“Prabhat Dairy Limited Q4 FY2018 Analyst Meet Discussion”

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**Prabhat Dairy Q4 & FY18 Analyst Meet Discussion**

Mr. Dalvi: Good morning ladies and gentlemen, I am Nilesh Dalvi from Dickenson Seagull IR and a very warm welcome to all of you to today's Prabhat Dairy Limited, Investor and Analyst Forum organized by Dickenson Seagull IR. So I would like to thank everyone for taking out their valuable time and joining us today for this event.

Today we have with us management from Prabhat Dairy Limited. It is represented by Mr. Vivek Nirmal who is the joint Managing Director of Prabhat Dairy Limited. And Mr. Ravi Wahadane who is the chief financial officer. So today the agenda of this discussion is to understand the key business initiatives that the company is taking to grow its consumer business, also get an understanding of the future strategy and how the execution is going to happen. And also discuss the fourth quarter and the annual results. So before we move on to our discussion, we would like to show you a short video on Prabhat Dairy's journey till date and then it will be followed up with a presentation by Mr. Vivek on the business, and then we will open the floor for questions and answers.

I would now invite Mr. Vivek Nirmal to make his opening remarks and then carry with the presentation.

Mr. Nirmal: Good morning everyone, on behalf of Prabhat Dairy family welcome everyone for attending this Analyst Meet. I am happy to inform you that, Prabhat Dairy has entered the 20$^{th}$ year. We started in 1999, we entered the 20th year of our successful journey to become an established and one of the most trusted dairy brands in India. During the initial 14 years of our journey, we were focused largely in providing high quality ingredients to most of the leading FMCG brands in the country. In 2012 we decided that consumer business has to be the new growth engine and since then with an intention to tap the wide array of opportunities presented by the Indian dairy industry to be a significant player in the rising dairy consumption story of India. We have launched a lot of production in the dairy category and all. And today Prabhat Dairy is the fastest growing dairy brand I would say, in terms of consumer business in last five to six years we have built a business of around 450-500 crores. We are the fastest growing dairy business in the country today. Over this year we have evolved from a fully integrated milk and dairy products company right from the farmer to the end consumer. Our business model has transformed from being an established specialty dating riddance company to one of the fastest growing consumer brands. Our strong successes backed by our integrated business models the state-of-the-art manufacturing facilities, cutting edge technology and stringent quality control and food safety standards. Robust milk procurement system has been the corner stone of our success and we have built a strong direct ecosystem through intensive farmer engagements.

Sourcing of the best quality milk has been one of the most important factors which have helped us to taste a quick success in our consumer business.

At the end of 2017, we had announced our vision 2020 to grow our consumer business from 30% of the revenues right now to around 50% by 2020 and achieve total revenue of 2000 crores. This would mean significant scaling up of the consumer business for the next two years. Over last six years we have grown our consumer business significantly to its current position and we are confident about our current position and we are pretty confident of progressing close to our goals by repeating the same over next two years. We have taken various measures to strengthen our consumer business and today we have assembled here to discuss some of the developments.

I'll just take you through the presentation.

So first of all reiterating our business model. It's a fully integrated business model. While in institutional business, Prabhat Dairy happens to be one of the leaders in the industry where we provide high quality dairy ingredients like antibiotic free milk powders, sarafotoxin free milk powders or condensed milk, or whey powders to lot of confectionary, bakery, infant food and ice cream makers of the country. So there we have a market leadership with market clients, we have a strong trust and quality recognition. Consistent growth with stable margin despite volatile milk prices, I think the biggest advantage for this segment is, since most of the segment works on a cost+ model, and since last two three years we have seen when the milk prices were extremely high, our margins were stable, but at the same time when the milk prices are low, it's a pass on, its again the margin stability is there. Fastest growing consumer business, as I said we are focusing largely on Maharashtra, the ambition is to become the largest player in Maharashtra next couple of years and the targeted segments are largely fresh milk category, curd, paneer, so all the fresh dairy category products number one and number two is the institutional business wherein institutional business largely comprises of cheese. When I am saying institutional it's not ingredients, it's basically the food service or HORECA business I am talking about.

We have also focused on under penetrated tier 1, tier 2 markets particularly wherein we see a lot scope with electrification really going up, stable electricity available. Tier 2, tier 3 towns are even seeing good growth. Lot of outlets which were not earlier selling dairy have now started selling dairy. We see a lot of growth potential there.

Complete basket of traditional and modern dairy products, strong consumer retention due to high quality milk. This is very critical factor in dairy because Indian consumer is an evolved consumer for dairy. And hence taste of the milk immediately creates a difference in retaining the consumers. While acquiring new consumers remain a challenge like in any other industry or even a competitive industry like dairy but most important I feel is the retaining the consumer and in our retention of the consumer is high, particularly because the quality of milk and our entire milk procurement system is responsible for that.

Healthy financial position to fuel robust growth, I think this year we have been working a lot on our working capital so we have been able to really generate better cash flows. Robust growth in revenues and margins, improving return ratio and minimal capex leading to higher free casuals. Lot of our investments have happened in last few years so we don't plan any major capex in the years to come. There is something on the industry that are very positive tailwinds driving the dairy consumption in India, these are some of the key insights from the market based on which we have planned our upcoming strategic initiatives. So, while the larger story is what everyone knows that we are largest dairy producer, the CAGR is pretty high and per capita exemption is high. But largely the micro in it is the focus on health and nutrition is leading to shift from aerated drinks to milk beverages. That's one we see very clearly. Changing lifestyle driven by urbanization and increase in working population. Indian women are preferring to buy readymade dairy products while the expectation of taste is always a homemade taste. But now Indian women are open to buy dairy products from outside. Packaged dairy products from outside particularly which was an apprehension many years back. Rising disposable incomes, driving demand for value added dairy products so dairy can be largely divided into two categories while the stapled dairy consumption which is milk or curd but slightly high value added products milk consumption has also started growing because of rising disposable incomes. And that is basically due to the dairy nutrition, the inherent nutrition which dairy products have is really compelling the consumers to buy it. Increasing consumer awareness about quality and nutrition is pushing the demand for organized dairy players. We read about the milk adulteration and how the entire food chain is really not very efficient. So as there is increased awareness, there is long term consumers preference towards buying packaged food products and hence packaged dairy products as well.

Rising penetration of organized retail offering a wider shelf for dairy products, again in last ten years what we have observed is all the modern trade, while we are presenting modern trade, hardly it lasts 18 months but we have seen all the modern trades have increased their shelf space for dairy products. Earlier we had limited shelf space for dairy products but right now the shelf space is increasing because more and more consumers want to buy packaged dairy products at the same time the basket from dairy manufacturers are also increasing. So right now 30% of our revenues come from the consumer business, target is obviously take it to 50% or around 1000 crores in terms of revenue by 2020. And how we are going to do it is basically by enriching our product portfolio with new products and new variants, so while new product lines, something like dairy beverage which is completely new product lines, which will be started but at the same time we are also coming up with more variants of our current products. Strengthening our distribution network, if you take Prabhat brand to every household, as I said earlier in Maharashtra, we are setting an intense distribution network. We already have three milk packing stations in Maharashtra, we want to add two more milk packing stations in this year. We are strengthening distribution network by working on various models, that's our style of working. We normally believe in developing right models and that's what has given us success in milk procurement. Today we are one of the best company in the country for milk procurement and that learning we are applying to distribution as well because its logistics intensive and cold chain product. So we work on couple of models who do the pilot and whatever the models we get success and we take those models. So we are building different channels for distribution as well.

Focusing in efficiencies and logistics for effective tracking and timely deliveries, as cold chain is the nature of the product, hence the product will get manufactured in the factory, and the product which reaches consumer, we have seen a huge difference in these two products because we are tropical climate country, the temperatures are high the cold chain is not very efficient and hence there is a lot of abuse to the product. And hence, the consumers really don't get the same product which is manufactured in the factory. Hence huge focus is there, particularly managing the cold chain where in we ensure our distribution models are lean enough, there are not too many chains in between so that the fresh product reaches the market very early. Some key strategic things like having a plant in Mumbai itself helps us immensely in doing that because we are able to immediately get the fresh product to the shelf and hence the consumers.

Building retail prices across general trade, modern trade and online channels, so obviously we are present in all the channels for our sales. It's a range of products. As a positioning Prabhat Dairy is a company focused in middle of the pyramid targeting middle income households, consumer groups buying products from outside who earlier prepared in their homes and largely the personality of the brand is into traditional Indian dairy products. Hence Prabhat is largely into milk, ghee, curd, chaas, lassi, shrikand, paneer and all.

Beverages is the new category for us now. As I said we do pilots. So before 18 months we launched our dairy beverages range. That 2x cups, 200 ml cups for masala chaas, 200 ml cups for lassi. And that was only available in parts and suburbs of Mumbai in modern trade as well. And we tasted a very good success but it was a very small business but we could understand what are the consumer likings, what are the kinds of products they are looking for and very soon we realized that this itself can be a very large segment. Obviously there are a lot of macro factors which are very strong tailwinds and after 8-9 months of product development, in February we launched our range of beverages in Mumbai and some key cities of Maharashtra. So chocolate milkshakes, strawberry milkshakes are the two variants in the beverage category. Chaas, lassi, with attractive tetra pack variants and upcoming milkshakes flavors are blueberry, vanilla, kesar, badam. So we are trying to make a combination of traditional Indian flavors as well as some exotic flavors.

Something about the beverage category, beverage category is around 8-9% of the Indian FMCG market and it's growing around 20-23%. Particularly in this beverage category again the daily beverage category is growing around 20%. Milk shake as a category is growing at 54% obviously with a small base. But because milkshakes while consumers consume but lassi and masala chaas are your products wherein these products have already found their positioning in the consumers day to day lives. So consumer very well knows when to have chaas and when to have a lassi and there is no need of positioning for these products, Here availability is driving sales. Our focus is to make availability in as many retail outlets possible and that is driving the sales right now. So phase 1 we are covering pan Maharashtra, so this year we will be covering pan Maharashtra, all large towns, small towns, Maharashtra remains our key strength. And phase 2 we could start from 2019 -20 onwards, there largely we will be covering all the metros and smart cities of India. These has the shelf lives of 6 months without any cold chains at ambient temperature and that is the biggest advantage why we can take this product to lot of large cities at farther distances.

There are some of our marketing campaigns which we have started running, some dealer board substantives, some activations and all. Sending our distribution network would take Prabhat to every household. I am going to back beverages again, one key thing what I missed saying is, while beverages is a larger trend and I am sure everybody will be catching up on it. The very important thing is that, to have a shelf stable product of more than six months, it requires very high quality milk to go into it. And hence in case we want to build the distribution and this business as a large business in the country tomorrow, we will need very high quality milk which remains Prabhat's largest trend today. Hence we believe that we don't see too many entrants in this category in next three four years because it is not only about manufacturing a product it is also about sourcing that high quality milk which goes into that product. And hence we see that as a key advantage or USP of Prabhat why we would be a winner in this category.

Coming to our overall our distribution network, while the Maharashtra is very strong network, food service which is again a division which started some time before two years has now taken a very sound shape. For food service we basically target these small restaurants, catering, some small pizza shops and all. And as we are already suppliers to some large QSR and pizza chains of the country, the quality of the product and the expertise is the same. That's the key USP of Prabhat's food service division. So we have depots all across in the major metro cities in the country. We will be targeting smart cities as well in the next phase. We have a robust technology backend for timely deliveries and effective inventory tracking. Prabhat today is known very well for its milk procurement technology where in deal with lakhs of farmers, make them payments on a daily basis, check the qualities and all and that too everything in real time. Similar expertise we have applied in our consumer business now, we are getting a lot of advantage with it. We are able to track data and we are able to understand more about their buying patterns. 150+ vehicles, including 55 GPS enabled vehicles for fresh milk products, and fresh milk products timely service is an extremely crucial thing. That's why having plants near cities like Mumbai helps. More than 50% of the distribution network is within Maharashtra which is in line with our strategy. Right now we have around 6 depots, around 84 super stockist, 1400+ distributors and we have our presence around 320 modern trade outlets. Some of the modern trade branch where we are present, some of the snaps.

Coming to another major initiative which we are launching, we have launched, it is a pilot and now we are taking ahead in a large scale in the next two three years is the goodness zone. Our insight particularly is a very innovative concept. Currently three stores are operational, next 5-7 stores would be operational most probably by end of this month or middle next month. The rational is particularly access to entire range of Prabhat products for the consumer. Create a consumer experience and direct access to newer markets. So what we have observed is let these kind of concepts don't really work well in the large cities where the real estate costs are high, wherein there is no novelty factor for a consumer because there are enormous opportunities available right from all sides you know, different kind of retail spaces. However in tier 2 tier 3 towns, there is a lot of novelty factor for this kind of outlets and even for a tier 2 tier 3 kind of consumer has now exposure to all the national brands, has the exposure to internet to every lifestyle product and hence even the aspiration level is pretty high. Hence we are seeing a very good response for this kind of outlets. We have started all these outlets only in taluk and district places right now, like Ahmed Nagar, Srirampur. The strategy there is to have a franchisee to identify a right partner over there and develop that partner for two things. One is the retailing wherein the consumers will be directly buying the products and second is distribution in that particular town. At least 60-70 outlets plus direct to home supply from that outlet. We plan to launch around 500 exclusive retail stores in various districts and taluk across Maharashtra in the next three years. It's a franchisee based model and so great is fast. We are right now refining the model in terms of overall look of the stores, overall pricing in the stores.

Third is the sub distribution of the stores wherein all the retail outlets are again mapped in our central software. So that we know which outlet is buying and what is the quantity that outlet is buying and all. As we refine the model, since the brand is a pretty well known brand in the state, we have received more than 200 enquiries already for setting up the franchisee stores in the various towns of Maharashtra. Second advantage what we have seen of the stores is, when store opens in a town, not only the sales of that stores goes up, but also the retail demand from other retail outlets in that town also goes up. Because the brand awareness is there, and then the consumers also start asking for those products to their neighborhood stores. Hence there is a lot of big branding element which goes into play by opening this kind of stores. All product ranges available over there, right from fresh milk to curd, lassi, masala chaas, ice creams and all.

This year also we also now been connecting a lot through our digital campaigns to our consumers, right from the occasional campaigns to right from events, festivals and all, we have been doing a lot of digital campaigns through not only our Facebook pages and all but also through various digital initiatives. We are again connecting with every start of consumer ecosystem with focus marketing campaigns. As we are largely focused on Maharashtra, we are finding opportunities to integrate with various elements wherein we can take our brand to maximum households, these are two recent examples of our in film branding, in film activations wherein we have put our products in those films and at the same time we are promoting co-promoting those films and creating a great buzz amongst the consumers about the product.

Our milk procurement network, some updates on that what we have done last year, so as Prabhat is the most respected company when it comes to milk procurement in the country for various farmer engagement programs we do for various channels we operate for our milk farmers, for the best realization what we are able to give to the farmers and there is no intermediary and there is a lot of transparency and trust which has been built across more than a decade now. So we have added 100 new bulk milk owners FY18. Largely we are present in districts of Ahmed Nagar, Pune, Solapur, Nasik, Aurangabad, with the sequence. We have opened up new areas like Raigarh and Ratnagiri which are nonconventional dairy production areas but these are very close to our Bombay factory, we have a lot of advantages in terms of logistics and all. So we have started growing milk procurement there. We already have more than 20,000 liters of milk procurement developed in last 16-18 months there. We have setup our bulk milk holders there and we see that these kind of pockets, tomorrow will emerge as very low cost and very fresh milk quality supply pockets to our Bombay plant.

Sanjeevan Yojana again is a very futuristic scheme which we have launched, again it's a pilot. What we have identified in India, large farms, 100-200-500 animals, they don't sustain because the capital cost and then the operational efficiencies come in but again they are not able to manage their own fodder. Because you cannot have large land pasture to grow your own fodder. And hence family farms of 30-40 animals are the kind of farms which really can sustain, which really can grow. The intent is directly to have milk procurement and bulk milk coolers, milking machines, untouched milk production in these farms. So we want to develop more than 2000 farms like this in the next five years but as pilot we have started Sanjeevan Yojana wherein you are focusing improvement of the milk yield per farmer. We have started a small cattle feed unit for that cluster. It's a cluster of 30 farms, provide assistance for animal nutritionist, veterinary surgeons, invest in bulk milk coolers capacity at various farms and all the milk produce in these farms, pilot is only 400-500 liters per farm but it is untouched and it is completely by milking machines and it comes into bulk milk coolers directly. So the quality of milk is super. This will help us tomorrow to develop some premium offerings for our consumers, when it comes to fresh milk. We are studying the category right now. In coming days, we will be coming up with some premium kind of milk variants as well.

Project Mahavistar, again is a gold standard project. This is a project wherein we have our bulk milk coolers installed in every villages, milk is collected morning evening, chilled instantly. Lowest bacterial count in milk because of the instant chill, the bacterial count is very low. All these things help us in consumer retention because the better the quality of milk, the better retention it has on the new consumers acquired. So in the last ten years if you see, from around 20,000 farmers, we have increased the farmer fold by more than five times. Our average per day milk procurement is again gone up at least by five times in the last ten years. Our direct sourcing from 10% has gone up to 65%. As of today we have 550 milk collection centers, 20 milk chilling plants and around 230 bulk milk coolers into operation. Some of our capacities are strategically located to plant in Maharashtra, and large capacities remains our strengths. There are some of the clients who we already have plus a lot of new clients which we keep on acquiring every year.

Vision 2020 we just announced before a couple of months, we want to be a very strong obviously the leading brand in Maharashtra but a very strong brand in food service also throughout the country, that's the vision. And increase our milk procurement from one million liters to 1.4 million liters to cater that kind of demand which we want to see next 2-3 years, is largely the vision.

I will now come to the results which we just declared on Friday. I am very happy to announce and share the achievements of the company. Our revenues in the YoY basis have grown from around 377 crores to 406 crores in the last quarter. Our EBITDA margin has grown from around 8% to 10.2% YoY. PBT, PBT margins again PBT has grown from 11 crores to 21 crores in the last quarter. And the PAT margin we had a small at loss in the last years Q4 which is around 4.3% or around 17 crores this year. Improving quarterly trend, so if we see in terms of every quarter, very large challenge was that the milk price realization this year has gone down. And the milk prices are pretty low. Inspite of that we are able to clock a healthy growth in terms of revenue. The volume growth has been obviously much higher than the revenue growth so right from Q1, 360 crores we have maintained a consistent trend for the revenue growth and EBITDA margin growth as well. So revenue has increased. Q4 total revenue growth is around 7.5%.

Revenue is increasing in value basis YoY basis, despite 25%, 5% YoY decline in milk prices. Three was healthy volume growth across various products largely driven by the increase of sale of pouch milk, cheese and curd. So this year whatever business we have to grow, and even in terms of value terms, because these products largely remained price insensitive while the ingredients business, our realization has decreased because it's a pass through mechanism but in these categories particularly we have seen sustained realization levels. Shares of our value added products was around 75% and milk was 25%. Revenues have consistently grown on sequential basis over last four quarters. Q4 FY18 gross profit grew by 34.1%, Q4 FY18 EBITDA grew by 36.6%. Company continued to consistently reinvest the benefits from improved gross margins and building and expanding B2C network. Accordingly, there was an increase in man power, cost, power and fuel cost, transport and forwarding cost, advertisement and business promotion expenses that's why largely that portion has gone up. Q4 FY18 PBT before exceptional item grew by 84.6% and Q4 FY18 PAT 175.9 million and highest PAT generated in the last four quarters. PAT margin significantly improved to around 4.3%. These are for the year, our revenues are up around 10.3% from 1400 crores to around 1556 crores. Our EBITDA margin is flattish from around 9.1%. In terms of percentage it is flattish. In terms of value we have grown along with the revenues from 128 crores to 140 crores. PBT, PBT margin from 55 crores its around 58 crores now and PAT margin from 46 crores to 47 crores which is a slight growth than the last year.

With this I complete my presentation. Thank you very much. I now leave the floor open for any questions and answers.

**I am Naveen Trivedi from HDFC Securities. In FY18 where if we compare the yearly margin, the EBITDA margin if I compare on the YoY basis for FY18 vs. FY17 it is almost flat despite your gaining traction to B2C business, can you give us some understanding about how has been the gross margin difference between these two B2C and B2B and if we spend higher on these, B2C that way the margin levels for FY18 - FY17 is almost at par?**

As a conscious strategy, we have decided to invest continually in growing our consumer business. We have pretty aggressive target of almost doubling our consumer business in next two years and we have doubled it in last 3-4 years as well, from 0 we have built to 450-500 crores, we are pretty confident. When you are growing aggressively obviously you need to chase two things sequentially. This year and next year we will be largely chasing the revenues, we are not really chasing the margins. The fact is that our gross margins have kept on growing consistently. From last year, there is almost a 3.5 -4% increase in our gross margins and this is mainly due to the increase in the consumer business as the realizations are growing up. We are reinvesting the entire money in opening new areas for instance. For dairy products when you open a new area you have lot of new logistics cost coming in, because you need to send vehicles on an everyday basis even at a load factor. Then there are business promotion expenses, there are schemes, there are various incentives and marketing programs we are running. As a combination of all of which even our manpower is going up particularly in those areas. As a combination of which while the gross margin have grown, our EBITDA has remained slightly flattish. We expect that to continue for a year or two and by the time our revenue touch around 1000 crores, and then we start getting benefits of our continued marketing efforts plus combination of sales efficiencies, distribution efficiencies, that is the time when we expect our margins really to go up from the current levels.

**So what has been spent on marketing during FY18 as well as FY17?**

FY17 is around 15-16 crores and FY18 also it is in the range of 18-20 crores.

**Britannia has refocused on the dairy business and they are also setting up a big capacity in the Maharashtra region only, so this can impact your B2B business as well as your B2C business because you also supply to Britannia and when they are setting up their own manufacturing, it can impact you B2B business also, so can you just give us some idea of how much they contribute to your B2B business and how do you see their refocus that can impact your B2C business?**

Britannia has been discussing about their dairy plans for a couple of years and we have to understand that they are entering the dairy. Britannia as a client does not contribute to more than 3-4% of our total revenue and largely again what we supply is dairy ingredients. Then as a dairy ingredients this is largely products like sweetened condensed milk and all which goes into their bakery division. What Britannia is getting into is really the consumer products, like cheese and all and not into ingredients really. And hence we don't see a major impact as of now on our overall strategy.

**Sanjay from ICICI securities. Just want to understand what is your cheese capacity utilization as of now? If you can provide what is the contribution of B2B and B2C…?**

Cheese we are supplying to two segments or one large segment but two subparts of it. Cheese is fully focused on the food service, we are not into branded cheese like cheese slices, portions and all, we have not launched our cheese into the consumer segment as of now. We are largely focusing on the food service segment. Food service segment, on one side we supply to the large QSRs and pizza chains of the country which contribute to 50% of the revenue coming from cheese right now. And rest of the 50% comes from the food service division wherein we have more than 150 specialized food service distributors catering to smaller restaurants, smaller canteens, smaller fine line restaurants and all. And the current run rate of the capacity utilizations as of today is around 40-45%.

**In terms of absolute sales what would be cheese contribution?**

Last year it was around 70 crores in terms of revenues and this year we will be targeting to no more than doubling it. Even if we see last one year, we have grown into cheese as a segment by 125%. So I think the last to last year it was in the range 30-40 crores, last year it was 70 crores and this year it would be around 150+ crores

**Earlier we were getting a VAT refund, but post the GST, there is no clarity on SGST refund, what is the status of that?**

Post GST, there is not enough clarity and we have also taken up this with the government but as soon as the clarity emerges we will be able to really book the incomes accordingly. But as of now there is not enough clarity on data about the refunds. There is no confusion on the tax slabs, tax rates. But about the refunds there is slight directive issues which needs to be clarified by the government.

**This is Anupam from Florintree Advisors. Just to follow-up on the first question, so essentially we intent to deploy the excess gross margins and marketing expenses but this has been a trend for the last one year milk procurement prices have been low, going**

**forward what is the strategy in the EBITDA margin, say milk procurement prices go up would we try to decrease the promotional expenses, and obviously that would impact your top line as well, so how do we intend to basically maintain the EBITDA margin, given the mix is similar?**

With the similar mix we don't really intend to cut down our promotional expenses. We believe for this coming year especially with the current inventory levels in the country and the predictions of a good monsoon, I think the milk prices are not really expected to go up drastically, that's what our judgment says and hence we will continue to do our business promotional expenses, it's a good window for us. And in case it goes up, our target is pretty clear, 1000 crores is a top line which we expect from a consumer business, by 2020 we are pretty much on track on achieving it. I don't think that will impact largely on the EBITDA of the whole organization, reason being 60-70% of the business which comes from the B2B segment, there is a straight pass through. So even if the price has increased, the EBITDA from those segments is going to remain pretty stable.

**When do you increase prices usually? Is there a timeline for price hike?**

For the sales or the milk purchase?

**For the consumer products, B2B?**

Consumer products are different. In our food service divisions particularly since we have a pretty good hold. It's not really dependent on what are the prices of other brands but in liquid milk and all it largely depends on who are the large liquid milk players. In Maharashtra Amul is pretty large liquid milk player. There are couple of other players as well, obviously they are not that big but the trend is normally starts when they start increasing milk price, that is when the overall industry takes milk price hike. What we have done interestingly, lot variants which we have launched, in milk are very different to the variants of other cooperative dairies or other private dairies and these variants are launched at higher MRP already. We recently launched Prabhat Poushti milk which is a 4.05 and 9.0 snf like high fat and high protein product, provides better nutrition and hence priced slightly higher than the current market product. These products tomorrow I think we will be able to get more command over determining or deciding our own prices in the market.

**Last five years or so we have been expanding from B2B to B2C, but then your inventory days, your working capital has got stretched. Also, on the free cash flow front, you are at break even level. So going forward what's capex figure are we targeting?**

Last four five years we have seen that even our B2B has doubled. Four five years which was a 450-500 crores business, its around more than 1000 crores now and hence the B2B has grown, so has the inventory or the receivable days and all grown in that proportion. What we see going forward is in terms of cash flows, yes consumer business relatively has lesser or shorter cycles of working capital than B2B, hence we expect a better cash flows and which is evident that quarter on quarter we are seeing the debtor level relatively lower or the overall cash flows getting a bit free. We expect that to continue and as the proportion of the consumer business will rise in overall business, we see a lot of free cash flows coming number one. Number two in terms of capex, we have done a lot capex in the last four five years because we see the overall industries at an influx stage. Lot of investments need to be done in milk procurement and manufacturing and sales and all which we have done. Now our major focus is on improving the capacity utilization, hence we don't expect any major capex to come in next two to three years except some maintenance capex and package emissions.

**Maintenance would be 20 - 25 crores?**

It would be difficult to put a number right now but we don't expect any major capex in next two three years.

**But my question is you've moved from B2B, but still we see a higher trend of working capital base?**

Because our B2B has increased largely. Our consumer business was very small, and our B2B has doubled in the last five years.

**This is Percy from IIFL, my question is in your quarterly presentation you have mentioned that milk prices have declined about 25%, and your sales per quarter is up by 7%, so what is the meaning of this? Does it mean that your volumes for Q4 on a YoY basis are up more than 30%, is that the correct interpretation?**

On a YoY basis the volumes are pretty high in the last quarter, and the prices if we see are also not for the entire quarter. Normally the prices have been on a declining trend continuously. But yes our volume growth in the last quarter has at least been more than 25%.

**Since basically the milk price is on deflationary trend, I know there is a pass through for a lot of your B2B customers but not your entire B2B business. There would not be any pass through in the B2C segment. So the fact that you are almost touching a 10% EBITDA**

**margin, will it be sustainable in a deflationary milk price environment and what will be the scenario in case of a reversal? On a three to five years basis, what kind of EBITDA margin should we expect for the company, given that you are changing your B2C mix?**

If you see our overall business model, we have decided not to transform completely from an ingredient to a consumer company. that's not the idea. The idea is that we are well placed in ingredients and we would like to continue with that. 2-3 years back when the milk prices were higher, our margins were still maintained. So we will maintain that which will give us a stability of margins. Number two in terms of, EBITDA increase yes there is definitely an advantage in terms of opportunity due to the lower milk prices, it gives us an opportunity of higher margins. Every two to three years we will always see this cycle that milk price will either come down or milk price will really go very high. What we see is that our EBITDA margins, post 2020 double digit EBITDA margins for sure. Till then our stable margins have been in the range of 8-9%. and hence I expect this to remain a stable range in the next one or two years but after two years when we get a lot of efficiencies in terms of sales distribution and all, we definitely expect a double digit margin, the reason being a lot products lie cheese will grow as the proportion of our business which is relatively small as a proportion of our total business today. Second our capacity utilization will be higher which will give us a leverage in terms of our cost and third obviously after aggressive expansion there comes a time where you are in position to slightly take some prices rise and all. So I think with the combination of all these things, we expect a healthy growth in terms of margin, double digit margin post 2020, till then I see the similar trend to continue.

**This double digit margin which you are expecting post 2020, what kind of milk procurement price assumption are you taking from now to next two three years?**

I will give an example. At the start of the year, we normally take the average milk price for the entire year. We don't take that price what stands for today, we take the average milk price what is expected to remain in next quarter. So in couple of quarters, the prices are down. And in the dairy business particularly, in the consumer dairy business, in the ingredients its possible that maybe you can manufacture lot of inventories and eventually sell. In consumer business it will not be possible. So we have to be open, in couple of quarters we might see our EBITDA margins from consumer segment going up. In next one or two years if the prices go pretty high, you might also see the margins from that business coming really down. That's quite possible. One very important thing there which keeps us insulated is our direct milk sourcing. Because what happens when the prices go extremely high, and if maximum sourcing is not from the dairy channels then ultimately ends up in paying a higher margin for these channels. Because you need that milk, whatever cost you need to procure that milk which is not there in our case. So expect that the margins should remain pretty stable and we should be insulated to a large extent not fully but to a large extent with these ups and downs.

**My name is Divyashra out of 15,00 crores of turnover, can you bifurcate what is the sales of liquid milk and versus other value addition, what is the absolute liquid milk sales?**

Around 325 to 350 crores could be the sales of liquid milk.

**What about the ghee and cheese part?**

We don't give a break up of product wise really, but around liquid milk there is a segment, again there are variants. Cheese part I said earlier it is 70-80 crores as a whole, ghee would be in the range of 150 crores.

**Cheese is of 70 crores, I think your maximum is from B2B rather than B2C?**

As I said 50-50%, 50% comes from the large institutions and 50% from the small food service channel.

**Just to understand as a dairy company what is more profitable, to sell 500 liters of liquid milk or to sell 1 kg of cheese?**

It has to be looked in different dimensions, liquid milk yes it has much better cash flows and it's not only about margins, you also need to look at cash flows. You need to look at the asset to turnover ratios and which is much better in terms of liquid milk. When it comes to building longer term businesses and ultimately building businesses which have relatively higher entry barriers, then businesses like cheese come into play which requires pretty high quality milk, large investments and all. Obviously the asset to turnover ratio is lower. The cash churn is relatively slower but the EBITDA margins are pretty high. Hence if you see in our next year plans, our larger focus will remain on liquid milk and curd and all and cheese. So its again a combination of where we will go in products which will give us a good top line with smaller EBITDA margins something like a pouch milk but at the same time our products like cheese, which will give us not large top line but larger bottom lines will also continue to grow.

**As far as cheese is concerned what is the reason behind the low capacity utilization? You are working at 40%.**

Our plant capacity is pretty high. This is the third largest plant in the country. Normally in products like cheese you can't set a very small plants initially and scale up along with the business because in smaller capacities you don’t get that kind of technology and automation which you can only achieve with larger capacity of plants and its around 2-2.5 years of the inception of that plant now and we are at around 40-45% capacity utilization.

**This is Tejas from Spark capital, just had one small doubt on your vision 2020, as I understand today we have B2B business of around 1000 crores and B2C of 500 crores and now the vision is to actually take it to 2000 crores in 2020 and so additional 500 crores from B2C, so does it mean that the B2B business will be stagnant for next two years?**

In B2B business we have couple of segments which is corporate segment, private labeling and whole sale business, so we are slightly reducing our dependence on the wholesale business and coming here which will make the corporate business to grow. The corporate business to growing every year, most of the clients are growing and hence we expect that on the – outer level B2B business would remain where it is but internally there will be a quality of customers which will change.

**How would margin profile of B2B change in this?**

We expect it to be positive than today but it’s difficult to comment really, how much positive it will be.

**What is the rationale of this shift within B2B?**

What happens is, if you have the quality of milk which is available and the wholesale businesses lot of times depends on cycles. Today the industry is going sluggish cycles of inventory. Wholesale businesses might give us that kind of margins but it will give very good margins in certain years. So we are right now trying and that has been of use to us till now but going forward since we have entered a sluggish cycle, it is better to come out of the wholesale business and put our bids largely on the corporate business.

**What is delta of margin between loose pouch milk sale versus value added product? You said asset turn and other parameters beat the value added product part. So margin has to compensate for this sacrifice of asset turn, so what is the delta between the two segments?**

Its different for different players in the industry and it also depends on the different geographies. I can comment about us. for us while the EBITDA, in the liquid milk segment would be in the range of about 7-8%, for the other products it would be in the range of more than 10-12%.

**You have done the math on capital efficiency. Which strategy works better?**

We are doing both the things. If you see in our next year plan, the maximum revenue are expected to come out of liquid milk. We have a pretty liquid milk facility set up near Mumbai and hence at least 50% of our revenues are consumer business, 50% will only come from liquid milk. But at the same time we are also expecting 15-20% coming from the cheese as well. So it will balance. It will balance overall EBITDA, overall revenues and the quality of the product.

**So what is your asset turn and delta between pouch milk and VAP?**

Difficult to say, that depends from product to product. We don't have specific numbers.

**This is Shradha from Edelweiss, if you could explain your transition in B2C from 30-50%, 500 to 1000 crores, what will the contribution of milk versus the contribution of value added products? As you said milk will still be a large portion of the B2C sales. So if you could explain that product wise.**

The largest product category we expect is liquid milk, around 450-500 crores. Second largest category we expect, maybe the next categories are more or less similar but we expect at least 450 crores from milk and 150 crores for cheese, around 150 crores coming from ghee, that is around 750-800 crores. Around 100 crores we expect from curd and fermented beverages. Curd, lassi, chaas put together and the rest of the 100 is mainly from other small products like UHT, plain milk, ice creams or paneer.

**Just the way you have set the target for B2C contribution in your overall sales, you have set a certain target in terms of ROCE from where we are today, and as we transition to a value added company, how do we see the profitability flowing into the cash flows and hence improvement in return ratios?**

I see in the post 2020 there are certain levers which we are playing to particularly improve the ROCEs. Our ROCEs have been lower particularly because we have been investing a lot and the capacity utilization of those new investments have been relatively low. So as the capacity utilization of those particular investments improve in the next two years, which is cheese, or the Bombay facility, liquid milk and all. Number two as our overall margins improve, as our cash flows improve because the consumer business has definitely much shorter cycles, and as we are not spending too much on the fixed assets, I think as a result of all these three four things we expect out ROCE in the range of 20%+ in the next two or three years.

**My question is regarding your ice cream business, what is the total percent of revenue which comes from the ice cream business as a percent of top line?**

We did a soft launch of ice cream last year under the brand name “Volup”. We launched it in five cities; revenue for last year was around 5-6 crores from that brand particularly. Even in this year it will continue to remain in the same range. We are refining the pilot. Till now we have not gained enough confidence on ice creams because we don’t want to play in the economy segment range. We want to place these ice creams as a slightly premium range. The product has been accepted in the market very well, but we are still working on the product profile and hence even this year, we don’t plan that ice cream could be a very big part of our revenues. After the model is refined this year, from 19 or 20 onwards we will start really expanding it and making it available throughout the state.

**What is the capital that you have deployed in the business?**

We already had ice cream manufacturing facility wherein we used to do a third party operation for Mother Dairy Ice creams. So we have utilized the same facility for ice creams.

**One more question regarding the interest cost, we see that your borrowings as a whole from FY17 to FY18 has dropped but interest costs are largely on the same lines, what is the reason for that?**

Borrowings are dropped largely at the exit but our average utilization remained in a similar range and hence the interest is in a similar range.

**Just two questions, one is on the franchisee model, I just want you to know the margin breakup between you and the franchisee and how does the return for the franchisee actually work? And second one was just on your consumer business, what was your B2B v/s B2C margin break-up in FY18?**

I will take the second question first. The margin on EBITDA level is the same on both the segments right now. While the gross margin and the consumer business is definitely high but the spends are also high and hence the EBITDA level both of the segments are relatively same. on the first question, on the franchisee model, the margins of company goes it is a similar margin, we might send it to normal distributor or through to a goodness one, it’s a similar margin. But for a goodness zone, since it’s a direct delivery, their margins are relatively higher than the regular retailer, number one. Number two, we expect them to have a daily sales of around Rs.

8000-10000 retail sales and then around Rs. 15,000-16,000 though some distribution in the same town. We have around 5-6% margins on the sub-distribution, they have around 20%+ margins on the retail sales. That's how their economics will work out.

**This is Dimple here. First of all I want to understand, what is there in your standalone business, like your profits have gone down by 30% in the standalone business? Second is, we had an exceptional item of 4 crores of import duty, so if you can explain to us what is that import duty pertaining to? It is written in the notes that raw materials imported which could not be used? What would be the run rate for the interest cost as well as our ad expenses?**

Firstly as far as the standalone business goes, there are two companies, Sunfresh Agro is our 100% subsidiary of the main company which is Prabhat. So one company procures milk and second company has been manufacturing and then there are the tax incentives and all hence the two companies are kept separate. So on standalone basis it might keep on increasing or decreasing for some years but what matters for us is what is the net console position. So normally our focus is on the console position.

**So standalone is just procurement?**

Yes. Number two, on the exceptional item, we had imported certain dairy ingredients last year and we were supposed to re-export it. Hence we had imported under the export obligation. Hence as we decided to use those dairy ingredients internally for our own consumption, if you don't export it back and if you use it, you need to pay that import duty which you have saved. Hence we have paid back that interest duty and hence the exceptional item of Rs. 4 crores.

**What is that ingredient?**

Butter. We had imported butter one-one and half years back when there was short of milk in the country. But instead of exporting it back we decided to use it to our own ingredients.

**Any such exceptional item in the future quarters?**

No, this is an exceptional item which have not come too many times in the past. We normally don't import too much but it was a time when we had imported it particularly.

**And so for the run rate for the interest cost and other ad expenses?**

I think we expect a stable interest cost going forward, because as the business grows we don't expect that the working capital will also grow in the same proportion because the new segments if businesses have shorter working capital cycles. Hence we expect the working capital interest to be in the same range as what it is today.

**And so the other expenses which has increased significantly for FY18, so that run rate remains the same?**

No, again this year we have seen significant increase because of 4-5 issues. Manufacturing expenses have largely gone up because last year our cheese facility really ramped up, so there were lot of onetime expenses as well right from product trials and lot of other stuff. Second there was also an increase in the cost of coal, cost of labor and certain stuff like that. So going forward we don't see that as the business grows. The manufacturing expenses will also grow in the same proportion. We expect it to be growing but at much slower pace than the revenue growth.

**This is Saurabh Jain from Astute Investment management. I have two questions, first is if you can give us the geographical breakup of our sales including the sales in Maharashtra?**

In Maharashtra whatever consumer business at least 50+% sales come from Maharashtra. Because food services largely out of Maharashtra more than 50%, it would be in the range of 60%. The liquid mild, curd and ghee is mostly in Maharashtra. Only product with higher shelf life ghee, cheese are the products which are sold outside Maharashtra.

**When this is two years out, how do you see this proportion changing?**

We see at least 70% revenues coming from Maharashtra.

**Just on your strategy of traditional products that we are positioning ourselves as, for any retailer, any product category of maybe two or three brands at the very most, so you know, against other companies including the other one from Maharashtra, how are you competing in the market, which product categories will be – if you can talk more about this?**

What we have seen is, the categories which are non-traditional dairy products, are really small and yes they are growing, some products maybe like yogurt, cheese and all, but their base is also very small. So we don’t want to really focus on those categories as of now. Yes retailer might stock two-three products and retailer might stock those products from some other brands, its fine with that because it is very important to understand that the brand personality and consumer perception and we clearly see that the consumer perception of Prabhat Dairy is about traditional Indian dairy products. We want to stick to that, we want to be leader in that particular segment and hence focus on maintaining the products which are around in the same space.