



## “Parag Milk Foods Limited Q2 FY2018 Earnings Conference Call”

November 07, 2017



**ANALYST:**

**MS. SANGEETA TRIPATHI - CHIEF MANAGER  
(RESEARCH ANALYST) - RESEARCH EDELWEISS  
BROKING LIMITED**

**MANAGEMENT:**

**MR. DEVENDRA SHAH – CHAIRMAN  
MR. BM VYAS - NON-EXECUTIVE DIRECTOR  
MS. AKSHALI SHAH - VP STRATEGY AND  
MARKETING  
MR. DEEPAK JAIN - SENIOR MANAGER (FINANCE)-  
PARAG MILK FOODS  
MS. NATASHA KEDIA - INVESTOR RELATIONS  
OFFICER**



*Parag Milk Foods Limited  
November 07, 2017*

**Moderator:** Ladies and gentlemen good day and welcome to the Parag Milk Foods Limited Q2 FY2018 earnings conference call hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sangeeta Tripathi from Edelweiss Broking. Thank you and over to you Madam!

**Sangeeta Tripathi:** Thank you. Good evening everyone. On behalf of Edelweiss Broking, it gives me immense pleasure to host the Q2 FY2018 post result conference call of Parag Milk Foods Limited. Today, along with Mr. Devendra Shah, the Managing Director we have the senior management of the company with us to discuss the performance of the company along with the strategy ahead. I would ask Ms. Natasha who is the Investor Relation Manager out there to introduce the team and then we can start with the question and answer session. Over to you Ms. Natasha!

**Natasha Kedia:** Thank you Sangeeta. I would now like to introduce the management participants for today's call. We have with us Mr. Devendra Shah - Chairman, Mr. BM Vyas, Non-Executive Director, Ms. Akshali Shah, the VP Strategy and Marketing, Mr. Deepak Jain, Senior Manager (Finance) along with Mr. Shirish Upadhyay – Advisor to the Company's management. We also have with us Strategic Growth Advisors, who we have recently appointed as our Investor Relation Advisor.

I would now hand over the call to Mr. Devendra Shah, Chairman of the Company to share his thoughts in the current business, which will be followed by an update on financials and then we can move to the Q&A. Over to you Sir!

**Devendra Shah:** Thank You Natasha.

Good Evening and a warm welcome to all the participants.

I hope you could get a chance to look at our ‘Financial Results’ and ‘Presentation’ that is uploaded on the stock exchange as well as on Company website. I am very happy to mention that we have achieved the highest ever Quarterly Revenues in this quarter and we are very confident that this momentum could continue for the coming quarters as well. I will give you a Brief Business Update followed by Commentary on the Financial Results by Mr. Deepak Jain.

I’ll start with an update on the launch of Value added products.

In the second quarter, we have launched a TV Commercial for Avvatar – India’s 1st 100% vegetarian Whey Protein manufactured by the company. The TV Commercial motivates



*Parag Milk Foods Limited  
November 07, 2017*

consumers to reconstruct themselves and adopt a healthier lifestyle. To augment the TVC, we have launched it with a hashtag “Reconstruct Yourself”, which will help us to connect with the youth of today who are well-connected digitally. The TVC encapsulates the value of Parag that has always stood for “Inspiring people to be healthier”.

We have consistently made efforts to increase our distribution reach and Avvatar is now available in 8 Cities. We have chalked out a well-thought out strategy to increase Avvatar’s penetration by tapping various retail touch points like Nutrition outlets, Pharmacies, Health & Nutrition Clinics, and E-commerce portals like Amazon and Healthkart. With the launch of Avvatar in the Indian Market, we continue our tradition of launching innovative products for the first time in India. As you are aware, our goal is to become the largest dairy FMCG company that emphasizes on health and nutrition, and Avvatar has been an effort to reach that goal.

Another step in that direction is the launch of Slurp – a mango drink with a dash of milk. As discussed in the last earnings call, we did a Test Launch of our Mango Drink “Slurp” in May 2017 in Mumbai, Delhi, Kanpur and Chennai. The initial response has been encouraging. We are currently implementing our Marketing Strategy to increase the penetration in these markets and then moving towards a pan-India presence.

Further, while we have been manufacturing 100% Vegetarian Whey Protein for our Institutional Clients since several years, through the launch of our B2C Brand Avvatar, we have successfully demonstrated our ability to increase value addition in our product portfolio.

To keep communicating with our consumers we continuously run various campaigns on diverse platforms like TV, Print, Outdoor, and Digital. Let me update you on recently launched campaigns for Gowardhan Ghee, Gowardhan Dahi and Go Cheese.

Gowardhan Ghee Campaign - Gowardhan Ghee was one of the “Co Powered By” Sponsor on Zee Talkies Comedy Awards 2017. We ran TV campaigns on Zee 24 Taas, as well as digital platforms like Facebook & Youtube and Print Campaign on Rakhsha Bandhan and Vasu baras in Times of India, Hindustan Times, Sakal, Sandesh etc.

Gowardhan Dahi Campaign - We launched Dahi in Delhi with 20 vans covering entire Delhi. The Launch was supported by various Outdoor campaigns like Installation of Dealer Boards & Flanges with displays at OOH, Metro Stations & Bus Shelters and Print Ads in Hindustan Times.

Go Cheese Campaign - Go Cheese has partnered with Radio City for one of its very successful property “Super Singer” in 33 cities Pan India. We also conducted a School Contact Program with Pogo and Cartoon Network. On the Digital front, we are promoting hand recipe videos by Ranveer Brar on YouTube, Facebook and Instagram. As a result of this, the awareness on “Go



*Parag Milk Foods Limited  
November 07, 2017*

Cheese” as measured for Top Of Mind & Spontaneous Recall has improved from 33% to 40% in September results.

In this way, we endeavour to keep engaging with our consumers with various campaigns for various products in our portfolio.

Now, moving on to the operational highlights for the second quarter.

Second quarter saw the full impact of one of the biggest tax reform in the history of our Country – the Implementation of GST. With the implementation of GST, the Government of India has removed the trade boundaries at State level. On the financial aspect, with the implementation of GST, we are able to take input tax credits for excise on packaging material, service tax & octroi, etc. However, on the business operations, GST has also helped us to derive the intended objective of providing the Freshest product to our consumer. Vector Consulting has helped us to achieve that objective by helping us strengthen our supply chain and aiding us with distribution expansion.

I’m happy to share that Board of Directors at its meeting held yesterday, has approved a further capital expenditure of Rs. 177.4 million for improving the whey processing facility at the Manchar plant.

The Board of Director yesterday has approved the appointment of Mr. Vimal Agarwal as the Chief Financial Officer of the Company with effect from December 1, 2017. Mr. Agarwal is a Chartered Accountant and an MBA with a professional experience of over 18 years in Corporate Sector.

Now I would request Mr. Deepak Jain from our Finance team, to discuss our financial performance for the Quarter and half year ended September 30, 2017.

**Deepak Jain:**

Thank you Devendra Sir. Good evening ladies and gentlemen. With respect to the company’s financials, please note that the financials are prepared in accordance with the Companies (Indian Accounting Standards) Rule 2015, i.e. Ind-AS prescribed under Section 133 of the Companies Act 2013.

First, I will discuss the financial performance for quarter ended September 30, 2017. In Q2 FY2018 the company registered a Revenue of Rs.5,045 million, a growth of 22% from Rs.4,129 million in Q1 FY2018. On a year-on-year basis, the revenue grew by 7%.



*Parag Milk Foods Limited  
November 07, 2017*

Consumer products revenue was Rs.3,442 million with the growth of 33.5% QoQ due to the festive season. Ghee, consumer cheese, UHT and fresh products continued to grow. The share of milk products for Q2 FY2018 is 68% of total revenue, which in Q1 FY2018 was 62%. The share of liquid milk for Q2 FY2018 is 20% of total revenue, which in Q1 FY2018 was 24%. The share of skimmed milk powder for Q2 FY2018 is 11% of total revenue, which in Q1 FY2018 was 12%.

The EBITDA for the quarter came in at Rs. 500 million which grew by 70% compared to Rs.294 million in Q1 FY2018 and 48% compared to Q2 FY2017. The EBITDA margin for the quarter is 9.9%, an improvement of 279 BPS compared to 7.1% in Q1 FY2018 and 276 BPS compared to Q2 FY2017. Decrease in other expenses particularly A&P expenses, freight and saving octroi led to EBITDA margin expansion.

The net profit for Q2 FY2018 is Rs.249 million compared to Rs.105 million in Q1 FY2018, a quarter-on-quarter growth of 137%. On a year-on-year basis, the net profit has increased by 95%.

The PAT margins improved by 239 Bps to 4.9% compared from 2.5% in Q1 FY2018; however, on a year-on-year basis, the margin improved by 223 BPS from 2.7% in Q2 FY2017. Higher EBITDA and lower changes in the finance cost and depreciation, caused PAT margin to improve.

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

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Dhawal Mehta from Yes Securities. Please go ahead.

**Dhawal Mehta:** Good evening Sir. Thanks for opportunity. Sir my first question is on gross margin. Our gross margin declined by around 90 bps QoQ despite a handsome growth in our consumer product portfolio as well as the milk prices have come down QoQ, so what was the major reason behind that?

**Shirish Upadhyay:** Dhawal, what we are basically trying to say is there are two elements. Number one is that in the COGS there are three things: one yes it is the price of milk, but apart from that there is also cost of butter that we procure from outside to convert into ghee and the third element is change in inventory. In terms of the price of milk, there has been some decline in milk price which was observed only for the last month for the quarter under consideration, and so there was a little impact in terms of lowering of milk price on overall quarter basis; however, there was tightening of prices for butter particularly during the festival season when the purchases happened and at that point of time price is not that important, rather it is meeting the market demand, which becomes more important at that point of time, so that is number two. Number three is that during the last month of the quarter, due to some softening of raw material prices, the inventory



*Parag Milk Foods Limited  
November 07, 2017*

valuation has also happened. Apart from this we also need to consider the fact that there has been a sale of commodities like SMP for which the prices have declined and which has brought down the overall realization for SMP. These factors together contributed to squeezing in the gross market margin for that particular quarter.

**Dhaval Mehta:** In fact, cow fat prices have been on an increasing trend despite the milk prices on the decline trend?

**Devendra Shah:** No, milk prices are decreasing in the third quarter, towards the end of the second quarter.

**Dhawal Mehta:** Okay and but the cow fat prices are at elevated levels?

**Devendra Shah:** Yes because of the festival season.

**Dhawal Mehta:** Okay.

**Dhaval Mehta:** That is helpful Sir. Sir my second question is on other expenditure, so our other expenditure has declined by 14% YoY, despite I am assuming that we have might have had A&P to support Avvatar and Slurp? So which is the major line item with us brought such decline?

**Deepak Jain:** So Dhaval, we are paying octroi in Mumbai, so post GST we are saving and hence benefitting from it. The second is we have also saved cost on transportation and third is that we have spent less in A&P expenses if you will compare it YoY. So these are the three main factors, which have led to EBITDA margin expansion.

**Dhaval Mehta:** Sir the lower A&P spends we are taking, will it be more structural, like going forward the A&P spent will be lower than vis-à-vis what we did in earlier years?

**Natasha Kedia:** If you see in Q2 last year, we have changed our ghee proposition from “Baat hai khushi ki” to “Pyaar ka Rang Sunehra”, so in that quarter we had increased ad spends on our ghee but in this quarter if you see, our ghee ad spends has been the same.

**Dhaval Mehta:** Okay, but what about Avvatar and Slurp, so will there be expand in spends in both two categories in ensuing quarters or we have started spending in this quarter itself?

**Akshali Shah:** So for Avvatar we started spending in this quarter, but it was just an initial launch and we are available only in eight cities, and we are doing a lot of digital marketing on that so the spends have been lower but yes coming this quarter we will be spending majorly on Avvatar, while Slurp will be in Q4 during the summer season.



*Parag Milk Foods Limited  
November 07, 2017*

- Devendra Shah:** And recently we participated in the International Health, Sports & Fitness Festival (IHFF) Olympia, one of the best international exhibitions recently held in Goregaon and through this exhibition we got an excellent response and we expanded our distribution based on this.
- Dhawal Mehta:** That is helpful Sir. Thank you Sir. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.
- Dimple Kotak:** I joined late, so maybe it is a repetition I am sorry. First I would like to know what is the procurement prices, how they have moved and what is the outlook on the same and secondly is that are the current margins sustainable going ahead in the next few quarters as well as in FY2019 and the overall growth outlook Sir.
- Deepak Jain:** So the margins in the long-term, would be sustainable because if you see, the other expenses has come down and milk price is also going to soften in the coming quarters.
- Dimple Kotak:** Okay and Sir in the quarter ahead Q3, Q4 will we see our sustainable margins or will see some dip because of increased in the advertisement expenses on Avvatar?
- Deepak Jain:** The overall expenses for the A&P would be in the range of 2.5% to 3% as we envisaged in our budget, so overall the A&P expenses, which has come down in this quarter will be spilled over to Q3 and Q4, but it would remain within the budget.
- Dimple Kotak:** Sir can we do any price increase in terms of MRP? Are we taking I mean for the next quarter or this quarter have we taken?
- Devendra Shah:** No we have not taken.
- Dimple Kotak:** Okay and is it there in the near future, do we expect any price increase in the MRP?
- Devendra Shah:** As of now we have not decided that.
- Dimple Kotak:** Sir what is the overall growth outlook in terms of your topline?
- Natasha Kedia:** For our overall topline, we have provided a guidance that we will grow by 14% CAGR over a period of three years, so we are well in line with that.
- Dimple Kotak:** That is all from my side. Thank you so much.



*Parag Milk Foods Limited  
November 07, 2017*

- Moderator:** Thank you. The next question is from the line of Naveen Kulkarni from Phillip Capital. Please go ahead.
- Naveen Kulkarni:** Thanks for taking my questions. My first question is on the tax so with regards to the PSI scheme and the overall taxes, so what is the impact in this quarter per se, so could you give the impact both on the topline as well as the impact that we would have on the bottomline? That is my first question. Second question is with regards to the revenue growth that we are talking of 14% CAGR for the next three years. So is it possible to give any kind of I would say guidance on what could be key categories which can deliver this kind of growth, so what are the categories, which have done well and what categories you see growing at good pace over the next three years and thirdly with regards to how do you think gross margins will pan out over the next three years, so is there our target margins that we are looking at, do we see gross profit also growing in line with the gross revenue? Those are my three questions for now.
- Deepak Jain:** Okay so with regards to your first question of PSI Scheme, yes the impact will be in the topline as well in the bottom-line.
- Shirish Upadhyay:** Regarding your next query, I think we have discussed last time and all we are looking at the overall growth coming from our product lines like cheese and ghee, which are going to grow at a normal rate in between 14% and 20% depending on the different categories, which are there. Newer products like whey or beverages and UHT and fresh products are growing at much faster pace. On the other side there would also be some decline in terms of institutional products and commodities like SMP, so that put together both is going to bring us to a medium term growth of roughly around 14%.
- Naveen Kulkarni:** Thanks.
- Moderator:** Thank you. We will take the next question from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.
- Mitul Mehta:** Sir actually I missed your opening remarks when you mentioned about how much you planned to invest in this whey processing facility, and your overall capex for this year and year after that if you can just highlight FY2018 and FY2019?
- Deepak Jain:** Mitul, overall we have taken Rs.150 Crores from the IPO; we have already spent around Rs.90 Crores for capex as we have laid out in our IPO objectives. . We are left with Rs.60 Crores. Out of the Rs.60 Crores, we have taken a board approval to incur a capex of Rs. 177.4 million for expansion of the whey processing facility in Manchar in lieu of a capex planned for beverage line at the Palamaner plant.





*Parag Milk Foods Limited  
November 07, 2017*

- Mitul Mehta:** What is our total cheese capacity today?
- Devendra Shah:** 60 tonnes per day is the total cheese capacity.
- Mitul Mehta:** So I understand whey is the byproduct of cheese so therefore?
- Devendra Shah:** Yes absolutely.
- Mitul Mehta:** How much we would be able to produce whey?
- Devendra Shah:** It is a different variant, so when we produce the sports nutrition whey protein powder with a 80% Whey Protein Concentrate (WPC80) it reaches to 6-8 tonne per day. If we process 70% it will reach to 12 tonne per day. We process different types of products and hence volume is different. We also supply to pharma companies as an ingredient in their baby foods.
- Mitul Mehta:** Will it be possible for you to give us some sense as to how much do you plan to sell in the B2B space and how much you are trying to sell in the B2C space. I mean some ballpark number, is it possible for you to give us some understanding around this?
- Devendra Shah:** Absolute our first priority is B2C. However, in B2C it takes time to develop the consumer market., Meanwhile we have continuous demand from the pharmaceutical company for the whey product and we are supplying to them. The additional whey facility is coming up as recently we completed our paneer plant and whey is also a byproduct of Paneer. We need some additional facility in whey that is why we shifted this on an immediate basis.
- Mitul Mehta:** Sir at revenue line I mean how much do you internally plan to sell in the B2B and B2C market?
- Devendra Shah:** It is very premature at this point of time to arrive at those figures, because as I mentioned we have just started connecting with the consumer market and it will take some time to built up.
- Mitul Mehta:** Okay and at what revenue line we should be able to breakeven in B2C?
- Natasha Kedia:** So again this would be too premature Mitul as of now, so maybe if we could get some more time in terms of getting ourselves matured in the market we would be able to come out with some firm numbers.
- Mitul Mehta:** Apart from this Rs.60 Crores there is no further capex that we are planning to invest?
- Deepak Jain:** No, there could be further capex in the next 3 years



*Parag Milk Foods Limited  
November 07, 2017*

- Devendra Shah:** Why we will require, suppose we handle more major in the paneer and cheese then absolutely we need some infrastructure to add
- Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar:** Thanks for the opportunity. I was looking at your quarterly number and half yearly number and what I realize is that in fresh product and value added product, we have clocked growth in lower single digit, and half yearly basis as well fresh product we have grown 3.9% and the value added only 5.5% while we were expecting close to double-digit growth, so which item in the value added product is responsible for dragging our sales?
- Natasha Kedia:** Shailesh, there are two reasons mainly for this. The first reason is that in our institutional cheese business, as we have previously mentioned in our Q1 concall as well, we have seen a decline in the institutional cheese business that saw a bit of spillover in the first one to one and a half months of Q2 as well; but now we are getting back to normal levels and Q3 you will see the cheese business picking up and the second reason was that we saw a decline in butter.
- Shailesh Kumar:** Would it be safe to assume that on full year basis, we would be able to at least hit the double-digit growth mark in value added product at least?
- Deepak Jain:** We are aiming for that.
- Shailesh Kumar:** Okay and Sir what is the level of retail outlets that we have reached by September 30, 2017?
- Natasha Kedia:** Currently, we are catering to 2.5 lakh retail touch points across India.
- Shailesh Kumar:** Okay so is there any growth in the last two quarters?
- Devendra Shah:** Today we are increasing close to 9000 stores per month.
- Shailesh Kumar:** Thanks. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Jayant Mamanian from Care Portfolio Managers. Please go ahead.
- Jayant Mamanian:** Congratulations for good set numbers. Our milk product sale has grown from Rs.258 Crores in Q1 to Rs.344 Crores, so can you tell us how much of the sales is from B2C and which were the major products, which contributed to the growth as compared to Q1?



*Parag Milk Foods Limited  
November 07, 2017*

- Deepak Jain:** Ghee and cheese is the major contributors in the consumer category and as Natasha told that we have seen decline in the institutional cheese and butter so these are the basically two products which declined.
- Jayant Mamania:** How much is export monthly?
- Deepak Jain:** Export is roughly 3%.
- Jayant Mamania:** Right and what about the B2C sales directly to the consumer?
- Deepak Jain:** In case of a cheese we have 50:50, so B2C is 50% and B2B is 50%. Apart from Cheese everything is B2C.
- Jayant Mamania:** Okay, so what is the size of whey protein market, domestic market and of that how much is imported?
- Devendra Shah:** Right Now it is a 100% imported market and whey market is around Rs.1500 Crores, it is growing by 25%-30%.
- Jayant Mamania:** How we are placed in terms of price?
- Devendra Shah:** Our prices are quiet competitive to the international product and about 2%-3% lower than the industry.
- Jayant Mamania:** Okay what is your R&D spent in this quarter and annual spent?
- Deepak Jain:** We do not track it separately.
- Jayant Mamania:** To what extent our sale is of seasonal character? Whether we are compared in our presentation Q1 with Q2, so whether our sale is uniformly distributed during the year?
- Deepak Jain:** There is some seasonality associated with few product categories. For example, during August to October kind of festival period, categories like ghee are higher in demand and during the period January and December, the products like cheese which are higher in demand, during summer month with this product like beverages which are higher in demand, so there is category wise seasonality which are associated.
- Moderator:** The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Good evening Sir. What is the reason for the low growth in the liquid milk category?



*Parag Milk Foods Limited  
November 07, 2017*

- Shirish Upadhyay:** In terms of liquid milk, as we were discussing, there has been some softening of raw milk prices, which have happened and because of that there has been heightened competition with discounting which is prevalent in the market and we have cautiously decided not to get into that and maintain our share and pricing and not try to get higher growth and sacrifice our margins, and that is how we are trying to just protect our share in the market for this particular season.
- Jasdeep Walia:** Is this competition coming from larger brand as well or is it local competition.
- Shirish Upadhyay:** It is mainly local competition.
- Jasdeep Walia:** Sir since the last one year you have been taking various initiatives to improve supply chain efficiencies and improve your distribution presence as well, so could you highlight the major initiatives taken and if you have seen any tangible benefits of the same on your business?
- Akshali Shah:** We are taking a lot of initiatives on supply chain aspect, we have created a lot of depots across the country and we are doing 100% sales at the depot and at the distributor level, we are doing this with the help of Vector Consultancy Group and yes it has helped us significantly. Vector consulting is helping us to put all of this together, they have also implemented distributor management system (DMS) and Sales Force Automation (SFA), so this is something that we are doing in the supply chain aspect.
- Natasha Kedia:** To add to that, Vector, in terms of our at back end, is helping us improve our supply chain and at the front end with our distribution expansion and by doing this we are keeping less inventory at each level of our distribution chain so that the freshness of our product improves as well as the availability.
- Jasdeep Walia:** Got it. Also could you give us an idea of what kind growth have you seen in the modern retail format in terms of growth on a YoY basis and general trade format?
- Akshali Shah:** This is alike, so growth is coming from both the channels almost in a similar way. It is similar to last year.
- Jasdeep Walia:** Got it. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar:** Thanks for providing me opportunity again. What is the capex that we have already done in 2018 and what is the remaining amount we intend to do?



*Parag Milk Foods Limited  
November 07, 2017*

- Deepak Jain:** Out of IPO, we have Rs.60 Crores, which is yet to be spent. As we have also mentioned, we are going to spend Rs.17 Crores for the whey processing facility and the remaining is laid out in the IPO proceeds in the RHP.
- Shailesh Kumar:** Okay and see because we have launched Avvatar in February so what is the sales revenue for Avvatar since February up to September 30, it might be small number?
- Shirish Upadhyay:** We do not give it separately but that is part of the consumer product portfolio that we declared.
- Shailesh Kumar:** Thanks.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good afternoon Sir. What was the milk procurement number for the quarter?
- Deepak Jain:** Roughly 11 lakh liter per day.
- Bhavin Chheda:** And you mentioned that the milk procurement prices are largely in line with Q1 or it has gone up?
- Deepak Jain:** It has slightly gone down in the Q2 compared to Q1 and apart from that also around 11 lakh liters per day we also purchased butter as part of the requirement.
- Bhavin Chheda:** I think the Q1 milk procurement prices were around Rs.28, which you had mentioned in the calls, so at this time it was lower than the 28 levels?
- Deepak Jain:** Yes.
- Devendra Shah:** The quarter third is also expecting little bit softening in the prices.
- Bhavin Chheda:** So second half you expect the prices to decrease?
- Shirish Upadhyay:** No overall, Bhavin how the situation we are looking at is that because of very good monsoon, over the entire country availability is quite good and production is also plenty. Secondly there is also lot of stock of SMP, which is lying with the country as a whole and therefore there is depression in prices for commodity so the milk price would stagnate at roughly Rs.27 a litre till the March or so. So we do not see much fluctuation in terms of prices till March beyond this level.



*Parag Milk Foods Limited  
November 07, 2017*

**Bhavin Chheda:** Any take on gross margins, gross margins in Q1 were 29%, now it is 28.1%, so what would the gross margins in the business would be in the second half? Should we take this Q2 as a reflection or do you expect improvement I think since the second half sales will be better than the first half?

**Shirish Upadhyay:** Yes, so there might be some slight improvement in gross margins, but you have to look into three considerations, so as I said there would not be much softening of raw milk prices that will happen, number one. Number two was the realization of commodities so obviously with lower raw milk prices, commodity prices also would be aligned and go down and therefore their realization would go down and number three also there would be some reevaluation of inventory, so accordingly all put together it depends how much improvement we can made, but there will be a slight minor improvement that might happen.

**Moderator:** We will move onto the next question that is from the line of Mehul Mehta from Sharekhan. Please go ahead.

**Mehul Mehta:** Sir, I have a question in terms of working capital, so is there an increase in terms of receivables to the extent to 20% if we look at from March end level?

**Deepak Jain:** The trade receivable has increased in line with the sales as we have a festive season in this quarter.

**Mehul Mehta:** So if we look at again our revenue increase is in single-digits and if I look at receivables, so is there one off which has contributed to the increase or it is normal?

**Deepak Jain:** It is normal because we have festive season in this quarter and there were more sales in this quarter, so this is temporary, but it is within the line.

**Mehul Mehta:** All right, so on March 2018 level it should be normalizing over a period?

**Deepak Jain:** Yes, it would be normal.

**Mehul Mehta:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Dhawal Mehta from Yes Securities. Please go ahead.

**Dhawal Mehta:** Thanks for the opportunity again. Sir, my question is again on this Maharashtra mega project scheme. It is similar to the VAT refund scheme, right so there will be a milestone also the revenue, which can be accrued will also depend on the quantum of cheese or other products we have manufacture in that particular unit, so am I right?



*Parag Milk Foods Limited  
November 07, 2017*

- Devendra Shah:** Yes it is right. Whatever we produce in Maharashtra is the benefit on that one.
- Dhawal Mehta:** Okay, so it might not be necessary that we able to gain the benefit of the entire Rs.280 Crores which has been accrued to us, it will also depend on what kind of manufacturing we are doing at that particular unit?
- Shirish Upadhyay:** Dhawal, so we have to look into two things see, number one if we look at the total sales, which is the generated to product manufactured in Manchar, it is quite significant and number two, sales which are happening in Maharashtra also quite large and secondly there has been quite a significant increase in terms of GST rates for few commodities like ghee from 5% to 12% so because of these factors and considering eight year long period in terms of claiming the refund it is quite an achievable thing and we have had similar incentive earlier and we were able to achieve much ahead of the schedule.
- Dhawal Mehta:** Okay. So basically this will be for three categories I am assuming cheese, ghee and whey protein, majorly the refund will be for these three categories because the GST is on these three categories only majorly?
- Devendra Shah:** No, the protein powder Avvatar is there, so many products is there, so every product which has GST is eligible to get benefit.
- Dhawal Mehta:** Right so whey protein, cheese and ghee this will be three major constituents of our refund?
- Deepak Jain:** Apart from those, this benefit is available on smaller categories like Dairy whitener or flavored milk and other.
- Moderator:** Thank you. The next question is from the line of Shraddha Seth from Edelweiss. Please go ahead.
- Shraddha Seth:** Good evening Devendra bhai. Sir just wanted to get your comments on a minimum support price, which is being spoken about raw milk, so what is the sense we are getting?
- Devendra Shah:** The government is declared the minimal support price is restricted for the cooperatives and semi-government players because they are giving lesser than the minimum supporting price. We are already giving good price better than the cooperatives. It has not affected us. It has helped us.
- Shraddha Seth:** Okay and just one clarification why was the SMP this quarter year-on-year basis growth so high because the SMP prices as such have come down so if the year on year SMP had a double-digit growth, so what was the reason?



*Parag Milk Foods Limited  
November 07, 2017*

- Shirish Upadhyay:** Yes Shradha in terms of SMP, you cannot look at quarter based performance because the SMP is a commodity business and you have to look at the annualized business that we are able to achieve, so if you look at contribution of SMP within the total business on the quarterly or half yearly basis it was roughly 11%-12%, which is in line with 12%-13% of the business, which we did last year, so it is in line with that and there might be fluctuations on a quarterly basis depending on how the market demand is. It varies between different quarters so you cannot look at it on a particular quarter basis.
- Shraddha Seth:** Okay so it is in line with our targeted number, right?
- Deepak Jain:** Yes.
- Shraddha Seth:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Thawani from Zenith Capital. Please go ahead.
- Amit Thawani:** Thank you Sir. My first question is you mentioned the whey protein market is Rs.1500 Crores?
- Devendra Shah:** Yes, 1500, growing by 25%-30%.
- Amit Thawani:** Okay and any reason why whey protein is not getting manufactured in India?
- Devendra Shah:** Because the whey is a byproduct of cheese and we have the largest cheese plant and we took this advantage first.
- Amit Thawani:** But then why has not it been done before this, like why have not others tried to enter this business and why is it a pure import?
- Devendra Shah:** It depends on volume of the cheese operations. If you handle bigger cheese operations then it is survivable.
- Amit Thawani:** Okay and apart from us who has the ability to supply whey in India?
- Devendra Shah:** We are the first one to manufacture this whey protein in the country with a fully integrated plant.
- Amit Thawani:** Okay, so is there anybody else who could come to compete with us?
- Devendra Shah:** Rest of others are from the imported





*Parag Milk Foods Limited  
November 07, 2017*

- BM Vyas:** In India those who make cheese do not make whey protein isolates. The other players they will get it from abroad and blend it. Parag is the only company, which manufactures cheese, whey protein isolate, as we are fully integrated company. We get fresh milk from farmers and blend, there are no other company in India, which has this competency.
- Amit Thawani:** But is there anything that stops from catering this market I mean because I understand whey can be made from other ways apart from cheese as well, so is there anything that is stops them?
- BM Vyas:** If you make caesin, you can make whey, but caesin does not have a big market. You have to take the total equation which is you make the quantity of cheese, you make whey protein isolates and then you get a product like Avvatar. That may not be possible in the case of caesin unless you export it, so it becomes little more complicated. We are the only one who is fully integrated.
- Amit Thawani:** So what stops us from getting good chunk of this market over the next few years?
- BM Vyas:** Nothing stops us.
- Amit Thawani:** What is the consumer size of this market, Rs.1500 Crores I guess includes B2B, what is the consumer size?
- Devendra Shah:** See this is consumer only. I am speaking about only consumers.
- Amit Thawani:** Okay and B2B side?
- Devendra Shah:** There is nothing in B2B, this is only B2C, ultimately this is a consumer product.
- Amit Thawani:** You also said that you provided some pharma company and all?
- Devendra Shah:** That is total different. This market size Rs.1500 to 1600 Crores increasing by 25% to 30% is that for B2C only.
- Amit Thawani:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Jayant Mamania from Care Portfolio Managers. Please go ahead.
- Jayant Mamania:** Sir our creditors are around Rs.340 Crores, which amounts to three months purchases so it looks on the higher side considering our nature of business so who forms our sundry creditors, which category of suppliers?



*Parag Milk Foods Limited  
November 07, 2017*

- Deepak Jain:** So basically in this quarter we have purchased more butter as there were festive demand and it make more sense to purchase butter rather than buying excess milk and convert into SMP. We got the advantage and we purchased butter and it contributes major portion.
- Jayant Mamania:** Normally how many months purchase contribute to creditors? What is the payment cycle for milk supplier?
- Deepak Jain:** So milk supplier we have a 15-day to 30-day cycles but for other payables we have 45-60 days cycles.
- Jayant Mamania:** In case of milk we have to pay to the farmers or there are collection centers, which are owned by somebody else.
- Deepak Jain:** No so we directly pay to the farmers.
- Shirish Upadhyay:** So it is in the same system that we buy the milk.
- Jayant Mamania:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Sangeeta Tripathi for her closing comments.
- Sangeeta Tripathi:** Thank you everybody for participation. On behalf Edelweiss Broking, I thank everybody to be present in the conference call and specifically the management of Parag Milk Foods. Now I would hand over the call to the management for their final comment. Over to you!
- Natasha Kedia:** Thank you Sangeeta. I would like to sincerely thank Edelweiss for hosting the call and all the participants for taking their time out to join us. Please feel free to get in touch with me or SGA, our investor relations team.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.