



Date: February 17, 2017

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001 <u>Fax No. 022-22721919</u>	National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (E), Mumbai – 400051 <u>Fax No. 022-26598120</u>
Ref.: Kwality Limited (KWALITYLTD/INE775B01025)	Ref.: Kwality Limited (KWALITYLTD/INE775B01025)

Sub.: Investor Presentation

Dear Sir,

Please find enclosed Company Presentation for the Quarter ended as on 31st December, 2016 for the Financial Year 2016-17.

Kindly take the same on your record.

Thanking You
For Kwality Limited

Pradeep K Srivastava
(Company Secretary & Compliance Officer)

Largest Private Dairy Company in India



Kwality Limited

Q3'FY17 Investor Presentation

February 2017



Industry Overview

Company Overview

Quarterly Results Overview

Recent Key Developments

Shareholding Pattern



Global Dairy Industry – India is the largest Producer and Consumer of Dairy Products

Production

- Global milk production **grew at a CAGR of 2.3% during 2010-2014 to reach 792.0 million metric tones (MMT) in 2014**, on the back of **population growth, rising disposable incomes, favorable demographics, brand awareness, increasing urbanization & westernization of diets** in emerging economies, primarily **India and China**
 - India is the largest producer of Milk, accounting for over 18% of world production of milk and dairy products**
- During the period **2015E-2020E**, global production of Milk and Dairy products is expected **to grow at a CAGR of 2.1% to reach 901.2 MMT by 2020E**
 - India is expected to grow at a **CAGR of 4.2% during the same period to reach over 184.9 MMT, to surpass EU (177.4) by 2020E**

Consumption

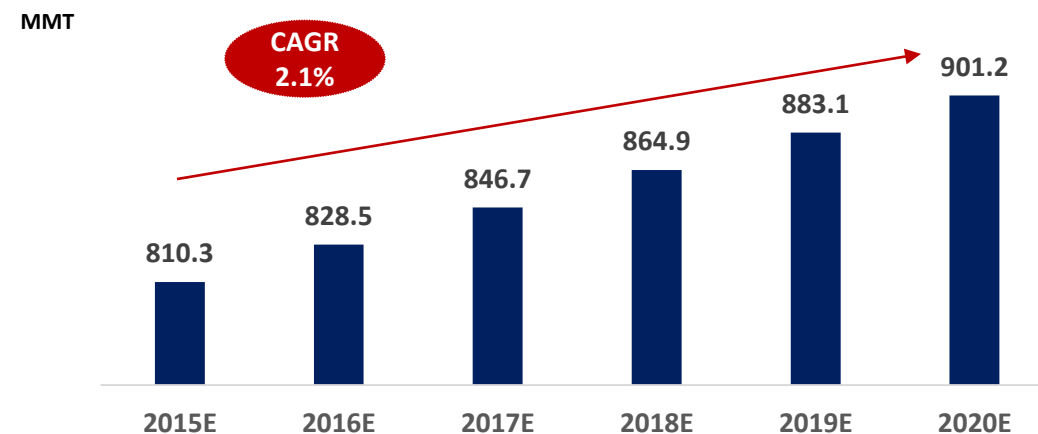
- Country-Wise basis, **India is the world's largest consumer of milk**, other key markets include **USA, China, Russia, and Pakistan**
- Globally, approximately **66% of milk and dairy products are consumed for factory use, 33% for fluid use and 1% for feed use**

Foreign Trade

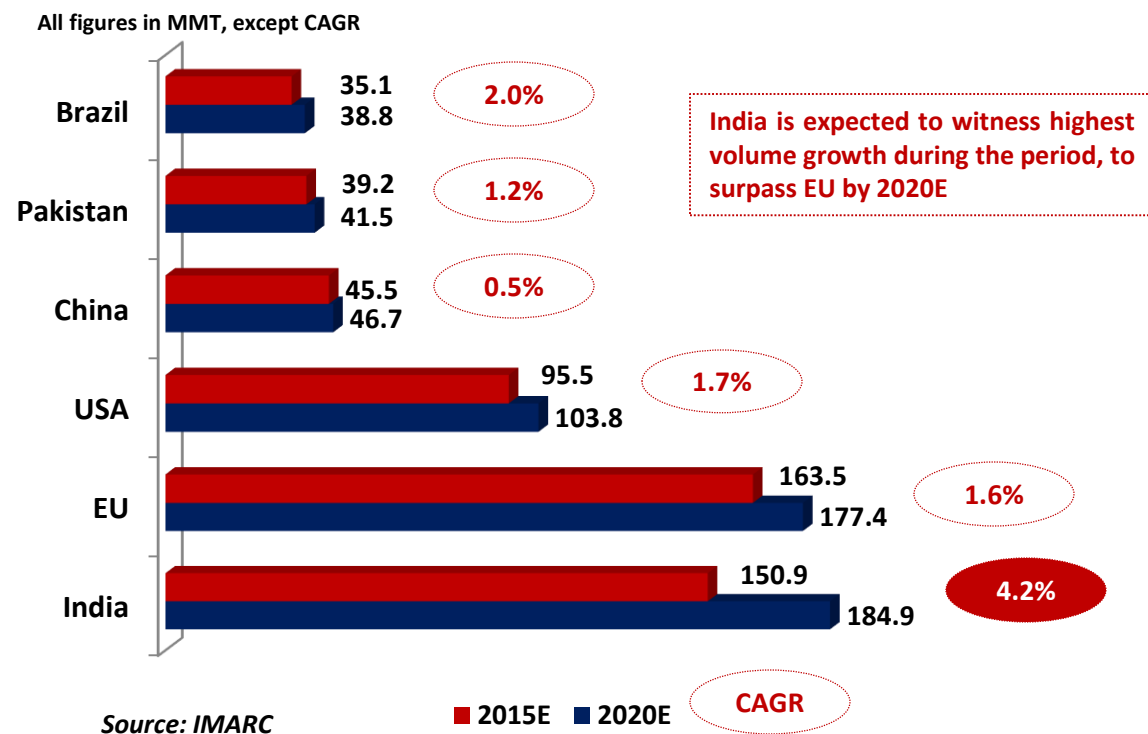
- Top Exporting Countries – **New Zealand and EU** account for **over 50%** of world trade, followed by **USA**
- Top Import Markets – **China, Russia, MENA region, and South-East Asia** account for majority of imports

Source: IMARC, FAO, Crisil

Global Milk/Milk Products Production Volumes – 2015E-2020E



Country-Wise Top Producers of Milk/Milk Products in 2015E-2020E



Dairy Industry in India – Consumption levels are expected to surpass production by 2021E

Production

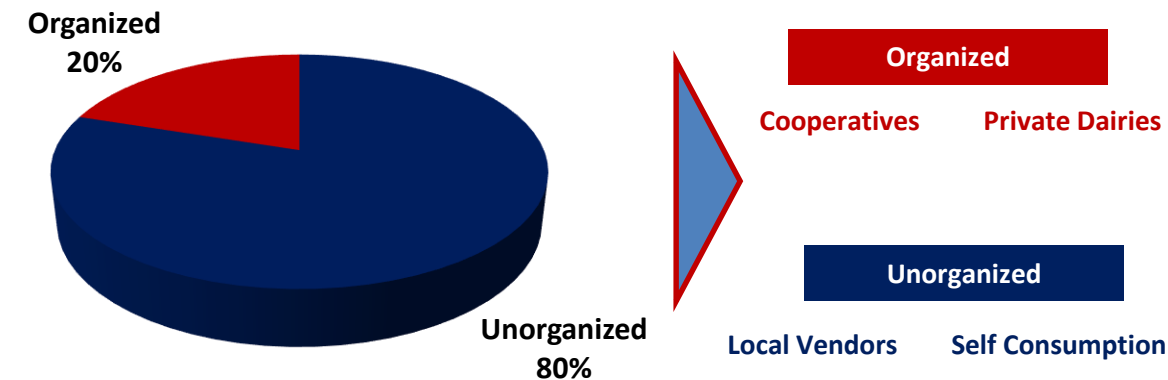
- ❑ Milk production in India **grew at a CAGR of 4.8%** during FY11 - FY16E, estimated to be **154 MMT** in 2015-16
 - ❑ Total production of milk and dairy products in India is expected to reach **over 189 MMT in 2021E**
- ❑ **Key Production Markets: U.P , Rajasthan, Andhra Pradesh, Gujarat, and Punjab** account for over 53% of overall production in India
- ❑ **Buffalo milk accounts for 48.7% of total milk produced in India, followed by Cow (47.9%)**

Consumption

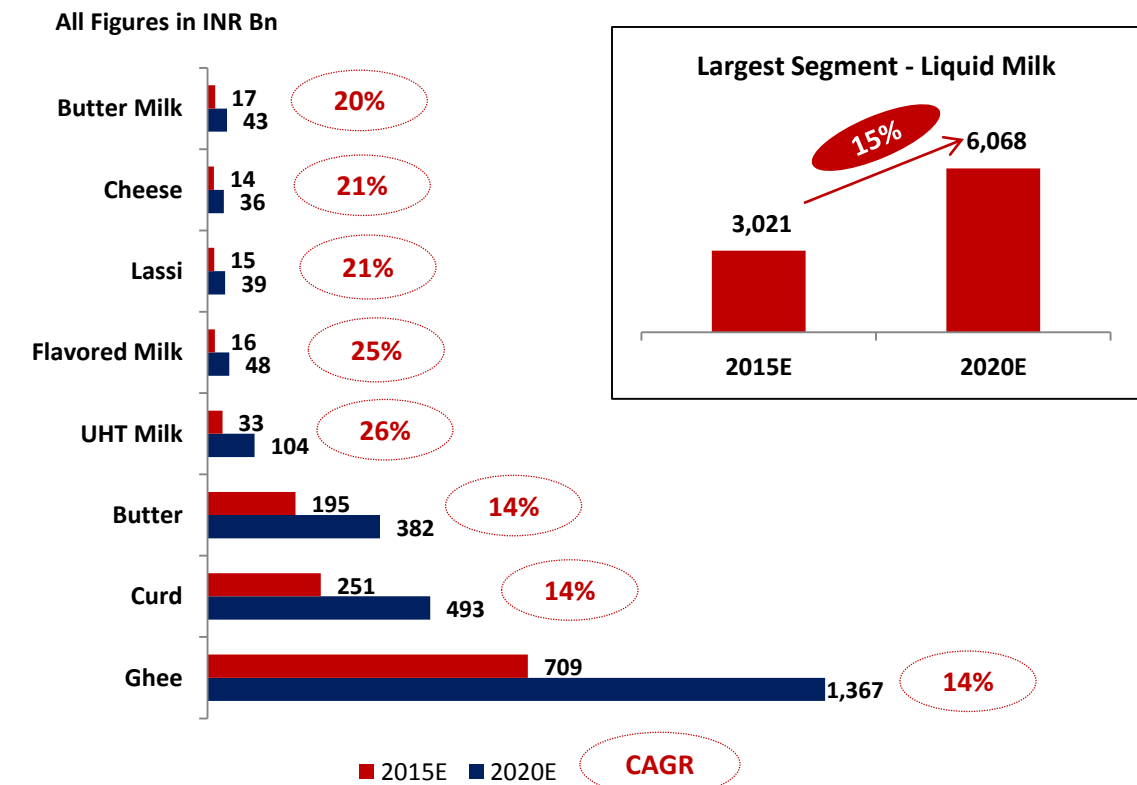
- ❑ Milk consumption in India **grew at a CAGR of 5.3%** during FY11 - FY16E, estimated to be **146 MMT** in 2015-16E, driven by steady **population growth, rising disposable incomes, favorable demographics, increasing brand awareness and urbanization**
 - ❑ **Currently, over 52% of total production is consumed by people themselves, only 48% is marketable**
 - ❑ **Liquid milk is the largest consumed dairy product in India, with 52%, share, followed by Ghee (12%)**
- ❑ Total consumption of milk and dairy products in India is expected to increase **from 146 MMT in FY16E to 192 MMT in FY21E; implying a CAGR growth of 5.6%**
- ❑ Total market size of milk and dairy products in India estimated to be **INR 6,671 Bn in FY16E; growing at over 15% annually**
 - ❑ Market Size is estimated to reach **INR 11,543 Bn by 2020E**

Source: IMARC estimates, Industry

Structure of Dairy Industry in India – Largely Unorganized



Product-Wise Products Market Potential in India – 2015E-2020E



Source: Dairy India, Rabo Bank Estimates, Amrit Corp & IMARC estimates

Dairy Industry in India – Emerging Trends

Growth of Organized Segment outpacing Unorganized

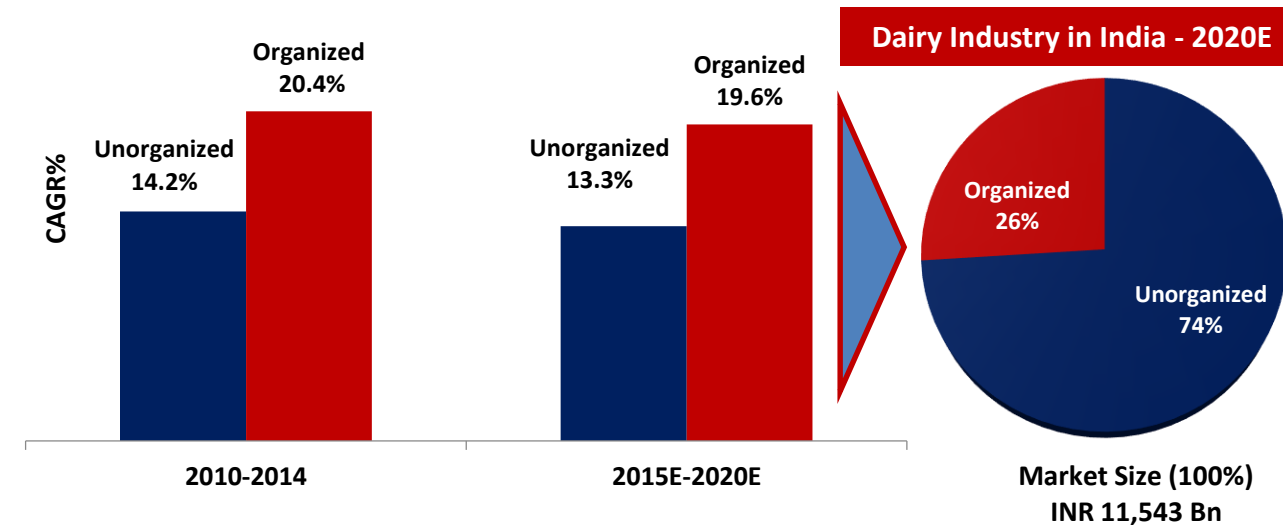
- Organized segment grew at a **CAGR of 20.4% during 2010-2014** as against unorganized sector CAGR of 14.2% during the same period **on the back of shift in consumer preferences towards branded products**
- The trend is expected to continue in the coming years. During the period 2015E-2020E, organized segment is expected to grow at a **CAGR of 19.6% as compared to 13.3%** for the unorganized segment

Enhanced focus on Value-Added Products (VAPs) and B2C

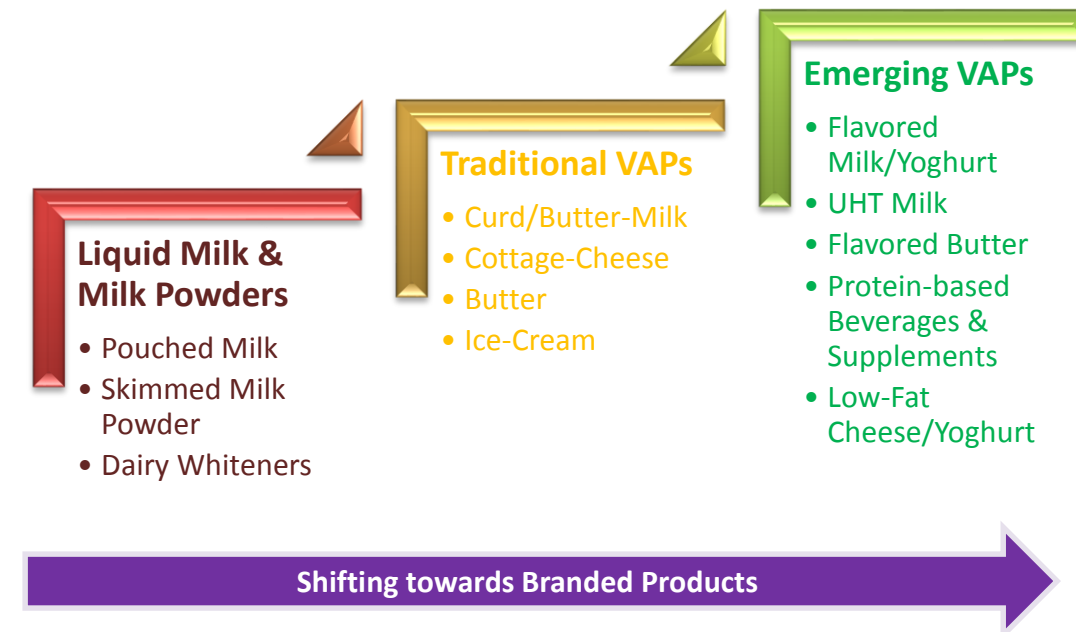
- In the recent past, change in demographics and rapid urbanization have resulted in significant demand for VAPs like **cheese, condensed milk, UHT, flavored butter/milk/yoghurt, protein-based beverages/health supplements**; VAPs expected to grow at a healthy rate of 23% annually till 2020E
 - Increasing Young Population** – Value added milk products like cheese finds usage in convenience foods for Pizzas, Pasta, Burgers *et al*
 - Aggressive Growth plans of QSR players** – Rising demand for milk, condensed milk, and cream especially from coffee chains
 - Changing lifestyles and Increasing health awareness** is evolving low-fat **high-protein dietary patterns** especially among millennials and young population, driving demand for products like **low fat yoghurts/cheese, protein-based health drinks/supplements among others**

Shift towards Branded Products

- Rising disposable incomes and increasing brand awareness especially in urban markets resulting in strong demand for branded products, thereby organized segment; **Tier-I and Tier-II cities offer significant growth opportunities for retail**
- Companies are enhancing their focus on **brand building/Marketing activities** with aggressive spending and expansion of their marketing & sales team to **create strong brand recall, customer retention, and reach**



Shift in Value Added Products (VAP)



Source: IMARC, Crisil, Industry



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Background

- Established in the year 1992 as a backward integration unit of Kwality Ice-creams, later taken over by Mr. Sanjay Dhingra & family in 2002, **Kwality has emerged to be amongst largest and fastest growing private dairies in India**

Procurement Network /MCCs

- Established strong relationships with more **than ca. 325,000 farmers spread across ca. 4,500 villages in U.P. , Rajasthan, and Haryana**; with **24 MCCs** located close to procurement areas
 - Company intends to increase its procurement **directly from farmers** from current **ca. 22% to 50% over the medium term by leveraging and further strengthening its existing network**

Manufacturing Facilities

- Has six state-of-the-art milk-processing units **in North India (Haryana, Rajasthan, and U.P.) with combined capacity of 3.4+ Mn litres/day**
 - Dedicated **R&D department for product innovation, world-class testing labs and quality control systems**

Products

- Diversified product portfolio across **Fresh Milk, UHT Milk, Flavored Milk, Milk Powders, Curd, Chaach, and Ghee/Fat** categories catering **to institutional and retail customers**
 - Product mix to rapidly shift towards value-added products such as **Paneer, Cream, Yoghurts, Table-Butter, Cheese**, amongst others; to **launch multiple variants over a period of time**

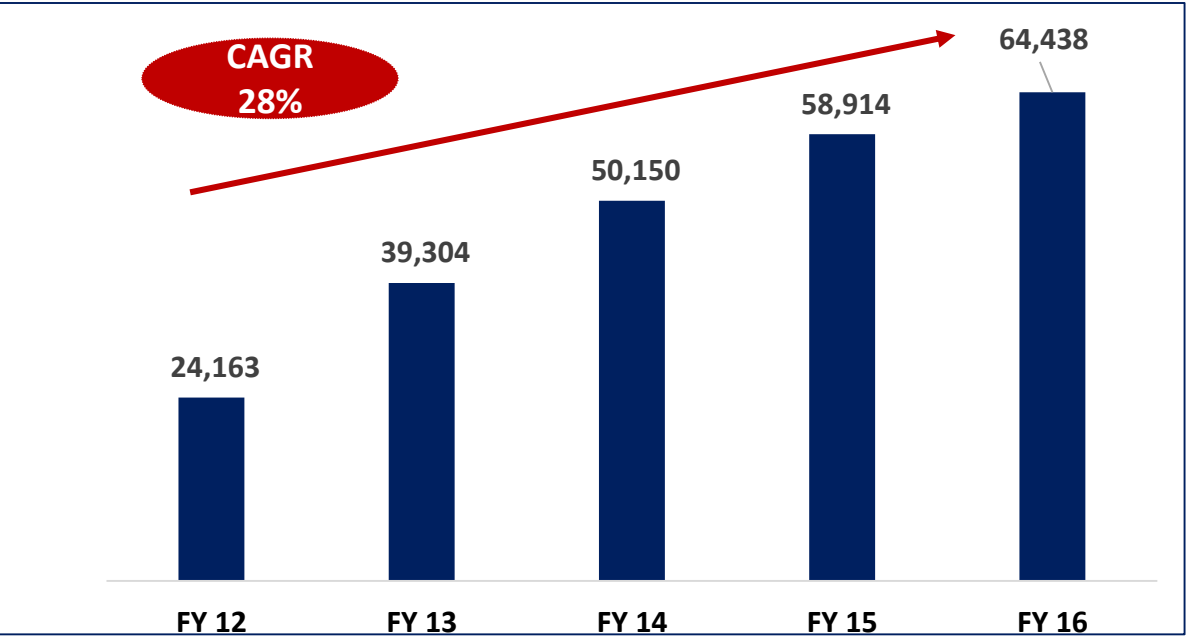
Distribution Network

- Established extensive distribution network **with 1,900 distributors covering 45,000 touch points across Northern markets** ; continuous efforts underway to further expand into new and existing markets

Strong Management Team

- Backed by strong management team comprising of **industry experts** with cumulative experience of **over 200 years**

Revenue (INR Mn)



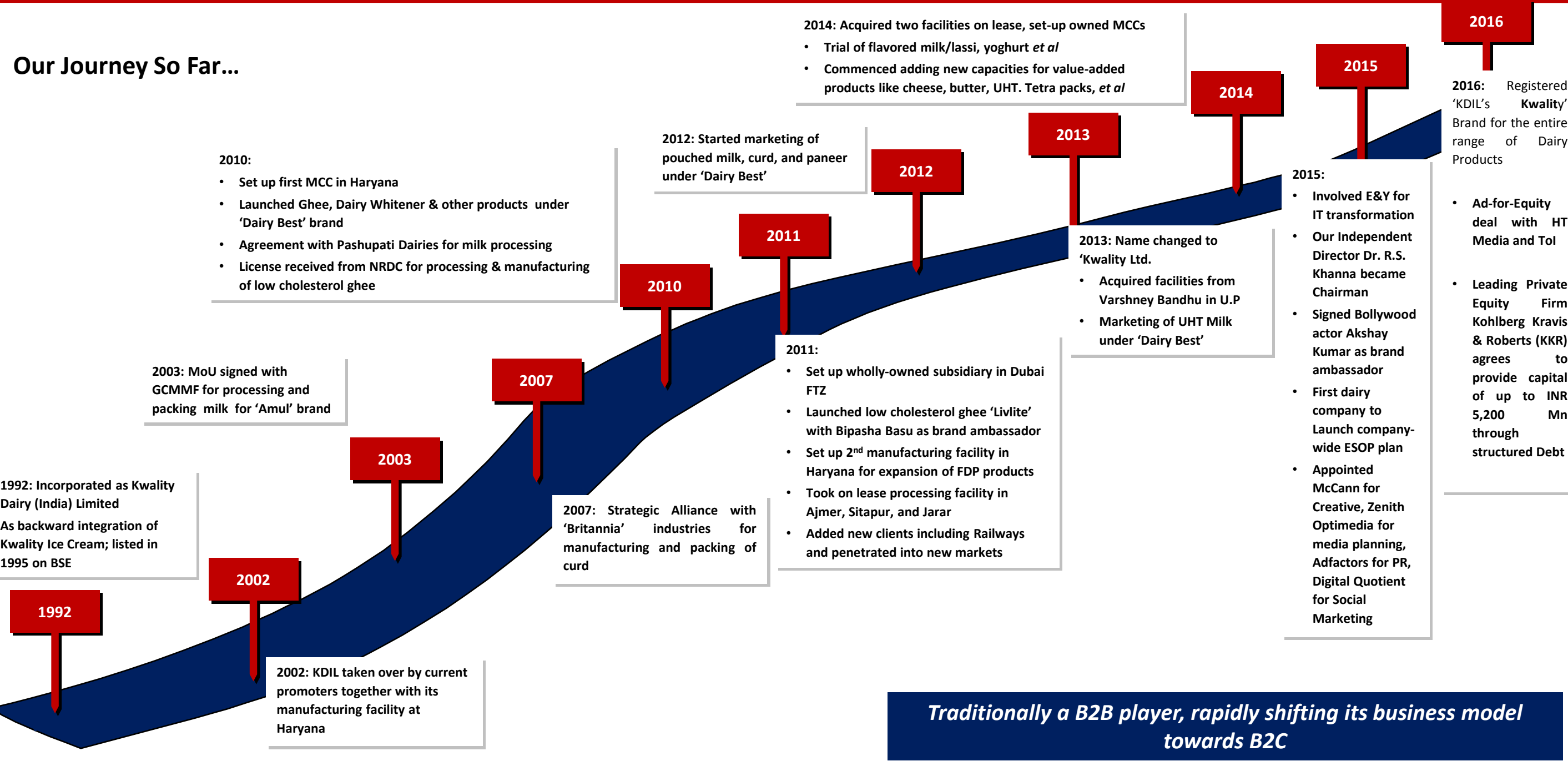
Consolidated figures

Amongst largest and fastest growing private dairy companies in India

Product Portfolio

Segment	Milk	Milk Powder	Curd & Chaach	Ghee/Fat
Key Products	<div><ul style="list-style-type: none">Pouched MilkBulk MilkSkimmed MilkFlavored MilkUHT Milk</div>	<div><ul style="list-style-type: none">Skimmed Milk PowderWhole Milk PowderDairy Whiteners</div>	<div><ul style="list-style-type: none">Set CurdPouched CurdChaach – Plain & Masala</div>	<div><ul style="list-style-type: none">Pure GheePure Cow GheeLow Cholesterol GheeCream/Bulk Butter</div>

Our Journey So Far...



Pouched Milk



Flavoured Milk



Curd



Paneer



Skimmed Milk Powder



Instant Dairy Whitener



Chaach



Ghee



Butter



Our New Brand Campaign



Kwality
» ZINDAGI NON STOP »

Kwality milk,
PROTEIN KI SHAKTI,
jo de aapko josh
aur energy non stop.

Kwality Limited • For queries, call Toll Free No. :- 1800 103 5345 email: info@kdil.in Website: www.kdil.in

Kwality Zindagi Non-Stop!

New Brand Campaign

*We are pleased to announce our new Brand Campaign
towards building a strong position in the consumer
space*

Our Brand Ambassador
Bollywood Actor Mr. Akshay Kumar

Radio Channels



Print



*T.V, Outdoor/Hoardings/Banners, Metro Train,
and various customer engagement channels*



Kwality
» ZINDAGI NON STOP »



Full Cream Milk
Available in: 200ml, 500ml, 1ltr



Double Toned Milk
Available in: 200ml, 500ml



Toned Milk
Available in: 200ml, 500ml, 1ltr



Chaach
Available in: 500ml



Skimmed Milk Dahi
Available in: 200ml, 400ml, 1ltr

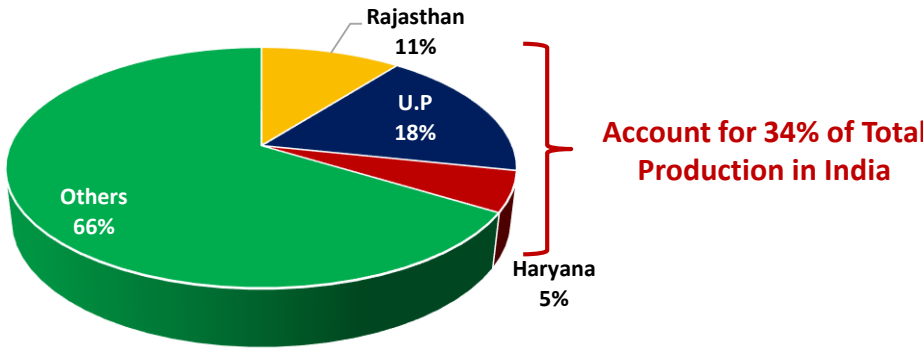


Toned Milk Dahi
Available in: 200ml, 400ml, 1ltr

Manufacturing Facilities – Six World-Class Units, Capacity of 3.4 Mn Litres/Day



Close to Largest Milk Production Areas



Streamlined Operations - Equipped with Robotic systems, cutting-edge technology for quality control systems and sophisticated R&D facilities

Quality Control



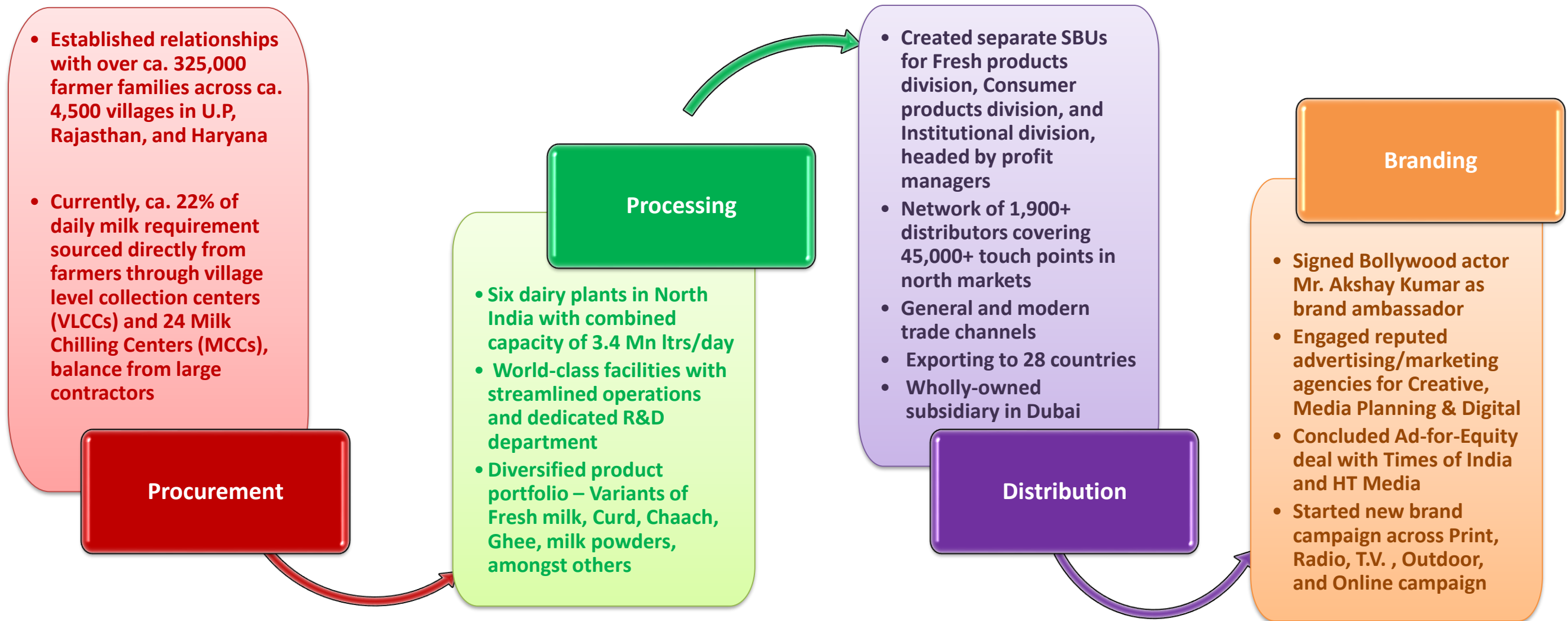
- ❑ The Company possesses a **strong Research and Development infrastructure** which encompass a technological advanced equipment and in-house testing labs with **stringent quality control systems**.
- ❑ Supporting the strong infrastructure, the Company has **a dedicated and experienced team of professionals**. The result is an **enhanced focus of product innovation, creating a strong pipeline of differentiated products**.
- ❑ Further, to **ensure supreme quality across the value chain from farm to customer**, systemic fixes and process improvements are being implemented **to make quality as the strongest vertical within the organisation**

Quality Certifications



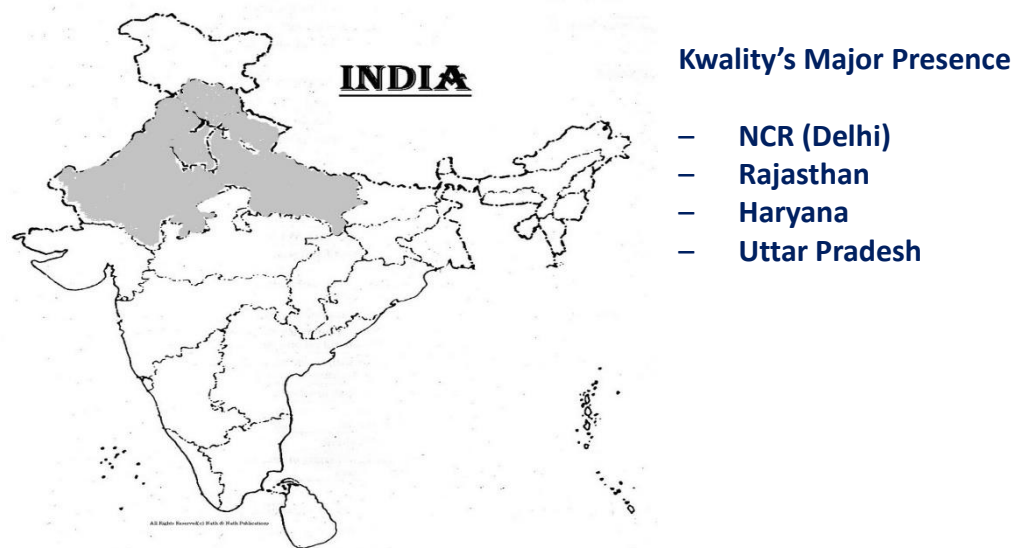
We are committed to the quality standards and norms to ensure safe and quality products for consumers.

Integrated Business Model



Distribution Network – Growing Retail Penetration

Strong Presence in Largest Consumption Markets in India



Implemented SBU Based Approach

Fresh Products Division

Pouched Milk, Curd, Chaach, Paneer *et al*

Consumer Products Division

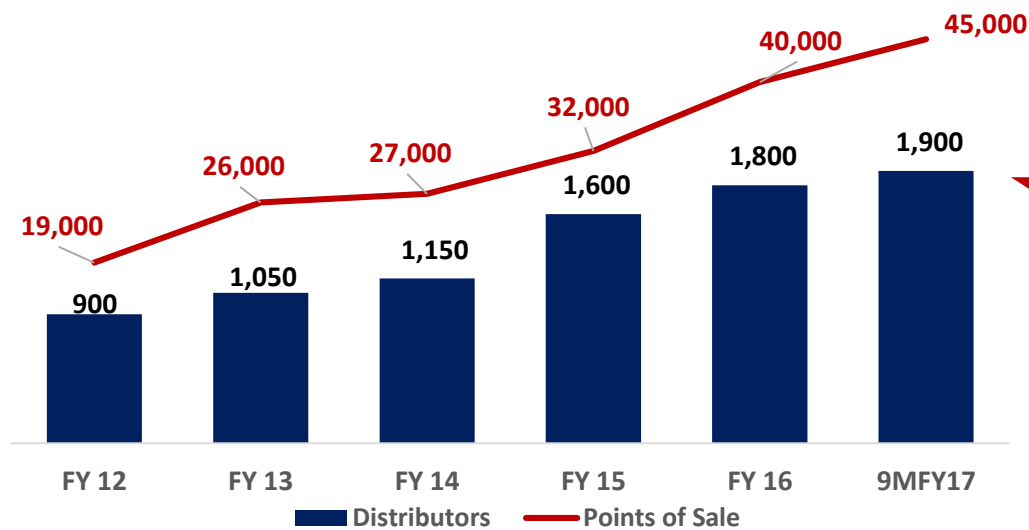
UHT, flavoured Milk, Cream, packed Ghee, Table-Butter, Cheese, Yoghurts *et al*

Institutional Division

Ghee, Milk powders, Bulk Milk & Butter *et al*

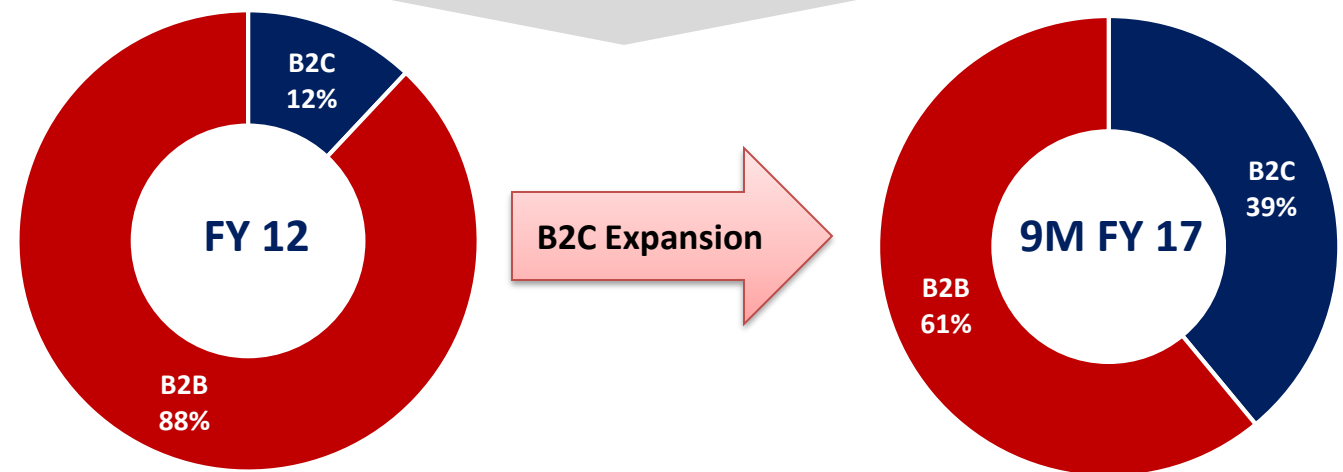
Sales & Distribution Strategy aligned with nature of products and customers catered

Growing Retail Network

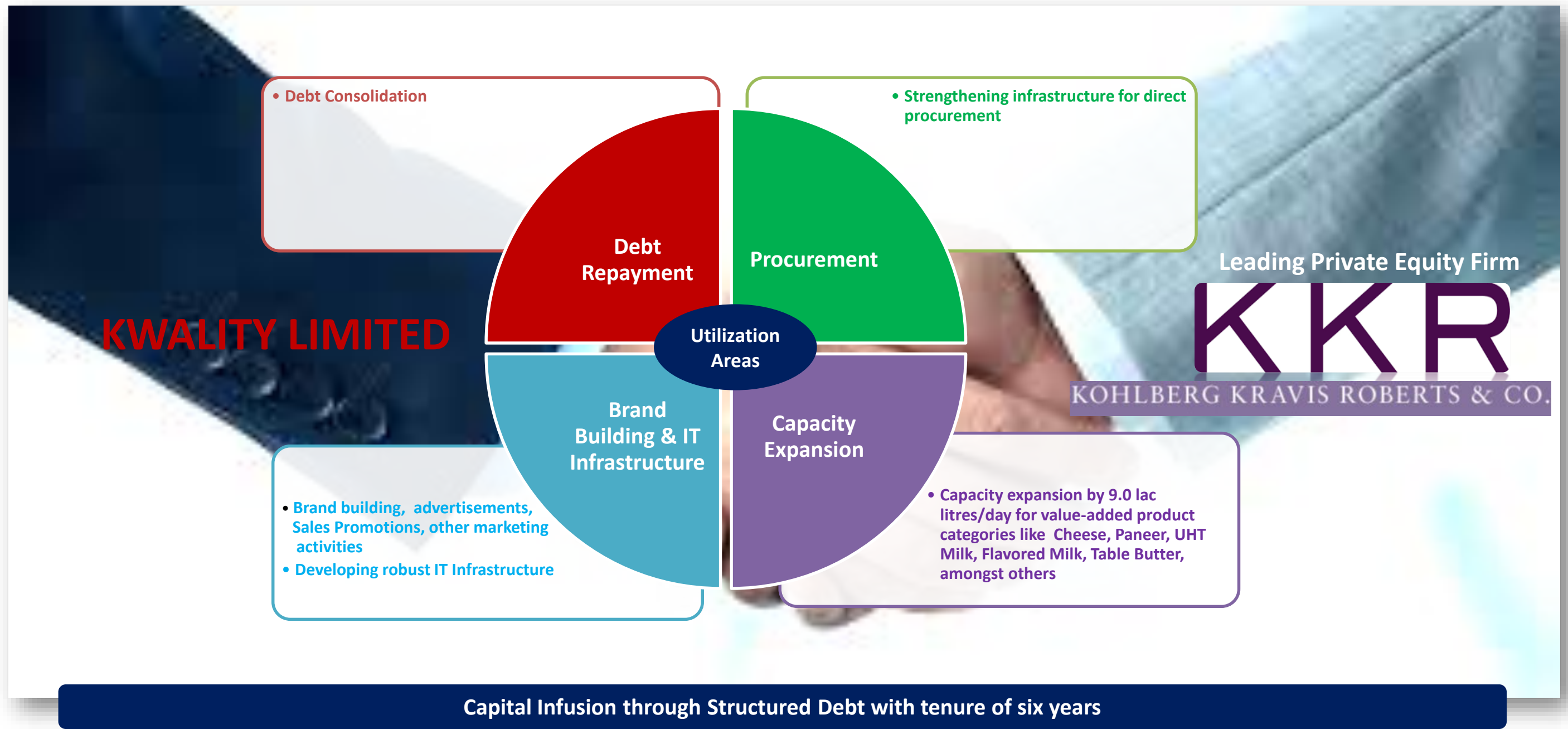


Marketing & Sales
300+ employees

Sales Mix



On Standalone Sales



Our Branding Partners



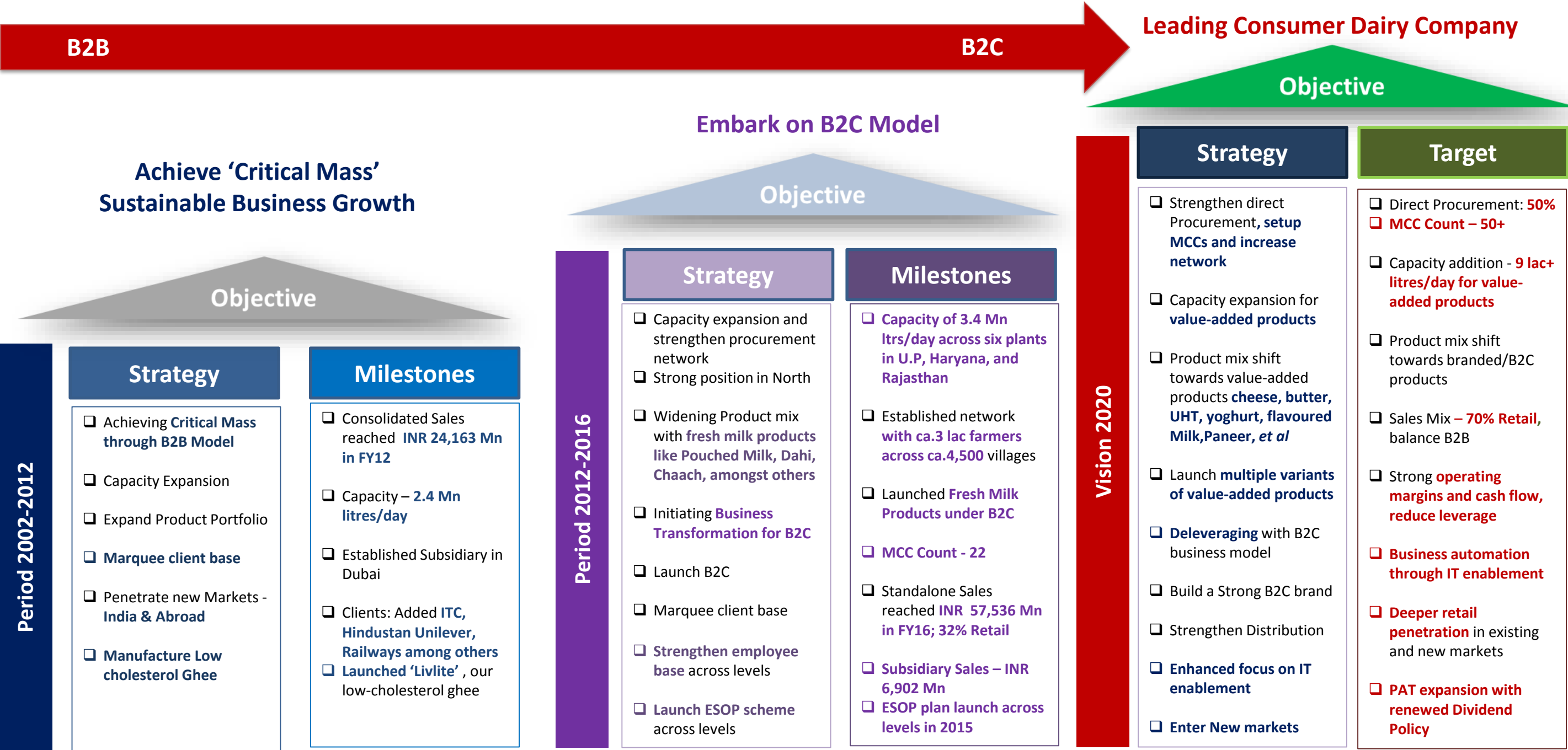
and all Online Platforms



...amongst others

KWALITY LIMITED

Offers Advertisements and Promotions across BCCL and HT Media owned media properties including English dailies, TV channels, Radio stations and a host of internet platforms, among others





Industry Overview

Company Overview

Quarterly Results Overview

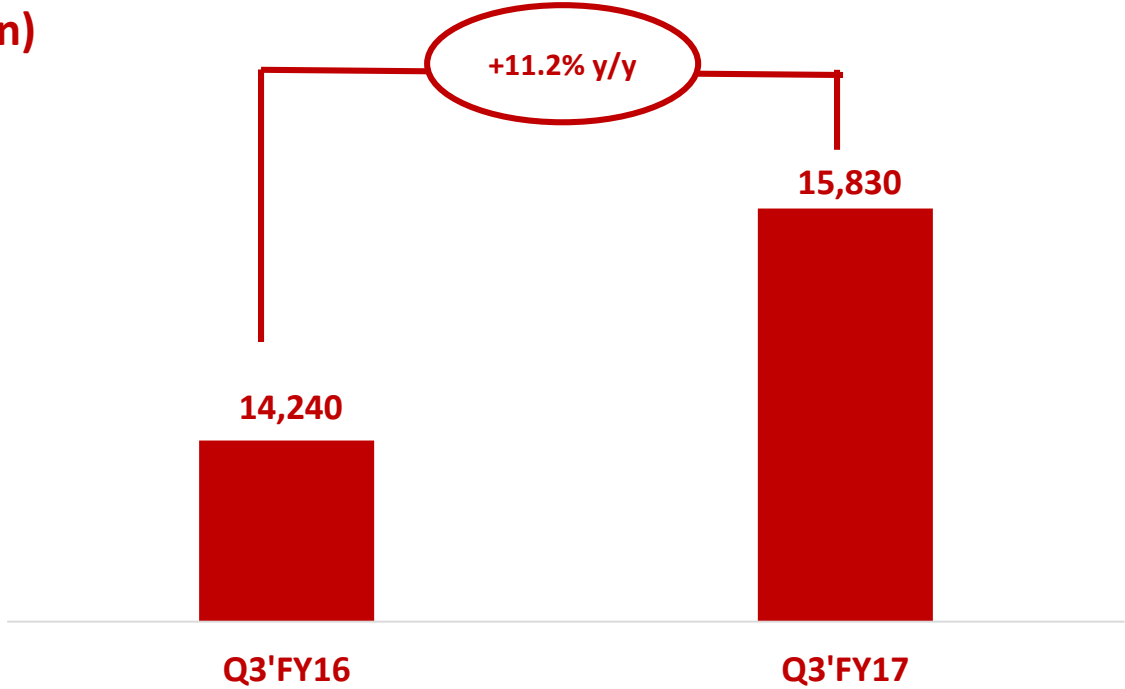
Recent Key Developments

Shareholding Pattern

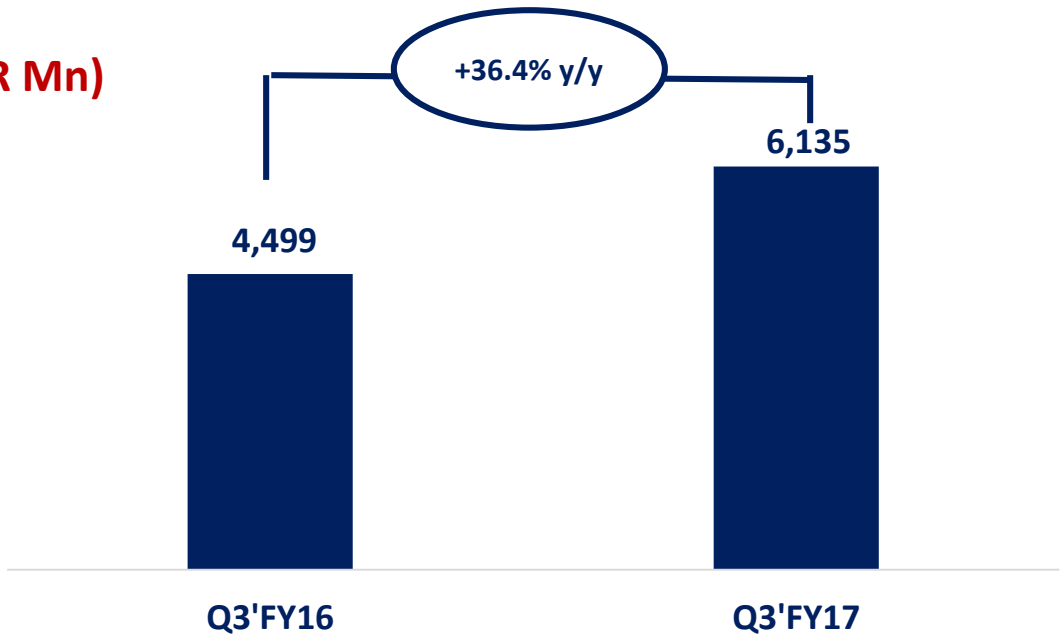


Quarterly Overview Q3'FY17 – Sales Overview

Sales (INR Mn)

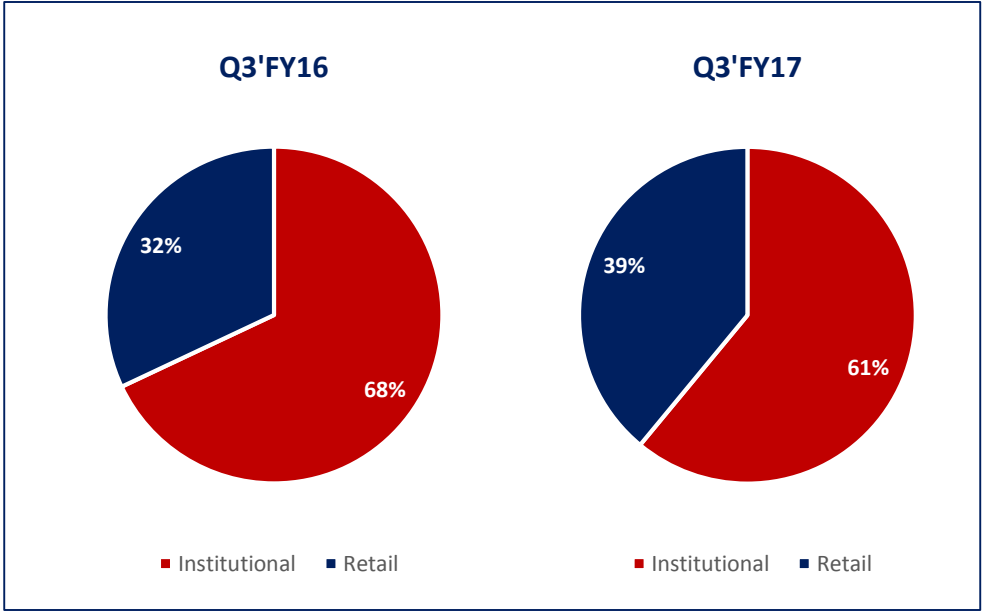


B2C Sales (INR Mn)



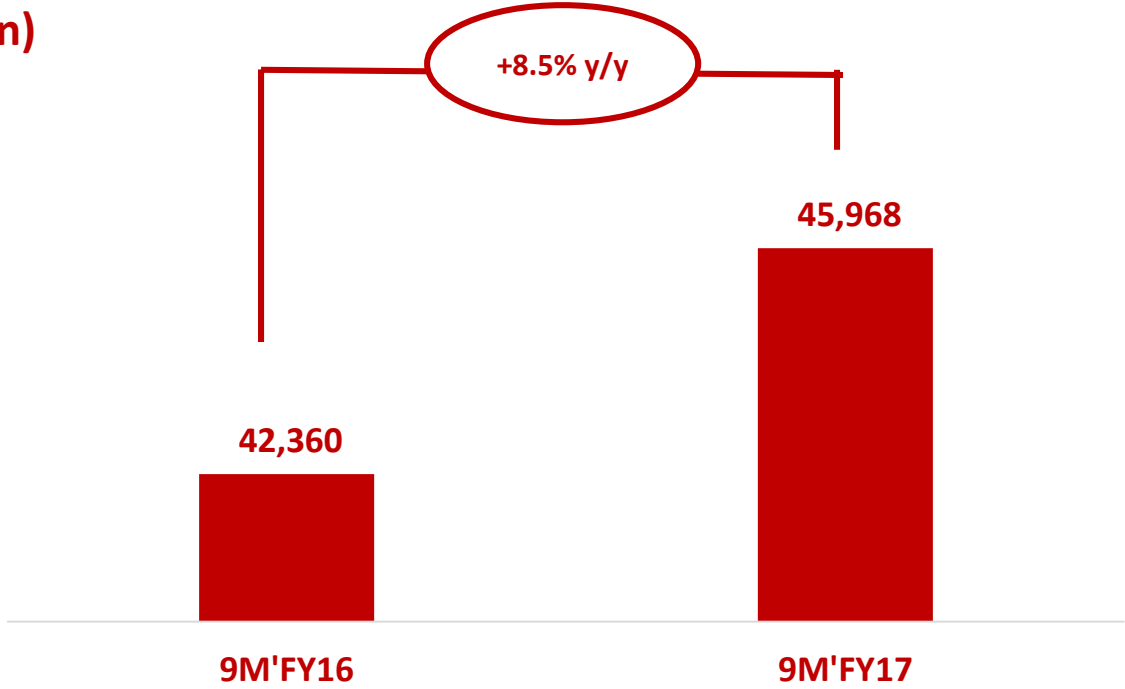
Standalone Sales

Sales Mix

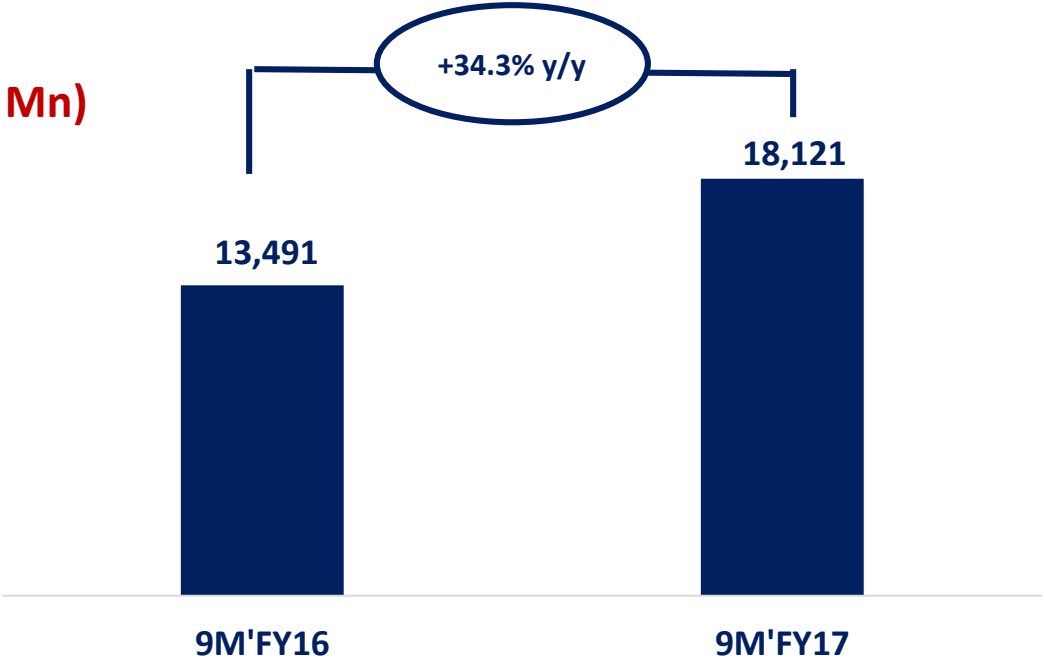


Nine Months Overview 9M'FY17 – Sales Overview

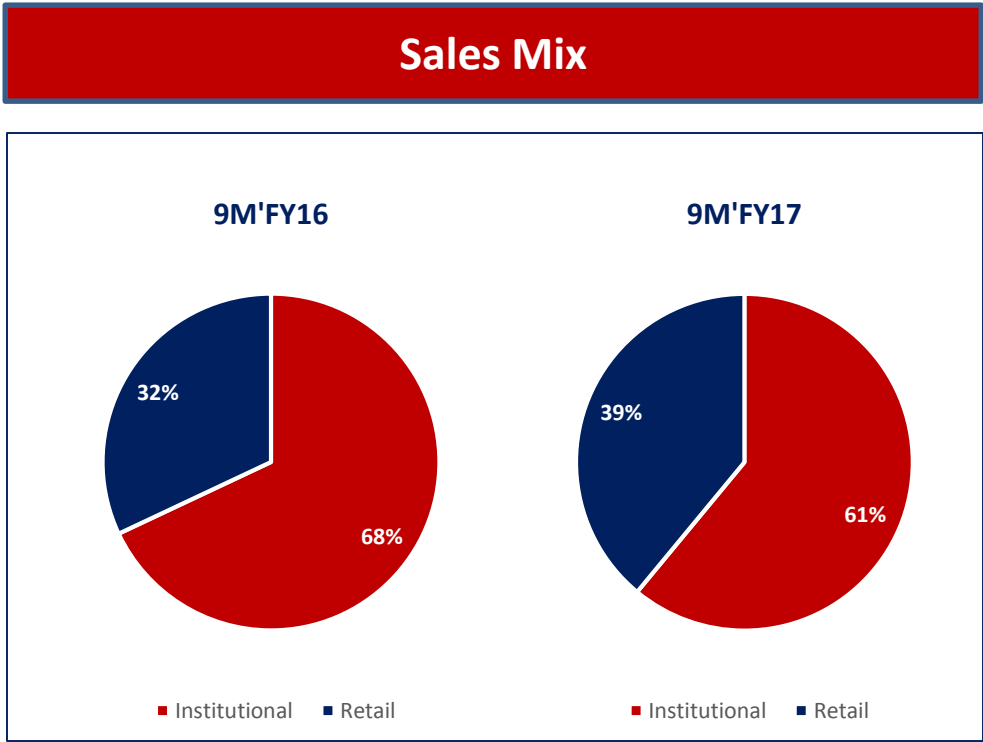
Sales (INR Mn)



B2C Sales (INR Mn)

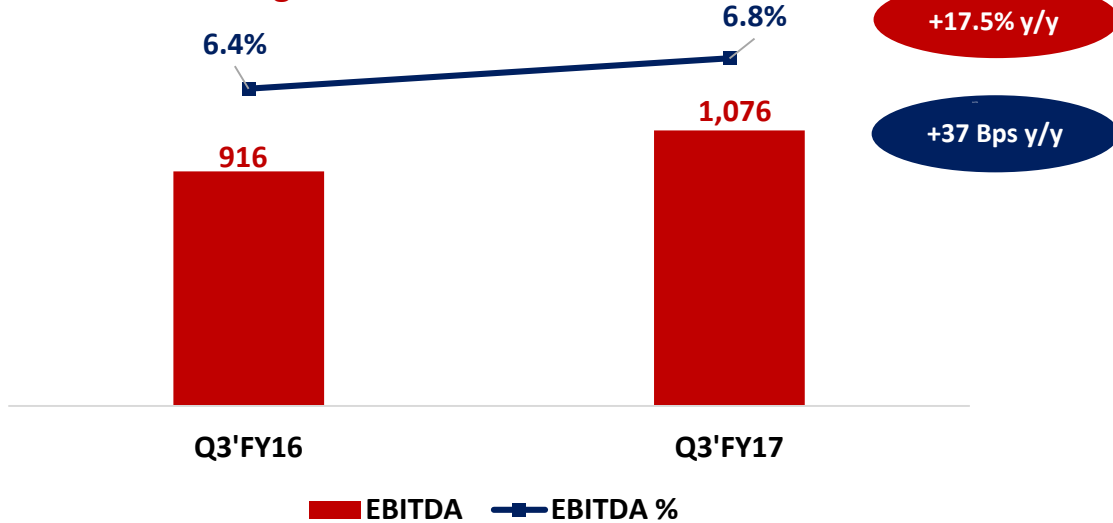


Standalone Sales

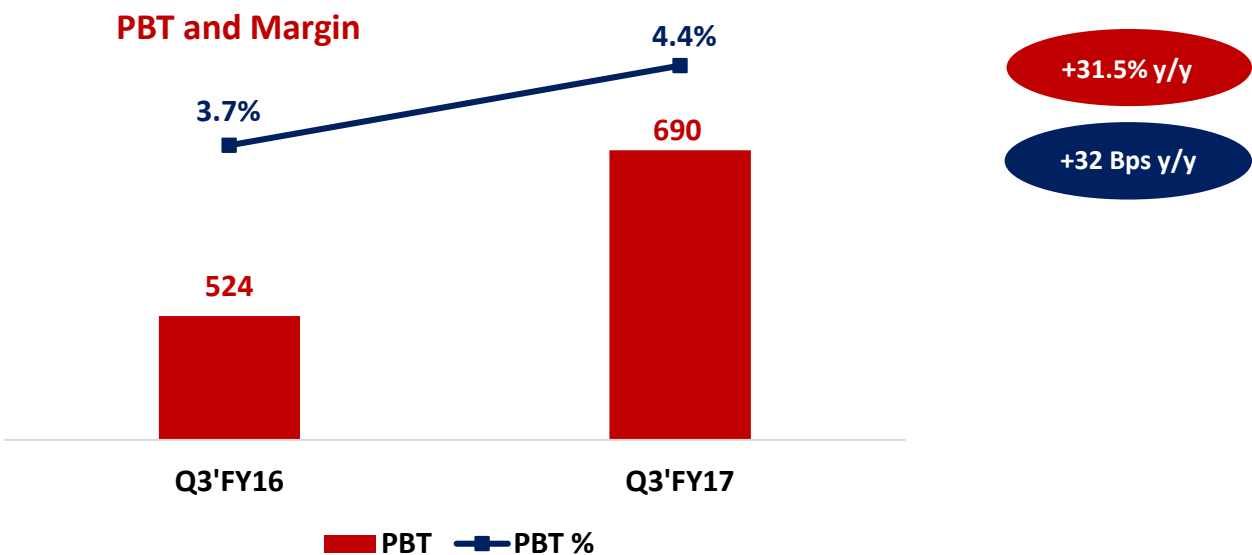


Quarterly Overview Q3'FY17 – Profitability

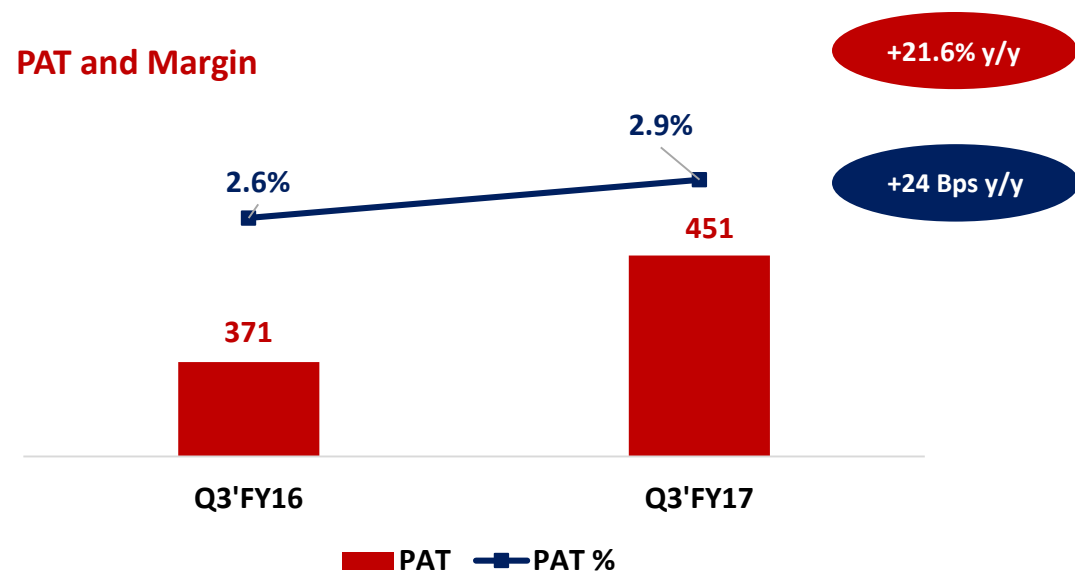
EBITDA and Margin



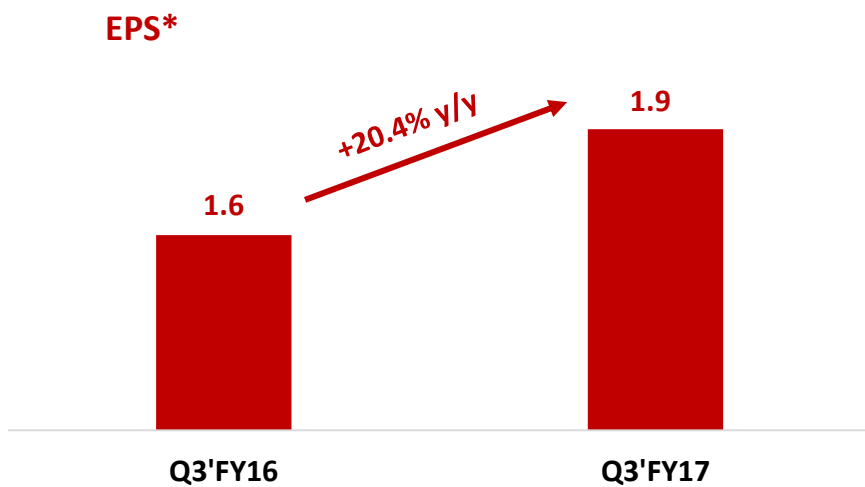
PBT and Margin



PAT and Margin



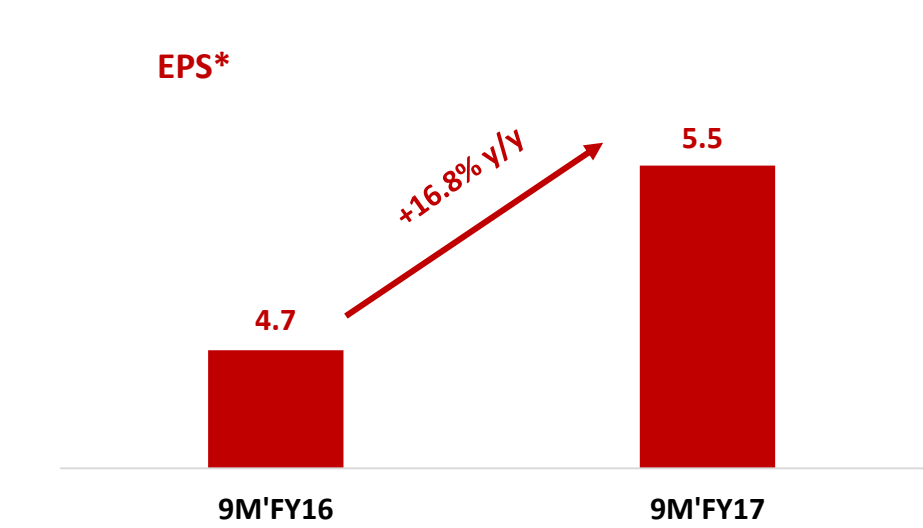
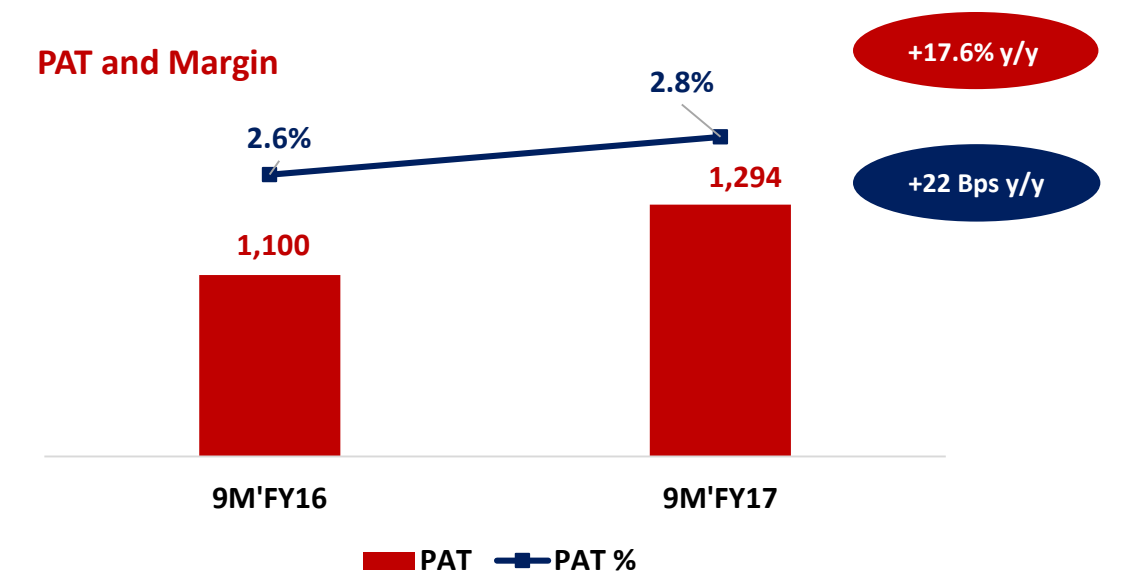
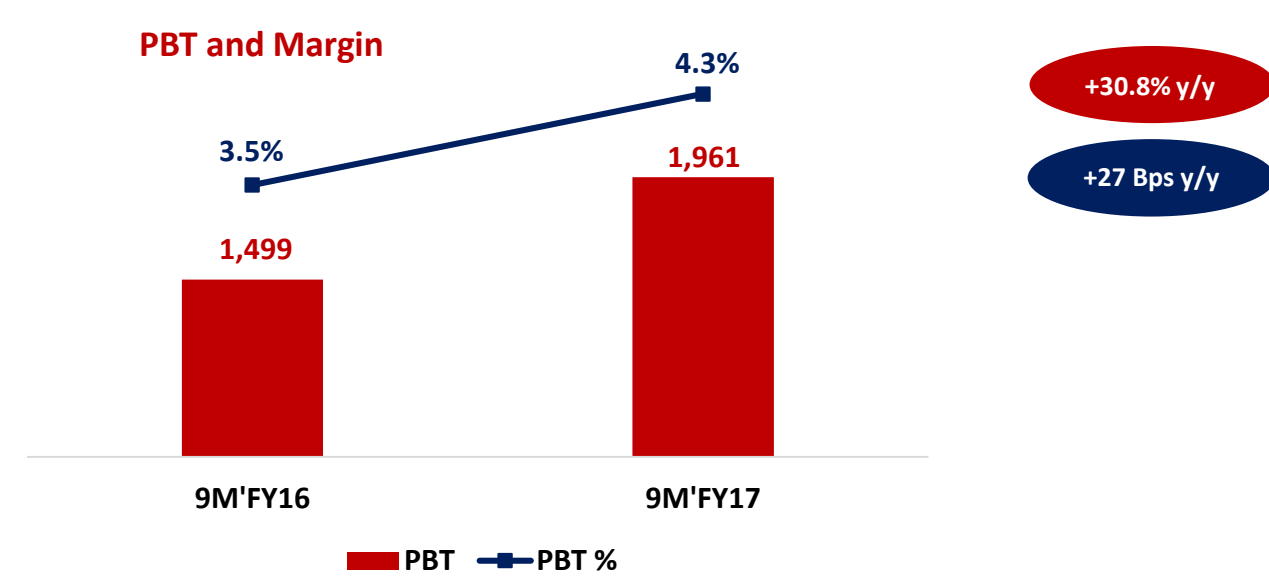
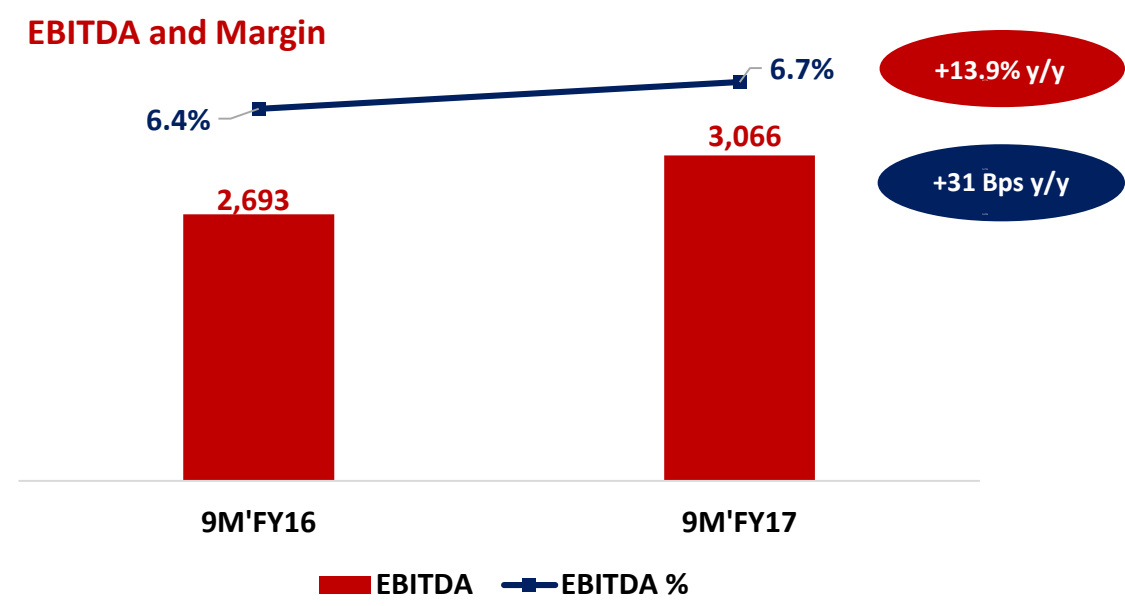
EPS*



Standalone financials; All figures in INR Mn except y/y growth, Margins, and EPS

*fully diluted basis

Nine Months Overview 9M'FY17 – Profitability



Standalone financials; All figures in INR Mn except y/y growth, Margins, and EPS

*fully diluted basis

Q3/9M'FY17 – Income Statement Overview

	Standalone Financials					
Particulars	Q3'FY17	Q3'FY16	Growth y/y	9M'FY17	9M'FY16	Growth y/y
Sales	15,830	14,240	11.2%	45,968	42,360	8.5%
Gross Profit	1,643	1,282	28.1%	4,526	3,721	21.64%
Gross Margin* (%)	10.4%	9.0%	+138 bps	9.8%	8.8%	+106 bps
Employee Expenses	100	110	-8.61%	289	253	13.85%
Dep & Amortization	30	58	-48.6%	90	174	-48.5%
Other Expenses	466	257	81.6%	1,172	775	51.2%
EBITDA	1,076	916	17.5%	3,066	2,693	13.9%
EBITDA Margin* (%)	6.8%	6.4%	+37 bps	6.7%	6.4%	+31 bps
Other Income	50	48	5.7%	158	137	14.9%
Finance Costs	407	380	7.0%	1,174	1,157	1.4%
PBT	690	524	31.5%	1,961	1,499	30.8%
Tax Expense	239	154	55.40%	666	399	67.16%
PAT	451	371	21.6%	1,294	1,100	17.6%
PAT Margin* (%)	2.9%	2.6%	+24 bps	2.8%	2.6%	+22 bps
EPS (Diluted)	1.91	1.59	20.4%	5.48	4.70	16.7%

*As % of Sales

Unaudited financials as per Indian Accounting Standards; All figures in INR Mn except margins and Growth y/y

Key Result Highlights

Revenue

- Revenue grew **11.2% y/y** to reach **INR 15,830 Mn** in Q3'FY17, primarily driven by B2C business
- B2C revenue increased **36.4% y/y** during the same period to reach **INR 6,135 Mn**; accounted for **39% of sales**
- For 9M'FY17, B2C business grew **34.3% y/y** to reach **INR 18,121 Mn**

Gross Margin

- Margin expanded **138 bps y/y to 10.4%** in **Q3'FY17**, supported by relatively higher realization from B2C business

EBITDA

- In Q3'FY17, EBITDA grew **17.5% y/y** to reach **INR 1,076 Mn** as against **INR 916 Mn** in Q3'FY16, owing to **increase in B2C business in the sales mix partially offset by increase in other expenses**
- For 9M'FY17, EBITDA stood at **INR 3,066 Mn**; registered growth of **13.9% y/y**

PAT & EPS

- Growth in PAT in Q3'FY17 partially offset by **increase in finance costs and tax expense**
- Diluted EPS grew **20.4% to reach INR 1.91** during the same period
- For 9M'FY17, Diluted EPS stood at **INR 5.48**, registered growth of **16.7% y/y**



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Kwality Inks MoU with Bank of Baroda to disburse INR 4000 Cr. Of Loans to its 1 Lac Farmers in Initial Phase



Salient Features

1. To disburse **INR 4000 Cr.** of loans among **1 lac farmers initially** within Kwality's established procurement network of ca. **325,000 farmers across ca. 4,500 villages in U.P., Haryana, and Rajasthan**
2. Each Farmer would avail loan **of up to INR 4 Lac** at a preferential rate which will be utilized primarily towards purchasing of **milching animals, a smart phone, and a two wheeler**
3. The scheme is aimed to provide **financial assistance to improve socio-economic lives** of farmers and steer **them towards digitization**

A Win-Win Proposition for All Stakeholders



3E Benefits for Farmers

- ✓ **Enabled** Financial Assistance at Preferential rates
- ✓ **Empowerment** to increase income levels
- ✓ **E-enablement** for opening of accounts, promote seamless transactions and digitization

Increase Direct Procurement for Kwality

- ✓ Assured supply of **best quality milk** directly from farmers within our network. The objective is to increase **throughput of our existing procurement** engine rapidly to manufacture consumer products which **would further scale up in subsequent phases**
- ✓ **Accelerate Product mix shift** towards **consumer products**, to drive margins and reduce **working capital requirements significantly**
- ✓ Acting as a facilitator, **assuming no liability**
- ✓ Strengthen existing relationships with Farmers and **foster new relationships**

Expansion of Priority Sector Lending for Bank of Baroda

- ✓ Instant **access to 1 lac farmers**, reducing costs and improving efficiency
- ✓ Increase exposure in priority sector



Kwality is committed to cover remaining farmers within its network and beyond its procurement areas in subsequent phases

Roped in leading consulting firm Ernst & Young to develop Comprehensive Growth Strategy for B2C Expansion

Key Deliverables

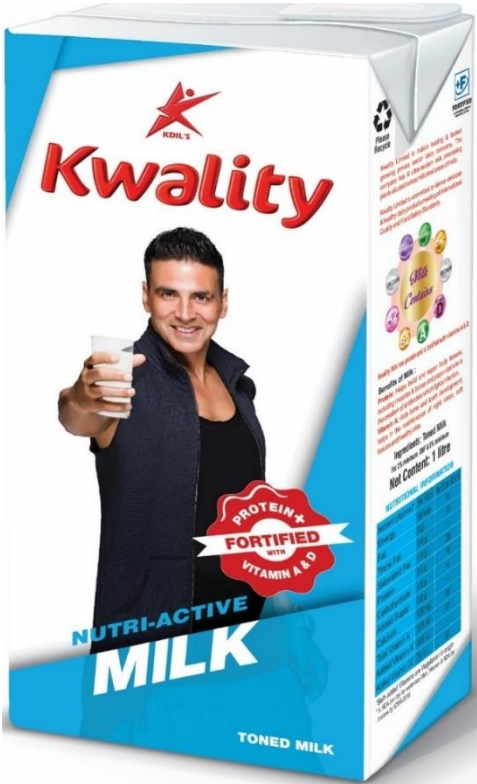


Kwality Commences Commercial Production at its New Unit at Softa Plant, Haryana, Dedicated primarily for Value-Added Products



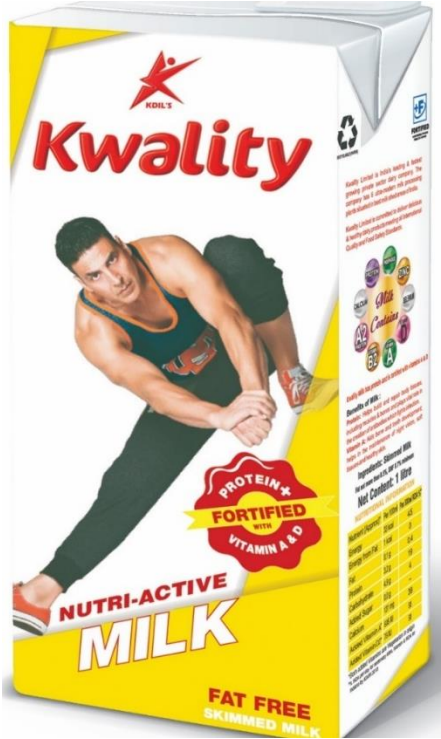
Key Highlights

- ❑ Kwality began commercial production at its **new unit at Softa plant, Haryana** on **2nd Feb, 2017**, dedicated primarily for value-added products
- ❑ The unit is fully automated, equipped with ultra-modern machinery, world-class quality control systems, and state-of-the-art R&D lab for which we have applied for National Accreditation Board for Testing and Calibration Laboratories (NABL) certification, would it eligible for third-party testing post accreditation
- ❑ When fully operational, the unit will have milk handling capacity of **0.9 Mn litres/day primarily for value-added products** such as Flavoured Milk, Paneer, Cheese, UHT milk, Cream in tetra packs, Table-Butter, Yoghurts, amongst others, with total capital outlay of approx. INR 400 crores
- ❑ With this unit, cumulative **milk processing capacity of Kwality would reach 4.3 Mn litres/day** across its six plants



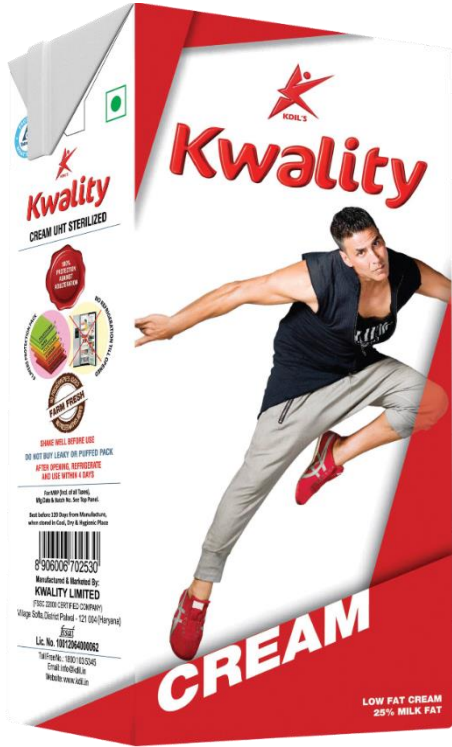
Toned UHT Milk

Available in: 200ml and 1ltr.



Skimmed UHT Milk

Available in: 200ml and 1ltr.



Milk Cream

Available in: 500ml and 1ltr.

Kwality Milk brings to you an exceptional variety of protein + fortified toned milk, which is not only rich in calcium, vitamin, and protein but also tastes delicious. The milk stands for good health. Kwality Milk in our new tetra pak can survive for a longer duration, without chilling.

Kwality Cream, made out of pure milk cream, has been finely processed. It is sterilized at high temperatures and aseptically packed. Prepare and serve delicious dishes made with Kwality Cream.

We plan to roll-out 8-10 more variants of high margin value-added products such as Flavoured Milk, Paneer, Cheese, Table-Butter, Yoghurts, amongst others in phases over the next 12-18 months

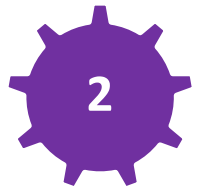
Stepping up Multiple levers for B2C Transformation

Levers For B2C



Procurement

- ❑ We increased our procurement network to 3,25,000 farmer families across 4,500 villages in U.P., Haryana, and Rajasthan
- ❑ Inked MoU with Bank of Baroda to disburse INR 4000 Cr. Of loans to its 1 lac farmers initially; would provide captive sourcing of milk directly from the farmers



Brand Building and Sales & Marketing

- ❑ Launched our new brand campaign 'KDIL's Kwality' with Bollywood actor Mr. Akshay Kumar
- ❑ Print campaign in all leading newspapers and jingle airing across radio stations
- ❑ T.V commercials, Outdoor, and Digital Campaign in full-swing
- ❑ Network Reach – 1,900+ distributors covering 45,000+ touch points in north markets



IT

- ❑ Involved E&Y India for IT transformation, recently concluded B2C aligned IT roadmap aimed towards business automation, real-time business monitor
- ❑ Implementing cloud-based solution for Sales Automation & Channel management



Human Capital

- ❑ Appointed our new Chief Marketing Officer (CMO) with over 15 years of rich experience in Brand Management & FMCG Marketing
- ❑ Expansion of Sales & Marketing team

Ramp-up of key functions to support our B2C strategy

We are pleased to share that
Kwality Limited
has been ranked at 8th position in India in FMCG (sector wise)
&
ranked at 197th position in growth (Revenue wise) all across
in "Fortune India magazine" in December 2016 edition

FORTUNE
500
INDIA'S
LARGEST
CORPORATION

Irrespective of tough competition and economic slowdown in India during 2016. There are few companies who made to TOP during such difficult phase & Kwality is amongst them.



We are pleased to share that our
hon'ble Managing Director, Mr. Sanjay Dhingra's
name is published by the "Business Today" magazine
in the January 2017 edition under the category of
"Top 100 CEOs of India"

The TOP
100
CEOs

Despite decent GDP growth & associated numbers, the economic situation and its under- current have not changed much. Some leaders of Corporate India, however, have taken the storm in their stride & posted exceptional result.

Our MD, Mr. Sanjay Dhingra is one of them.



Industry Overview

Company Overview

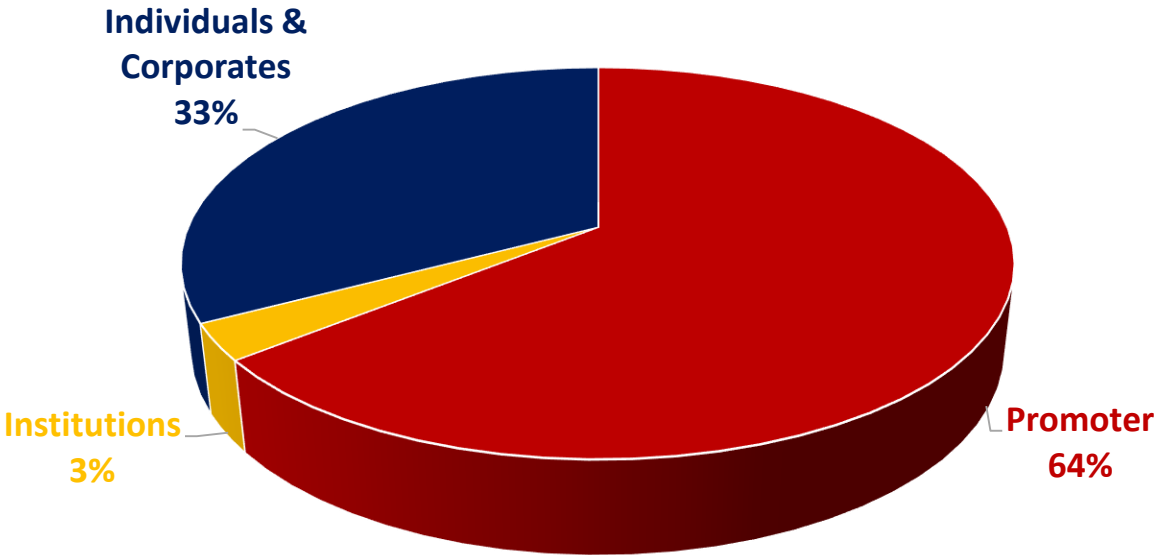
Quarterly Results Overview

Recent Key Developments

Shareholding Pattern



Shareholding as on 30th September, 2016

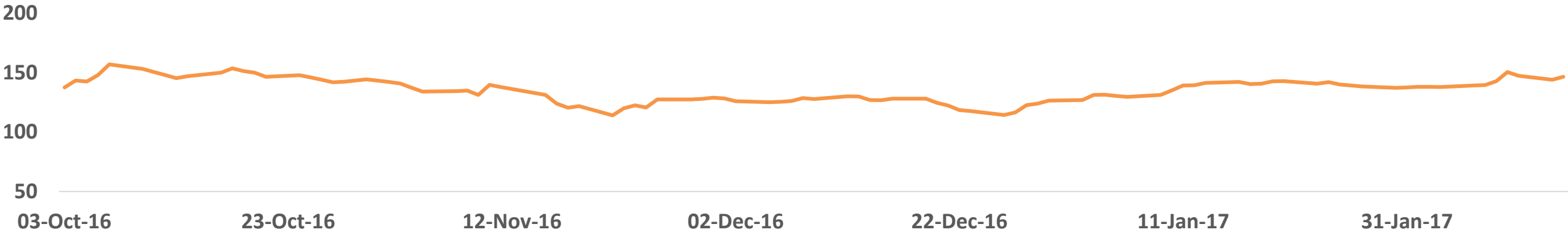


Stock Data

As on 14 th Feb, 2017	
Share Price (INR)	147.0
Market Capitalization (INR Mn)	34,701.4
Outstanding Shares (Mn)	236.8
52-Week High/Low (INR)	159.4/78.5

Source: Money Control

Stock Price Movement : 01st Oct, 2016 – 14th Feb, 2017



Source: BSE, NSE, Yahoo Finance

Disclaimer

The information contained herein has been prepared to assist prospective investors in making their own evaluation of the Company and does not purport to be all-inclusive or to contain all of the information a prospective or existing investor may desire.

This Information may include certain statements and estimates provided by the Company with respect to the projected future performance of the Company. Such statements, estimates and projections reflect various assumptions by management concerning possible anticipated results, which assumptions may or may not be correct.

Prospective investors will be expected to have conducted their own due diligence investigation regarding these and all other matters pertinent to investment in the Company.

This presentation may contain statements that are “forward looking statements.” The company’s actual future results may differ materially from those suggested by such statements, depending on various factors for which the company and its management does not take any responsibility.

For further information, please contact:

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