"Prabhat Dairy Q1FY19 Earnings Conference Call"

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MODERATOR: **MS. SHRADHA SHETH – EDELWEISS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Prabhat Dairy Q1 FY19 Earnings Conference Call hosted by Edelweiss Securities 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 the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities. Thank you and over to you, ma'am.

Shradha Sheth: Thank you, Lizann. On behalf of Edelweiss, let me welcome you all to the Q1 FY19 earnings call of Prabhat Dairy. From the management today, we have Mr. Vivek Nirmal – the Joint Managing Director. I will now hand over the call to Mr. Nirmal for his initial comments post which we will open the floor for Q&A. Thank you and over to you Vivek.

Vivek Nirmal: Thanks, Shradha. Good afternoon everyone. On behalf of board of directors and management of Prabhat Dairy, I welcome all of you for this Earnings Call to discuss our financial performance for the quarter ended 30th June 2018. We recorded strong volume growth of around 36% in the first quarter which was partially offset by 23% YoY due to decline in milk prices but resulting into an overall growth of 7.3% to reach our topline of Rs. 385 crores. Our consumer business revenues have significantly increased by 33% year-on-year and this is mainly driven by products like milk, ghee which is up by around 30%, cheese which have seen the highest growth, cheese is up by around more than 108%, curd is up by 30%, paneer is up by 48% now. The share of our consumer business revenues was around 33% last quarter and it provides us very good head start to target 40% consumer revenue share by this fiscal.

Our ingredient business revenues declined primary due to lower milk prices. This is normally a pass-through mechanism. Till the time the milk prices are lower, those are passed through and hence the realization becomes lower. Our gross margin increased by 194 basis points year-on-year to around 22.8% driven by higher contribution from the consumer business. EBITDA increased by 14% year-on-year to 32.4 crores and EBITDA margin grew by 52 basis points to 8.4%. The finance cost has been declined which is seasonal thing in nature, but which has also helped us register a PAT growth of around 90% year-on-year from 5.8 crores Q1 FY18 to around 11.1 crores in Q1 FY19. Our sustained efforts towards strengthening our milk procurement network has proved to be fruitful as our average milk procured per day has gone up by around 16% now. We right now handle around 1.1 million liters of milk every day. To help farmers during this low milk price scenario, we have initiated a lot of new farmer engagement and education programs which are focused on techniques to improve the quantity of milk output to have better efficiency in milk production practices and also supplying them high quality and superior quality cattle field.

We continued with various trade activation campaigns across key markets to strengthen our consumer business presence. We have undertaken sampling activities for our products like milk, cheese and paneer at various modern trade outlets like Big Bazaar, Reliance Fresh, Wal-Mart. Our incremental spend on brand building activities is yielding desired results in growing our consumer business. Our capacity utilization levels across products are improving and we have sufficient capacities in place to cater to our increasing demand with no major CAPEX plan over next 2 years and this should help us improve our return ratios going forward. With this, I would now like to open the floor for the Q&A session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nikhil Parekh from Dhanki Securities Private Limited. Please go ahead.

Kaushal Shah: Yeah, this is Kaushal Shah here. Sir, can you share your thoughts on this recent Maharashtra government initiative to increase the procurement price by Rs. 5 per litre for the next three months, what impact will it have on our numbers?

Vivek Nirmal: It is important to understand the background always, on which government has taken this decision. Largely the milk procured in Maharashtra goes for ingredients, globally since the ingredient prices are down, there is a lot of hindrance to exports and since exports are not happening there is an inventory pile up in the country which is actually pushing the prices down, so unlike any agricultural commodity even milk had its own cycles, its own seasons and all and there is also a price change with every season or with every cycle. Now, in case the prices were depressed, it could have actually resulted in shortage next year, but I think government of Maharashtra has made a good move and they have stepped in particularly to provide subsidy to the milk suppliers and here the state government is giving subsidy to farmers of Rs. 5 a litre and the industry is expected to give around Rs. 20 a litre to the suppliers and the industry gives Rs. 20 per litre to the supplier and state government passes on their part of Rs. 5 a litre. It has been implemented for 3 months, starting from first August and post review, the government is expecting it to continue further for may be additional two months. This definitely is a big booster to the dairy industry. The good thing is that the subsidy is only offered for high quality milk and to the extent of certain fat and SNF percentage, so which will definitely be good reward for the farmers producing good quality of milk. Secondly, this subsidy is also provided only in case the payment to the farmers is made in their bank account, so which actually will ensure the right governance or monitoring of this subsidy being paid to the farmer. At Prabhat there is a lot of advantage because first of all if it is good for the farmers and farmers are beneficiary, we are right now the largest dairy operator in this state and as the subsidy will maintain the table of the farmers, it will not let them push down their milk procurement hence a healthy availability will be there. Number two, as we pay directly to the farmers in their bank account, all of our milk procurement is digitized, it will also help us to get more farmers into our fold because we will be able to provide the subsidy of the government very smoothly to the farmers and number three, this is a good thing for the overall ingredient business because it actually gives the ingredient business a very competitive edge in Maharashtra. The ingredients from Maharashtra will definitely become very competitive. So, this is the overall brief about the milk subsidy and this is how we see the overall impact on us as a company.

Kaushal Shah: Just one follow-up question on this. The newspaper report suggest that the subsidy is available on everything except for pouch milk, so does that mean that as far as the pouch milk segment is concerned our procurement cost which was Rs. 20.60. That will now increase to Rs. 25 so that is more than 20% increase, so does that mean we will have a little pressure on our margins as far as the pouch milk segment is concerned?

Vivek Nirmal: The subsidy is not available on products like pouch milk. We don't foresee any pressure because pouch milk is already retailed at around Rs. 42 to Rs. 44 MRP in the cities and pouch milk actually does not need any kind of subsidy. During this period of low milk prices, the increase in the gross margin or increase in the differential was always used for trade schemes and all. Now in this scenario, the trade schemes have already come down and wherever the purchase price has increased that is fully offset by the trade scheme which has come down in the liquid milk segment in particular.

Kaushal Shah: We have seen very strong growth in cheese, ghee, etc., so if you can throw some light on where we stand in terms of our consumer product business, so in cheese for instance where do we stand, both in terms of the total number as well as in terms of market share, similarly for ghee and some of the other products like paneer, etc?

Vivek Nirmal: Maybe we will not be able to provide in detail breakup product wise, but I can definitely add some more information. So, cheese as a part of our consumer business strategy, we are largely Maharashtra focused player. We have around 4 to 5 sales channels for all the products including liquid milk product, long shelf-like products, food service, which are in Maharashtra. We have multiple distributors, modern trade, general trade and everything in Maharashtra. However, for food service in particular, we are present in top 45 cities of the country which include large metros as well as the tier 2 cities where we have our own depots, distributors and always cater to the restaurants. So, this food service is largely helping us to take our cheese business ahead because cheese is the main product in it. We have also added lot of new products to the cheese business like filler cheese, cheese sauces, cheese lings, etc. in the last quarter. Capacity utilization of cheese till last year was low because the plant is around 2-1/2 to 3 years old and it is a pretty large plant. We are already at around 40-45% plus capacity utilization. Very soon in next 12 to 16 months, we see that the capacity will be more than 75% in terms of utilization. Again, in cheese, since we only operate in food service business and the numbers are different in different regions, we don't have the exact number for the market share But in case of dahi, we are second largest player in markets of Mumbai. We are number 2, number 3 private dairy player in Maharashtra in terms of total liquid milk business. Even today we are not present across Maharashtra, we are only present in limited towns of Maharashtra. We don't have significant presence in Vidarbha, we don't have our significant presence in Western Maharashtra and this quarter we are starting our milk packing stations, the third-party operation in Vidarbha, Western Maharashtra which will help us to take our dairy products throughout the state.

Kaushal Shah: Which segment do you anticipate will lead the growth this year?

Vivek Nirmal: Ingredient business is quite stable. Though the volume has grown, the realization has gone down due to milk prices and they are again improving, so I would see B2B business largely stable or increasing slightly. Liquid milk business would lead the overall growth significantly followed by cheese, curd and paneer. Key opportunity in Maharashtra right now is for a large liquid milk player unlike other states where there are very good large private sector liquid milk players. In Maharashtra, there is a vacuum we believe and with our fresh milk procurement across the state, it provides us very good opportunity to have third party operations for liquid milk packing and spread out our brand across the state. It also gives us entry in lot of new households which then eventually are the probable consumers for our curd, dahi, ghee and all, so liquid milk will definitely lead this and overall that will also improve our returns because right now we are looking at generating more revenues out of our current assets where again liquid milk will be helping us to generate better revenues and utilizing the entire additional milk which we are going to procure this year.

Kaushal Shah: Sir, just one final question. Can you throw some light on our margin in the cheese segment? If cheese is around 30%, would it be similar to Ghee and Dahi? You can provide the ballpark figures for Q1.

Vivek Nirmal: Cheese as a business stands at an EBITDA level, it stands in the range of around 15-20% plus EBITDA in most of the products, but other products like ghee are relatively less. Dahi again is a very good EBITDA business because the value addition in dahi is high and along with dahi, the same distribution network also handles lot of our other chilled products as well so even dahi is at around 30-35% range.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: I have couple of questions. First on ad spend and brand building, what is our full year budget and secondly on a gross margin profile perspective because now we are increasing two things, one is on the value added side, the mix is increasing and secondly in terms of B2B to B2C business also the mix is increasing in favor of B2C, so how do you see the gross margin profile over the medium term?

Vivek Nirmal: Our gross margin profile has been improving obviously with two reasons largely, as the consumer business has improved and as the milk cost has also been relatively lesser, but going forward we see this gross margins improving in a year because in terms of B2B the overall gross margins are in the range of around 15-20%, but in terms of the consumer business, it is somewhere in the range of 30-35%. As this proportion grows, our target is to reach 50% in terms of consumer business out of our total revenues by 2020. So, as this proportion is reached, we also see healthy growth in gross margins.

Manish Ostwal: Sir, 50% consumer business and the mix of the value added, can we aspire to reach 30% of gross margin profile?

Vivek Nirmal: That is what we are targeting, we are targeting somewhere in the range of 25-30%.

Manish Ostwal: Okay. What is the ad spend/brand building budget for the year?

Vivek Nirmal: This year we have around 30 crores of budget on the brand building activities which include sampling, promotions, communication and all.

Manish Ostwal: We are expanding our distribution network also and what is the current availability of value added products in our own distribution network? How much it is available and how much we have to cover more and can you give an update in terms of network expansion?

Vivek Nirmal: I will talk particularly about Maharashtra because that is our focus area. We are present in around 40,000 outlets across Maharashtra and this includes liquid milk or ghee or dahi and all. The target is to reach one lakh outlets in the next 1-1/2 to 2 years, so that is how we are planning a major distribution expansion and we are achieving it by starting new milk packing stations in new geography. So, geography expansion is one of the key highlights as well in the current region where we operate, we are also adding a lot of new outlets every month.

Manish Ostwal: And last small data point, what is the debt repayment number for FY19 and 20? Thank you.

Vivek Nirmal: Our debt, we expressed it to remain at a similar level in 19 and 20 as well because as the business grows, it will also need some working capital for our inventories or our debtors and all. So, we look at our debt to remain at a similar level in 19-20.

Moderator: Thank you. The next question is from the line of Nined Sabnis, an Individual Investor. Please go ahead.

Nined Sabnis: So, I have a query regarding condensed milk sales, so are we anticipating further decline in condensed milk revenue because of what I can sense and if yes, to what extent will our SMP volume increase, offset that decline?

Vivek Nirmal: So, actually there is no further decline in condensed milk sales. Last year in 17-18 Q1, Q2 actually wherein condensed milk sales were there to some of the corporates; this year has converted into WMP because of the recipe change and hence our milk powder sales are higher this Q1 compared to the last Q1, but I think that has already happened in the Q1 now. So, we see sales to be stable on an increasing trend in days to come again for condensed milk.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP BlackRock Mutual Fund. Please go ahead.

Resham Jain: The overall debt is going to remain same for FY19 and 20, so I just wanted to understand since the milk prices have come down compared to last year and also we are moving more from B2B to B2C which I assume is a lower working capital cycle business, so overall the working capital requirement in the context of growth should actually come down and you don't have any major CAPEX plans over the next two years, then why do you say that your debt may actually remain same at the current level?

Vivek Nirmal: So, from current around 1500 crores of the topline, we are actually expecting a topline of around 2000 crores which is 30% increase around, but at the same time we see that additional working capital requirement required for this business will be largely funded from internal accruals and hence we might not need any additional debt but at the same time, it might not go down from the current level significantly, maybe slightly it would in terms of how much cash balance remains in the company because the business which will increase in segments like cheese, in segments like other products like ghee and all which also has its own inventory. So bearing these in mind, I think the debt levels are expected to remain the same at the current level.

Resham Jain: So, do you think that the next 500 crores business which we are expecting in the next 2 years, will the working capital cycle remain same as what we have currently or will it be better than what we have currently?

Vivek Nirmal: In terms of the consumer business, the working capital cycle is shorter than the ingredient business and as the proportion improves, the consumer business improves; the cycle will definitely get shorter at the overall company level, than the current levels.

Resham Jain: So, basically what you are saying is that the working capital requirement will be similar to the cash generation over the next two years ?

Vivek Nirmal: Almost.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Sir this quarter our revenues grew by around 7%, while our volumes were by around 36%. That gives an idea that our realization or you can say the mix was down by around 29% versus milk prices were down by around 24%. We have one-third business which is from the B2C business. There is a big gap between the realization going down and the milk prices being down by around 24%, so why there is this gap sir?

Vivek Nirmal: So, particularly, there is always a lag effect of the milk price to be passed on even in the ingredient business. So, every quarter does not reflect a true picture only for that quarter. There is also lot of impact of the previous quarters wherein if the milk prices have not been passed on fully to the B2B clients. In lot of clients, it's a 3 months cycle, in lot of clients it's 2 months or a 1-month cycle. So, this percentage will never tally exactly to our percentage-to-percentage when we compare both the quarters.

Naveen Trivedi: So, you mean to say that the B2B decline in the prices is far higher than the 29%?

Vivek Nirmal: No. Those will be lower and then we will again be seeing maybe the higher realization in this quarter, because again the prices have gone up.

Naveen Trivedi: I was just trying to understand Q1 performance, so what is the realization difference in B2B and B2C versus last year?

Vivek Nirmal: We don't have a specific segment wise breakup of the realization difference versus last year.

Naveen Trivedi: As per my understanding, Q4 realization was down by around 8-8.5% versus milk prices decline of 15%. So, that time it was in our favor and that's why our EBITDA grew by around 35% versus the realization and volume grew by 15%. So, that means our EBITDA per liter expanded in the 4th quarter. While if I look at this quarter, our volume grew by 36% while our EBITDA grew by 48% which means the realization EBITDA per liter has gone down but these are just things, it's only a temporary thing. Can we expect that this will bounce back in the coming quarters?

Vivek Nirmal: Yes, in this quarter as I said we don't expect any downside on the margins for sure..

Naveen Trivedi: Since last few quarters our volume growth is healthy while our average milk handling only grew by 16%. So, can we just understand why this handling is very low, compared to our volume growth?

Vivek Nirmal: Volume growth is a mix of not only the milk which is procured but also the ingredients which we procure. So, apart from liquid milk, we also procure ingredients and in some places wherein we get opportunity to source our ingredients. Milk procurement doesn't grow substantially because it's a slow process like building of consumer business. It grows slowly and gradually. And it is very important for us to always say that demand is higher than what we procure, so that we don't end up in a position where we have surplus milk and then there is no demand. So, that is why our volume growth is always higher and then our milk procurement chases the volume growth.

Naveen Trivedi: How do you see the milk prices in FY19 as a whole?

Vivek Nirmal: In terms of the annual forecast, the milk prices are expected to remain at the current levels as the availability of the milk is not going to go down.

Naveen Trivedi: So, on a YoY basis it may go down but, on a quarter-on-quarter basis it will be more of a stable thing?

Vivek Nirmal: Correct.

Moderator: Thank you. The next question is from the line of Dhawal Mehta from ASK Investments. Please go ahead.

Dhawal Mehta: I just wanted clarification regarding the subsidy of Maharashtra Government. So, right now the subsidy of Rs. 5, we have to pay to the farmers let's say whenever the payment cycle is up every 10 days. When that money will be returned by the government?

Vivek Nirmal: So, it's every 10 days cycle to the farmers. And in next 20 days, the government is expected to give that money which has been already paid to the farmers. From 1st to 10th whatever money has been paid has to come back from the government before 30th.

Dhawal Mehta: So, ideally our working capital will be increased by 20 days. So, roughly let's assume that we are procuring 12 lakhs liters per day, so roughly around Rs. 60 lakhs per day our working capital will be increased?

Vivek Nirmal: Around Rs. 10 crores would be the impact on the working capital.

Dhawal Mehta: Let's assume that the current quarter milk price is Rs. 20.6. So, you have to pay Rs. 5 extra on Rs. 20.6. This is how it will work?

Vivek Nirmal: Yes, the government now will be paying extra Rs. 5 and so our price remains constant. And the farmers will be getting that additional Rs. 5.

Dhawal Mehta: So, we are reading various papers regarding the subsidy being on the powder and not exactly on the milk which is procured. So, how exactly it will work?

Vivek Nirmal: It's not only on powder; it's on the milk which is procured.

Dhawal Mehta: So, basically just on our side the impact will be the increase in working capital of 10 crores which we have envisaged. Other than that there will be no impact?

Vivek Nirmal: Correct.

Moderator: Thank you. The next question is from the line of Dheeraj Mistry from Emkay Global. Please go ahead.

Dheeraj Mistry: What is the last quarter milk procurement price for the company?

Vivek Nirmal: Around Rs. 20. 60 paise or around Rs. 21, that's the range.

Dheeraj Mistry: So, last quarter it was around 21?

Vivek Nirmal: Yes.

Dheeraj Mistry: Based on that there has been sequential drop in gross margins. So, can you explain what has led to gross margin contraction on QoQ basis?

Vivek Nirmal: So, if we see always in Q3-Q4 which is a flush season the milk prices are down. And they tend to rise slightly when the summer season starts. That has happened this year also and hence there is that particular reason wherein we are seeing the drop or contractions in margins on QoQ basis.

Dheeraj Mistry: And if I am not wrong you said that further growth, your main growth will come from liquid milk?

Vivek Nirmal: Yes, in the consumer segment.

Dheeraj Mistry: In the consumer segment? But isn't it margin dilutive for the company?

Vivek Nirmal: Basically it is a combination of all it's not only the milk sales which grows, along with it grows the sales of other value-added products as well wherein we get good margins.

Dheeraj Mistry: So, you think that overall contribution from milk will remain stable for the company?

Vivek Nirmal: Yes.

Dheeraj Mistry: We procure around 30% of our milk from intermediary right?

Vivek Nirmal: Yes.

Dheeraj Mistry: So, in this subsidy which Maharashtra Government will give, so it will be paid by whom? Like intermediaries or by us?

Vivek Nirmal: It will be paid by us to the intermediaries and they will further pay it to the farmers' bank account.

Dheeraj Mistry: So, we have records of from whom they collect?

Vivek Nirmal: Yes. We have to provide it first and then we will further submit it.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: I did not understand, in the presentation we have written 36% volume growth and then we write the milk procurement growth at 16%. So, how do you report these numbers and how to interpret these numbers? Which is the right volume growth?

Vivek Nirmal: 16% is the right volume growth in terms of milk procurement because milk procurement is the key indicator for a dairy company which has to be tracked.

Pritesh Chheda: So, 16% is the milk procurement growth and then you write that there is a 23% decline in milk price. So, how should we read it? We should read 16% volume growth versus 7% topline growth and hence the price decline is about 16-7 that's how you should read it?

Vivek Nirmal: I will not be able to comment on it clearly. But our volume growth is around 16% and 7% of which is our topline growth. Milk prices decline is what we calculate based on the actual realization of milk per liter which was procured in that quarter compared to this quarter.

Pritesh Chheda: Then what is this 36% volume growth then?

Vivek Nirmal: 36% volume growth is the number of products what we have sold. It's the tonnage of products what we have sold.

Pritesh Chheda: Then the actual volume growth number is 16% actually. That's the number which we should look at.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just wanted to understand the subsidy mechanism clearly. The subsidy is not available on the liquid pouch milk that we sell. So, how does the process happen? Like when we submit our claim how do we tie it up with the end use of milk and try to compute how much subsidy should be claimed?

Vivek Nirmal: So, our record have been shared with the Dairy Development Department every month and based on that record they have their entire calculations based on how much milk we are consuming in terms of products and how much milk we are consuming in terms of the pouch milk.

Moderator: Thank you. The next question is from the line of Sameer Gupta from IIFL. Please go ahead.

Percy Panthaki: Sir this is Percy Panthaki here. The consumer products growth has been quite robust. So, in consumer products what is the split between the volume growth and the price realization change?

Vivek Nirmal: We will be able to provide it. We don't have it right now.

Percy Panthaki: Hypothetically, if the average milk procurement is 1 million litres per day. So, if we want to derive the total amount of milk produced during the year, is it right to multiply 1 million by 365 days or is it that you are taking 300 days working and that would be the total amount of milk or some other number?

Vivek Nirmal: For milk handling, we consider 365 days and it can be multiplied by 365 days. However, depending on the season, this milk procured actually can go up or down. Hence it is not that common number throughout the year.

Percy Panthaki: Is that a right methodology to sort of go with?

Vivek Nirmal: Yes.

Percy Panthaki: There is no distinction between private and co-operative for the subsidy.

Vivek Nirmal: Yes.

Percy Panthaki: So, on account of this, has the procurement price to the farmer gone up and if so can you just give an idea what is the current procurement price?

Vivek Nirmal: Our price is stable at around at something like Rs. 20.60 to Rs. 21. Additional Rs. 5 has been provided by the government to the farmer.

Percy Panthaki: But which you have to pay the farmer and then reclaim it right?

Vivek Nirmal: Right.

Percy Panthaki: So, this 20-point whatever amount is including that Rs. 5 or actually the farmers will get 20+5, so the farmers will get 25 finally?

Vivek Nirmal: That's right.

Percy Panthaki: So, farmer is actually seeing a Rs. 5 increase in his sort of selling price?

Vivek Nirmal: Right.

Moderator: Thank you. The next question is from the line of Bharat Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharat Subramanian: You made an initial remark in terms of, you are largely done in terms of CAPEX. So, in terms of Goodness zone as well as the Bulk coolers, are we kind of done with our spend or is there something that we have still lined up for the rest of the year and FY20?

Vivek Nirmal: Some small CAPEX will continue, which is basically the bulk milk cooler because as our procurement grows and own milk procurement grows, we continue to add up bulk milk coolers every year. As far as goodness zones are concerned, there we normally take deposits from the franchises and then invest the same money in building up that goodness zone. So, we don't expect huge CAPEX in the goodness zones as such.

Bharat Subramanian: So, coolers should we count in around 80 odd crores or so spend for the full year?

Vivek Nirmal: So, I think every year, I think we should be apart from our maintenance CAPEX and some packaging machine CAPEX. We will be spending around Rs. 15-20 crore for coolers.

Bharat Subramanian: And the second is terms of again subsidy announcement which has come. Is there a validity in terms of the tenure to which it is available or that's still open-end date in that?

Vivek Nirmal: So, as of now the government has decided to extend it for initial 3 months to review it and then to further extend it. That's the stand as of now.

Bharat Subramanian: And lastly in terms of the ice cream part of it, again any color in terms of how we are progressing sir?

Vivek Nirmal: Ice cream business, we launched ice creams in March 2017 and so 1-year full cycle we have been able to see. We are establishing a premium category of ice cream. We have launched it in only 5 cities right now and those are the only cities in which we are operating since last around 15 months now. We don't plan to scale it up this year. We plan to scale it up 2020 onwards and till then we will be refining our product offerings, we will be refining our margin and we are right now we are ascertaining how to establish this at a premium offering because at economy level there are many players. We don't want to operate it at debt level. We want to establish our brand one notch higher maybe at limited volumes. So, that is where we are on ice cream side now. 2020 onwards we will be expanding this ice cream throughout the state.

Bharat Subramanian: And on the B2B arrangements, so again in terms of pass through mechanisms again for this subsidy element, are we kind of fully insulated in passing this as well as a part of our overall procurement price?

Vivek Nirmal: I think there is no impact over there because this subsidy has been provided by the government to the farmers. So, there is no impact on the milk price as such. So, it doesn't really impact the pass-on. There is slight increase however wherein some areas or for certain quality of milk wherein the cost has increased. But I think that is again a seasonal thing, and as an arrangement that will definitely be passed on to the clients as well.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Shradha Sheth for her closing comments.

Shradha Sheth: Thanks a lot Vivek and thank you participants for being on the call. Vivek would you like to give any closing comments?

Vivek Nirmal: I think this year we would see very good growth. I believe particularly because the volume of milk production in Maharashtra is going to remain stable with a very good intervention from the Government. Second, government is also coming up with mid-day meal program to be run in Maharashtra, which also means that there is very good opportunity for the sales of milk powders in Maharashtra for the players in Maharashtra because the entire milk or entire powder is going to be sourced only from Maharashtra. So, we again see a very good opportunity on that. Third we see a good opportunity in terms of the festive season, so the consumer business is going to be good. And fourth, even in terms of institutional clients. So, we are seeing the demand of institutional clients picking up. Hence for the ingredient business also it is expected to be a good quarter. So, I think on the shorter term, definitely we see a lot of good things on the table. In a longer term I see with the subsidy and all of Maharashtra's milk production will not go significantly down. Otherwise it could have again resulted into shortages next year. So, I think that's again a good thing on the longer term. And our efforts towards building a strong consumer business continue. In this subsidy thing, one important thing which we are doing is we are doing a lot of handholding of farmers. We have launched a program called Quality Mission 8.5. This is basically to enhance the qualities of all animals' milk quality and to see that every farmer gets the benefit of this subsidy because it is applicable to farmers who produce certain quality of milk. And I think that is creating a very good impact among most of the farmers because it is further strengthening our relations and associations with the farmers which will again help us to achieve our targets of milk procurement of around 1.5 million liters per day very quickly. I think that's it. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. And you may now disconnect your lines.