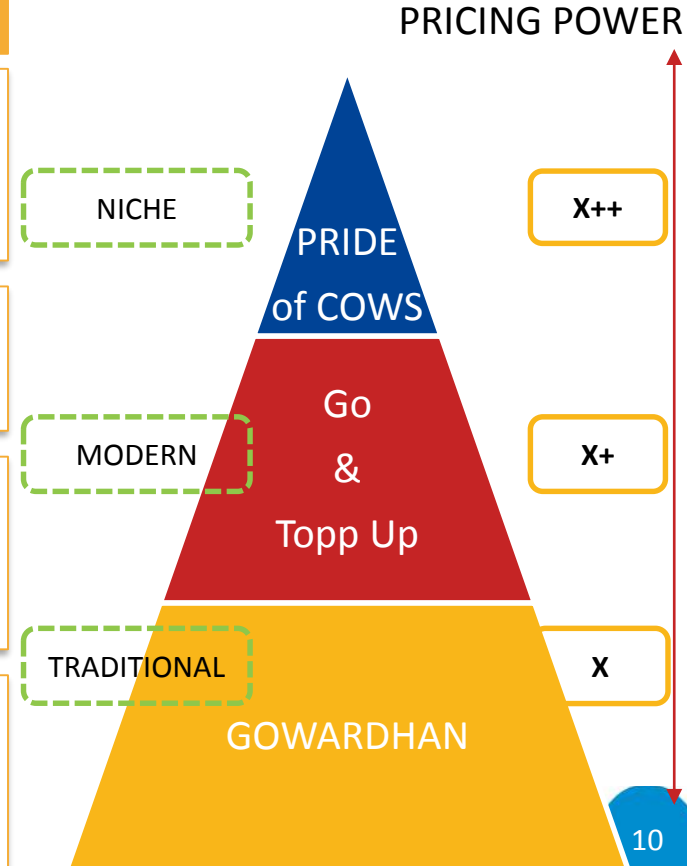
2016

- Spice-up Flavoured cheese slices
- Curd 10kg Bucket
- Badam Milk Instant Mix
- Cheese Wedges – Herbs and spices

# COMPETITIVE STRENGTHS

## DIFFERENTIATED BRAND & PRODUCT PORTFOLIO

Brands	Target Customer Group
	 <ul style="list-style-type: none"> <li>Targeted at household consumers seeking premium quality cow's milk.</li> </ul>
	 <ul style="list-style-type: none"> <li>Targeted at youth generation &amp; travellers as source of instant nourishment</li> </ul>
	 <ul style="list-style-type: none"> <li>Targeted at children and the youth generation, primarily for direct consumption</li> </ul>
	 <ul style="list-style-type: none"> <li>Targeted at house-hold consumption for traditional Indian recipes and to be used as cooking ingredients</li> </ul>



## PRODUCT PORTFOLIO OF PARAG MILK FOODS



## SMALL PACKS FOR RURAL CONSUMPTION



9ML GHEE SACHET



200GM CURD POUCH  
PACK



200ML SMALL UHT  
MILK



20GM INSTANT  
BADAM MILK MIX



SEPARATE ROUTE TO  
MARKET ESTABLISHED  
FOR RURAL MARKET

# COMPETITIVE STRENGTHS

## EXTENSIVE SALES, MARKETING & DISTRIBUTION NETWORK

### Well entrenched Pan-India distribution Network



### Enormous Potential to grow in India



Pan-India Distribution network 16 depots, 104 super stockists, 3000+ distributors

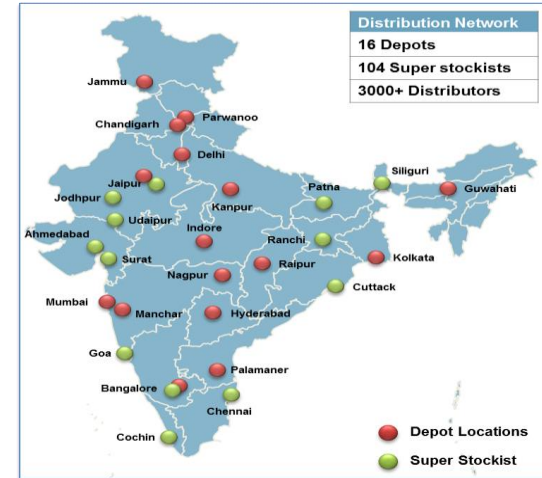


Dedicated sales and Marketing team comprising of 560 personnel<sup>1</sup> to serve our retail as well as institutional customers



Deploys product specific marketing & distribution strategy

*Increased our territorial reach in Western region and Southern region by opening new depots at Jaipur and Chennai respectively*



### REGION WISE DISTRIBUTION NETWORK IN INDIA

Region	Depots	Super Stockists	Distributors (greater than)
Mumbai	1	2	250
North	5	31	450
East	2	17	300
West	5	28	800
South	3	26	1,200
<b>Total</b>	<b>16</b>	<b>104</b>	<b>3,000</b>



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# STRATEGIC INITIATIVES

## DEPLOYMENT & UTILIZATION OF IPO PROCEEDS

Rs. in million

Sr. No	Objects of Issue	Amount to be utilized	Amount utilized till now *	Pending Utilization
1	Expansion and Modernisation of existing capacities at Manchar & Palamner and improving marketing and distribution Infrastructure	1,477	245	1,232
2	Expansion and modernisation of the Bhagyalaxmi Dairy Farm	23	4	19
3	Partial repayment of the Working Capital Consortium Loan	1,000	1,000	0
4	General corporate purposes (Gross of Expenses)	284	284	0
	<b>Total</b>	<b>2,784</b>	<b>1,533</b>	<b>1,251</b>



\* - 31<sup>st</sup> December 2016, LLPD = Lakh litres per day, MTD = Metric tonnes per day,

# STRATEGIC INITIATIVES

## NEW MARKETING CAMPAIGN & PRODUCT LAUNCH

Parag Milk Foods assigns creative mandate to **JWT** for our flagship products '**Gowardhan**' Ghee and '**GO**' Cheese



Focused marketing campaign for 'Cow Ghee' with new slogan – '**Pyar ka Rang Sunehra**'

Association for Go Cheese and Go Fresh Cream Products with India's most popular Celebrity Chef – '**Ranveer Brar**'



Raveer Brar using **Go cheese chutney** slice on his show '**Good to Go**'

**New product** launched during 9M FY17



Products launched during 9M FY17

- Go "**Cheese Wedges – Herbs and Spices**"
- Go "**Badam Milk Instant Mix**"
- "**Spice up**" box in 5 New Flavoured Cheese Slices

# STRATEGIC INITIATIVES

## KEY AREAS OF STRATEGIC FOCUS

### Focus on Health & Nutrition

- Introduce healthy & nutritious product variants like
  - Milk based high protein drinks (Topp Up, T-Star, Go)
  - Colostrum products – as daily supplements
  - High protein, low fat cheese products

### Increase Our Value-added Product Portfolio

- Offer wider range of farm-to home products under 'Pride of Cows'
- Focus on health & nutritional aspect in developing premium products
- Sell whey directly to retail consumers in the form of branded health supplement foods and beverages

### Grow Our Product Reach

- Strengthen distributor & stockists base to achieve higher retail penetration
  - Addition of 6 more depots in FY17
- Introduce low unit price products in Tier III cities
- Identify specific states and regions in India to increase sales volumes

## Areas of Strategic Focus

### Increase Operational Efficiencies

- Leverage in-house technological, R&D capabilities to:
  - Maintain strict operational controls
  - Enhance customer services levels
  - Develop customised systems & processes

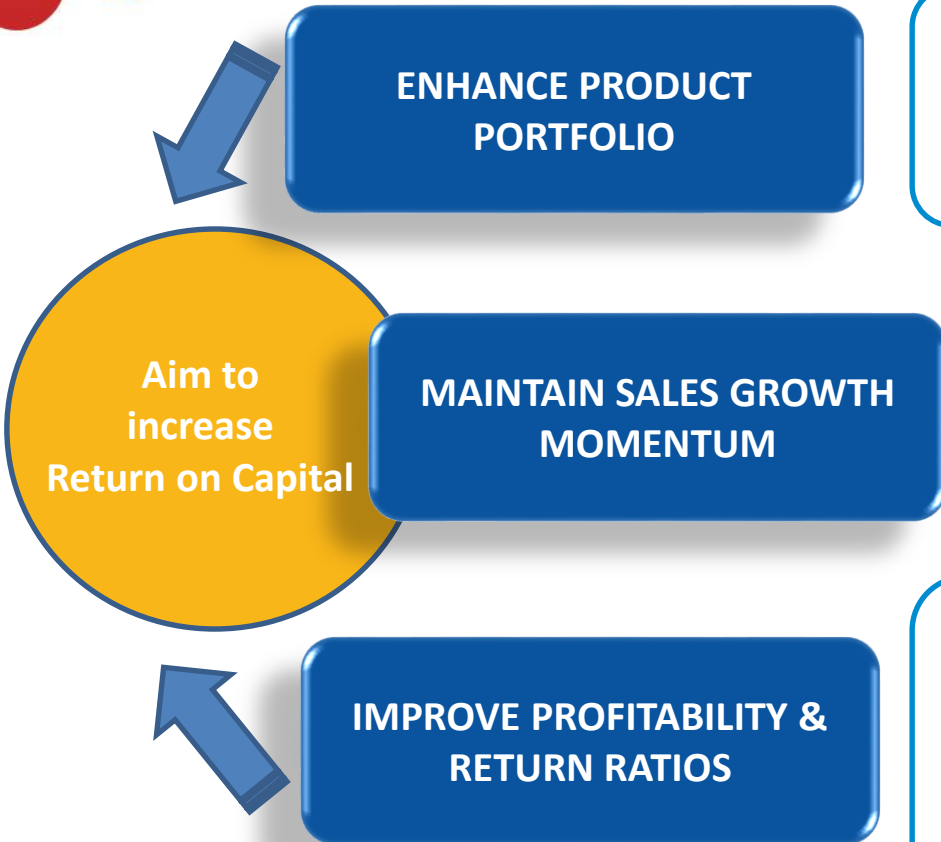
### Increase Our Milk Procurement

- Strengthening existing farmer relations
- Offer quality & quantity based incentives
- Set up new collection centres & reach new districts
- To add 75 new bulk coolers, 100 automated collection systems

### Focus on Strengthening Our Brands

- Enhance brand recall through strategic branding initiatives
- Increase Ad spend on diverse channels including television, newsprint, digital media etc.





- **Focus on Branded Whey Products** - Plan to emerge India's 1st domestic company to produce and sell Whey protein consumer products
  - in the form of branded health supplement foods and beverages
  - Competitive pricing compared to imported brands (~40% import duty)
- **Focus to increase the product portfolio of UHT products and Beverages to entice youth with our new variants**
- Offer wider range of farm-to home products under 'Pride of Cows'

### Continue to maintain the momentum of growth

- Revenue growth of CAGR 14% – (FY16-FY19). However, for FY17, we expect modest growth of high single digit
- Share of Value added products to increase from current 66% to 70% over the next 3 years
- To expand the capacity of cheese plant from 40MT to 60MT by FY17. Aim to increase our market share and domestic presence.
- Robust growth expected in UHT & Whey products
- Focus on brand building through accelerating advertisement

- **Within Value added Products, product mix is set to move towards margin accretive products such as Whey, UHT & beverages, cheese.**
- Savings in interest due to reduction of debt of Rs. 100cr through the IPO Proceeds.
  - Credit Re-rating to "BBB+" leading to reduction in cost of debt due to improvement in capital structure.
- **Profitability improved from 0.9% in FY12 to 2.9% in FY16 and endeavour to achieve >5% over next 3 years (FY16-FY19).**
  - Overall, this may lead to improvement in Return Ratios.



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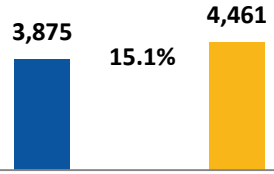
Financial Outlook

# Q3 & 9M FY17 RESULTS ANALYSIS

## CONSOLIDATED FINANCIAL ANALYSIS

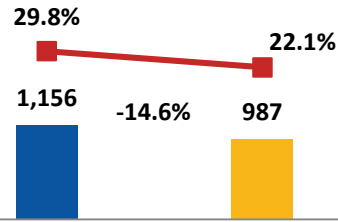
### Q3 FY17 Highlights

#### REVENUES



Q3 FY16      Q3 FY17

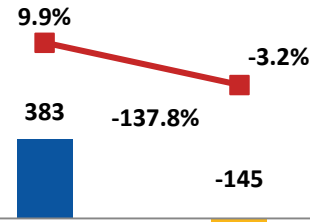
#### GROSS PROFIT & GROSS MARGIN



Q3 FY16      Q3 FY17

■ Gross Profit ■ Gross Margin %

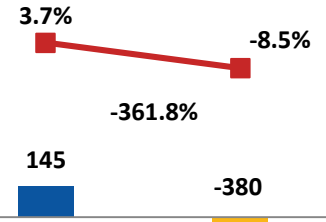
#### EBITDA & EBITDA MARGIN



Q3 FY16      Q3 FY17

■ EBITDA ■ EBITDA Margin %

#### PAT & PAT MARGIN

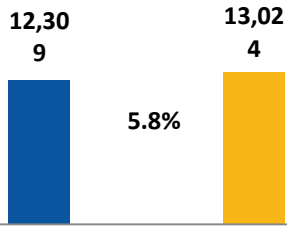


Q3 FY16      Q3 FY17

■ PAT ■ PAT Margin %

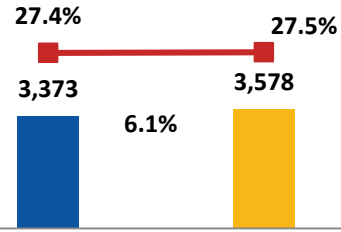
### 9M FY17 Highlights

#### REVENUES



9M FY16      9M FY17

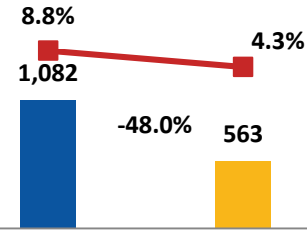
#### GROSS PROFIT & GROSS MARGIN



9M FY16      9M FY17

■ Gross Profit ■ Gross Margin %

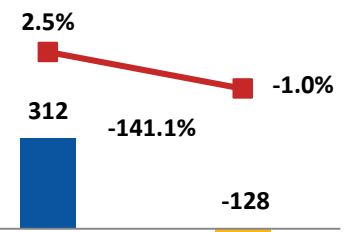
#### EBITDA & EBITDA MARGIN



9M FY16      9M FY17

■ EBITDA ■ EBITDA Margin %

#### PAT & PAT MARGIN



9M FY16      9M FY17

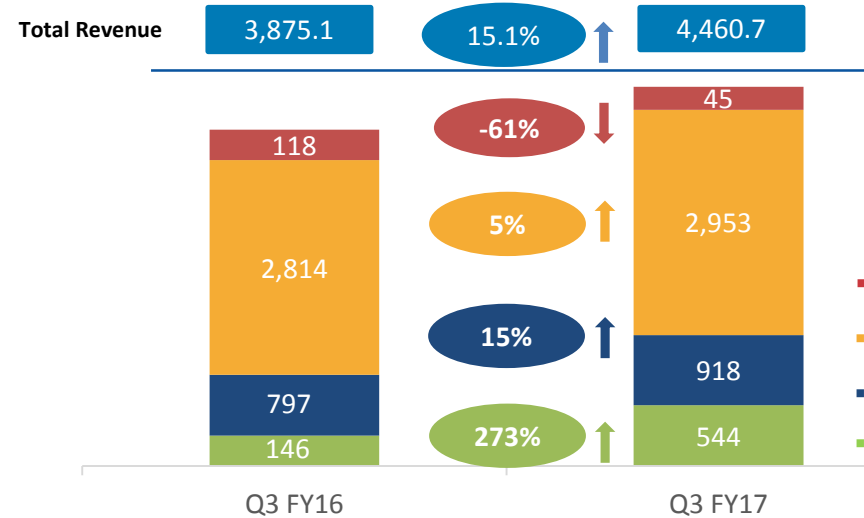
■ PAT ■ PAT Margin %

Amounts In Rs Million

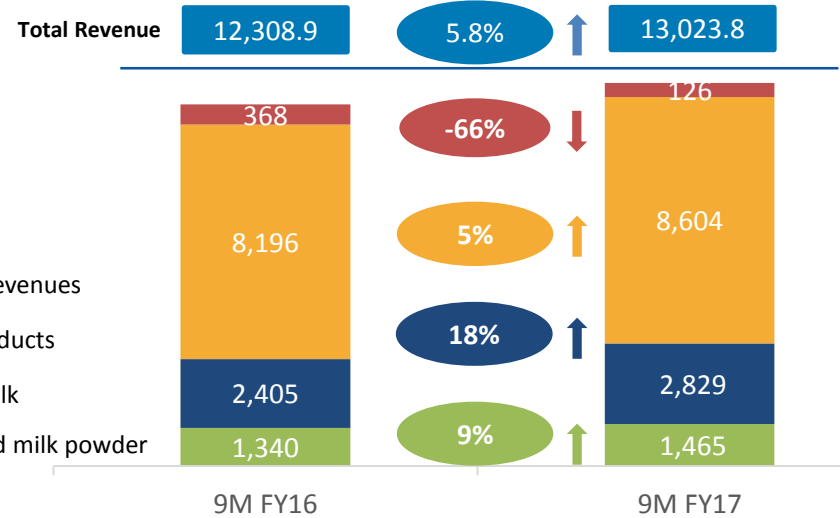
# Q3 & 9M FY17 RESULTS ANALYSIS

## PRODUCT WISE REVENUE BREAK-UP

### Q3 FY17 YoY ANALYSIS – REVENUE BREAKUP



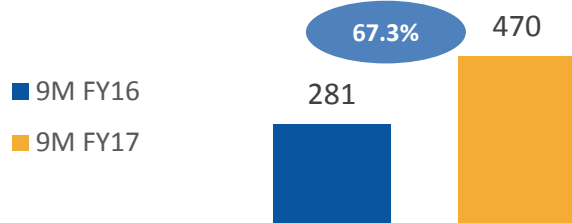
### 9M FY17 YoY ANALYSIS – REVENUE BREAKUP



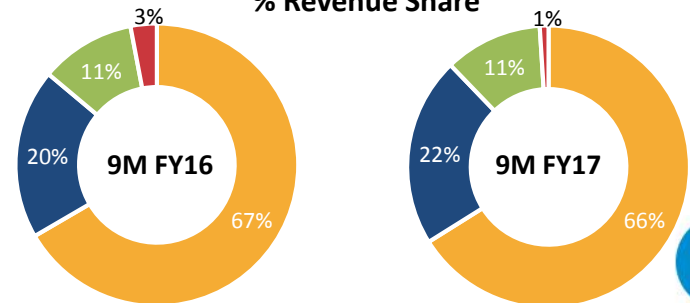
- Other Revenues
- Milk Products
- Fresh Milk
- Skimmed milk powder

Amounts In Rs Million

### Exports Revenue



### % Revenue Share



# Q3 & 9M FY17 RESULTS ANALYSIS

## CONSOLIDATED PROFIT & LOSS STATEMENT

Particulars	Q3 FY17	Q3 FY16	YoY %	Q2 FY17	QoQ %	9M FY17	9M FY16	YoY%
Revenue from Operations	4,460.7	3,875.1	15.1%	4,728.4	-5.7%	13,023.8	12,308.9	5.8%
Raw Material Costs	3,473.9	2,719.4	27.7%	3,284.0	5.8%	9,446.0	8,935.9	5.7%
<b>Gross Margins</b>	<b>22.1%</b>	<b>29.8%</b>	<b>-770 bps</b>	<b>30.5%</b>	<b>-842 bps</b>	<b>27.5%</b>	<b>27.4%</b>	<b>7 bps</b>
Employee Expenses	210.4	181.1	16.2%	206.6	1.8%	595.2	507.8	17.2%
Other Expenses	921.0	591.8	55.6%	860.4	7.0%	2,420.1	1,783.7	35.7%
<b>EBITDA</b>	<b>-144.5</b>	<b>382.8</b>	<b>-137.8%</b>	<b>377.4</b>	<b>-138.3%</b>	<b>562.5</b>	<b>1,081.6</b>	<b>-48.0%</b>
<b>EBITDA Margin %</b>	<b>-3.2%</b>	<b>9.9%</b>	<b>-1312 bps</b>	<b>8.0%</b>	<b>-1122 bps</b>	<b>4.3%</b>	<b>8.8%</b>	<b>-447 bps</b>
Depreciation	108.6	82.0	32.5%	115.0	-5.5%	321.6	236.5	36.0%
Finance Cost	88.8	116.8	-24.0%	63.8	39.2%	245.1	374.8	-34.6%
Other Income	20.2	9.6	109.7%	23.1	-12.8%	51.3	11.9	330.2%
Exceptional Item	164.9	0.0	-	0.0	-	164.9	0.0	-
<b>PBT</b>	<b>-486.7</b>	<b>193.6</b>	<b>-351.4%</b>	<b>221.7</b>	<b>-319.5%</b>	<b>-117.8</b>	<b>482.2</b>	<b>-124.4%</b>
Tax Expense	-107.0	48.6	-320.4%	78.5	-236.4%	10.5	169.9	-93.8%
<b>PAT</b>	<b>-379.7</b>	<b>145.1</b>	<b>-361.8%</b>	<b>143.3</b>	<b>-365.0%</b>	<b>-128.3</b>	<b>312.3</b>	<b>-141.1%</b>
<b>PAT Margin %</b>	<b>-8.5%</b>	<b>3.7%</b>	<b>-1226 bps</b>	<b>3.0%</b>	<b>-1154 bps</b>	<b>-1.0%</b>	<b>2.5%</b>	<b>-352 bps</b>

# Q3 & 9M FY17 RESULTS ANALYSIS

## KEY HIGHLIGHTS & ANALYSIS

### Revenues

#### Revenues grew by 15.1% YoY from Rs 3,875.1 mn in Q3 FY16 to Rs 4,460.7 mn in Q3 FY17

- Growth in Q3 FY17 revenues was primarily driven by higher growth in fresh milk and skimmed milk powder.
- Revenue in milk products grew by ~5% primarily driven by increase in volume.
- Revenue of fresh milk increased by ~15% driven by increase in volume.
- Export business witness good traction with an increase of ~88% from Rs 72 mn in Q3 FY16 to Rs 135 mn in Q3 FY17.

### Gross Margin

#### Gross Margin witnessed a pressure of 770 bps by declining from 29.8% in Q3 FY16 to 22.1% in Q3 FY17.

- During Q3 FY17, milk prices increased by >20% which impacted the gross margin of the company.
- Price increase of milk products was delayed to Q4 FY17 instead of Q3 FY17 due to demonetization which created pressure on gross margin.
- Higher sales of Skimmed milk Powder (SMP) from 4% of total business in Q3 FY16 to 12% in Q3 FY17 impacted gross margin negatively.

### EBITDA

#### EBITDA de-grew YoY from Rs 383 mn in Q3 FY16 to Rs -145 mn in Q3 FY17

- Increase in other expenses is mainly due to
  - Advertising spends during Q3 FY17 to create brand impact during festive season of Diwali and New Year. However, at an annual level we are likely to remain within the budget.
  - Continued focus on driving distribution and increase in depots caused increase in selling and distribution expenses ahead of time.

### PAT

#### PAT declined by 1226 bps from 3.7% in Q3 FY16 to -8.5% in Q3 FY17

- Company has incurred an exceptional expense of Rs. 164.9 mn pertaining to prior years, as a result of sales tax investigation conducted by Maharashtra sales tax authorities.

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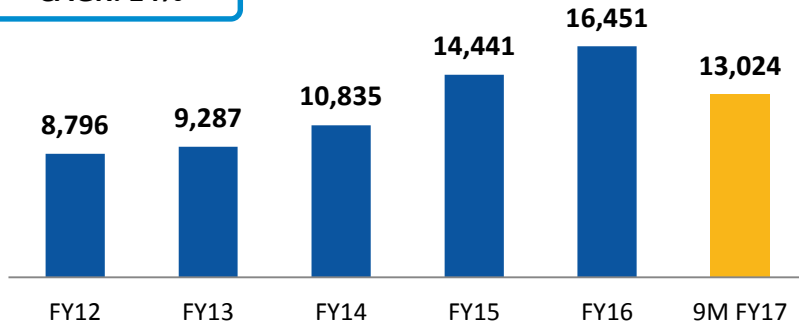


# FINANCIAL OVERVIEW

## HISTORICAL FINANCIAL SUMMARY

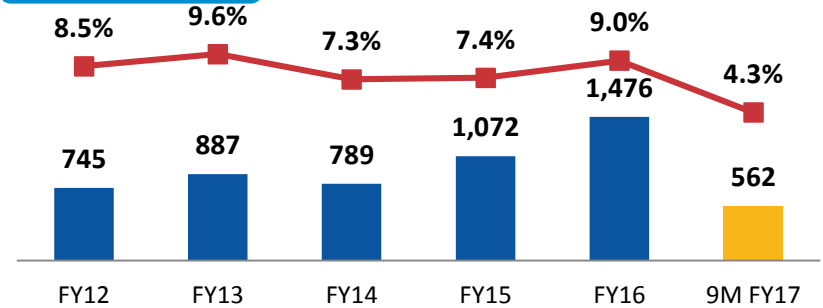
### Net Sales (Rs mn)

CAGR: 14%



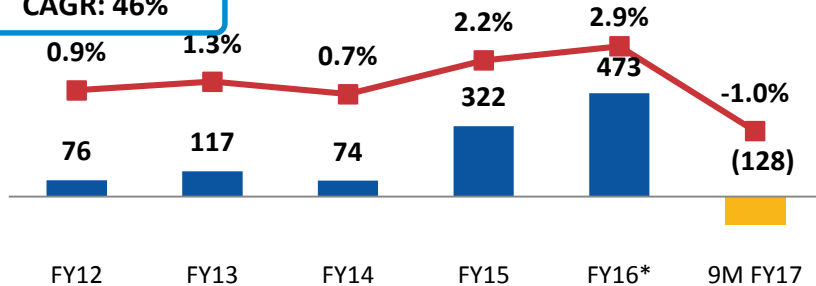
### EBITDA (Rs mn) & EBITDA margins (%)

CAGR: 14%

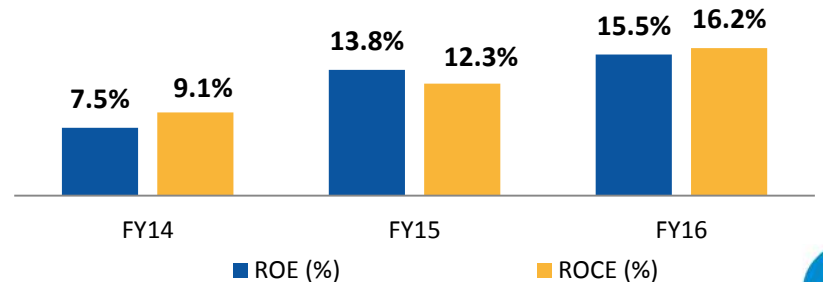


### PAT (Rs mn) & PAT Margins (%)

CAGR: 46%



### Return Ratios (%)



CAGR growth is FY12 – FY16



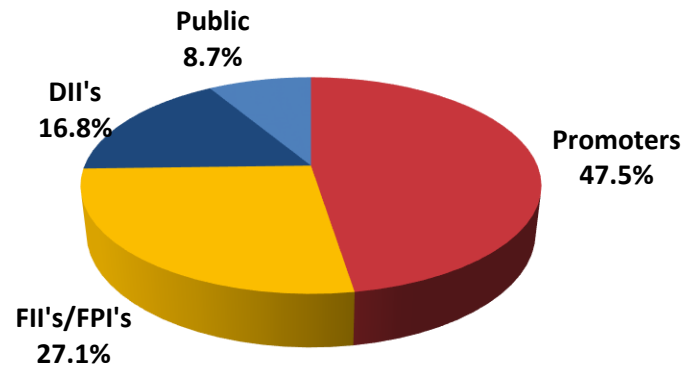
# FINANCIAL OVERVIEW

## SHAREHOLDING SUMMARY

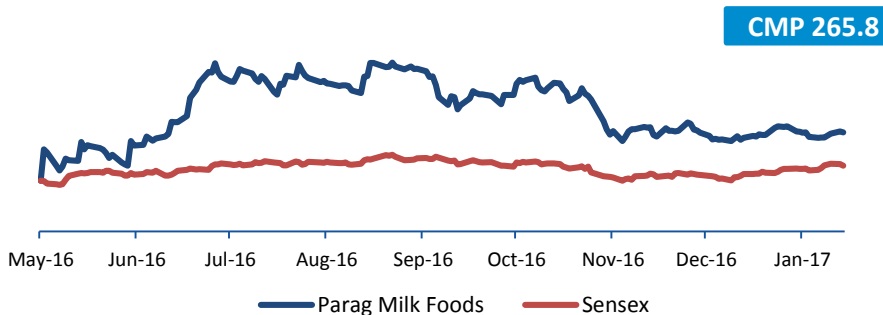
### Top 10 Investors as on 31st December 2016

	% Holding
IDFC Trust	6.98%
Nomura India Investment	3.50%
New Horizon Opportunities	3.01%
Goldman Sachs India Limited	2.92%
IDFC Spice Fund	2.87%
Government Pension Fund Global	2.66%
Abu Dhabi Investment Authority	2.10%
Ashish Kacholia	1.88%
Quantum (M) Limited	1.79%
Tata Balanced Fund	1.65%

### Shareholding as on 31<sup>st</sup> December 2016



### Share Price Performance (Normalized) as on 31<sup>st</sup> January 2017

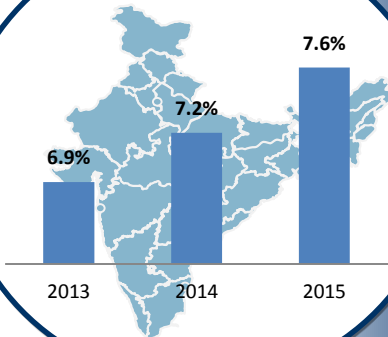


### Market Data

As on 31<sup>st</sup> January 2017

Market Capitalization (Rs mn)	22,353.5
Price (Rs)	265.8
IPO Price (Rs)	215.0
No. of Shares Outstanding (mn)	84.1
Face Value (Rs)	10.0
52 Week High-Low (Rs)	356.7-202.1

India – GDP Growth



### Rising middle class population & income levels

- Middle class households to grow from 255 million in 2015 to 586 million in 2025 at a CAGR of 8.7%
- Rising income & disposable income to drive consumption of milk & dairy products

### Urbanisation

- Urban population expected to increase from 31.2% in 2011 to 34.5% in 2021
- Preference for clean, hygienic & ready-to-eat milk & dairy products to boost organised dairy industry

### Changing Dietary Patterns with focus on Milk

- Milk being important source of vital nutrients especially for vegetarians, consumers are shifting away from cereals to milk & dairy products
- 31% Indian population is vegetarian, ensuring continuous demand for milk & dairy products

### Shift to packaged food to drive organised market

- Increasing quality & safety concerns increasing demand for packaged food, in particular pasteurised packaged milk
- Organised dairy market to grow at 19.5% CAGR over 2015-20
- Organised market share to also increase to 26%, in value terms, by 2020

# THANK YOU



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