"Prabhat Dairy Limited Q3 FY16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Prabhat Dairy Q3 FY16 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note, this conference is being recorded. I now hand the conference over to Ms. Sagarika Mukherjee of Antique Stock Broking. Thank you and over to you, Ma'am.

Sagarika Mukherjee: Thanks, Vikram. On behalf of Antique Stock Broking Limited, I welcome you all to Q3 FY16 Earnings Call of Prabhat Dairy. From the management today we have with us today Mr. Vivek Nirmal –Joint Managing Director and Mr. Amit Gala –CFO. I will now handover the call to Mr. Vivek for his opening comments, post which we will do a financial review by Mr. Amit Gala and then take the question and answer session. Thank you and over to you, sir.

Vivek S. Nirmal: Good afternoon, everyone this is Vivek Nirmal - Joint Managing Director,Prabhat Dairy. I welcome everyone on the call, it is great to interact, this is our second call post getting listed in September 2015.

I think the last quarter has been pretty good for the company. We have had robust growth across all our ingredients and consumer business segment. During the 31st December, ended 2015 in the quarter our revenue grew by around 19% compared to the previous quarter from around Rs.256 crores to around Rs.304 crores. On a sequential basis the net sales grew by 6%. The profit before tax for the quarter rolls around 96% from 6.5% to around Rs.12.6 crores. On an overall basisPrabhat while the basic strength of the company remains the integrated diary business model, recently the Cheese Plant which has got commissioned in the Q2 is also now driving the growth, there are a couple of new product launches Prabhat has made in the last quarter which includes Prabhat Paneer, Prabhat Shrikhand, variants in the Dahi category particularly and now Prabhat products are also available across a lot of modern trade channels including Big Bazaar, D-Mart, HyperCity and all that is also driving this growth overall.

So overall we see good growth consistently which we have also witnessed in the Q1, Q2. There are for the rest of the financial numbers and all I would just request Amit our CFO to take you through the financial numbers.

Amit Gala: Hi, good afternoon. Just to give you a brief update on some of the key financial parameters our debt has come down the gross debt came down to 185 crores and the net debt net of cash on hand came down to about 145 crores as result of which our debt to equity ratio came down to 0.3x, which has substantially reduced our finance cost as it is reflected in the financials for the quarter. The second update is on the depreciation there is a drop in depreciation in the December quarter, this is due to the reassessment of our chief plant which was capitalized somewhere in June we have reassess the useful life and as a result our depreciation has come down. So actually there is a 1.6 crores impact of Q2 which is also reflected in this quarter and as a result of which our depreciation stands at 8.8 crores.

So I think we now would like to throw open the call for any Q&A from you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Shridatta MandwalkarfromSBI Pension. Please go ahead.

Shridatta Mandwalkar: Just had two questions, sir one is that can you just explain us link between the raw material prices as in milk prices and how our EBITDA margins move? Just to understand so typically when we have very high milk prices does it impact us adversely? And similarly, if fall in milk price and what is the impact on our EBITDA margin?

Vivek S. Nirmal: See as our business model we are into ingredients as well as consumer products well in a lot of ingredients we have MNC clients and where we supply specialty milk ingredients to so, in those cases the cost of milk is a pass on so, really the pricing going down or up does not really affect over there. In the rest of the segments wherever we sell our premium ingredients on not on the cost plus model their cost of milk going up has their impact on the gross margins as well as on the consumer products. Particularly there are a lot of value added products where the composition of milk as a component of the total product is less than 40%-50% in some products it is around 60% to 70% in those cases as well cost of milk going up also has an impact on EBITDA in terms of compression of the overall gross margin and hence the EBITDA as well.

Shridatta Mandwalkar: Okay, thank you, sir. And sir, just another question on the fixed asset terms in the various businesses so, I just want to get some sense what is the kind of fixed assets terms that we can have on specifically on the milk business? And then just like some kind of comparative with the other value added so for example Curd or even Cheese and the other Flavored Products et cetera so, just some kind of flavor on the difference in the fixed asset term?

Vivek S. Nirmal: It actually depends on business to business I can definitely give you some flavor of that. However, it also depends on a lot on are you engaged into cow milk or buffalo milk in which geography are you playing, which the kind of product segment you are operating? But Yes, I think if you basically about liquid milk it has a bit higher asset to turnover ratio and that should be typically in a range of something like one is to four, one is to four and half something like that. If you talk in very high end products like Cheese for instance, it would not be having asset to turn over ratio of more than one is to **two point five or one is to three or one is to like two** 7.22 **point eight, two point nine** and then other products actually would fall somewhere in between I would say.

Moderator: Thank you, sir. We have our next question is from the line of Jatin Karani from Enam Holdings. Please go ahead.

Jatin Karani: Sir, just some color in terms of what was the daily milk procurement right now average procurement price for this quarter?

Vivek S. Nirmal: So in December ended I think we had an average milk handling of around 9.3 lakh litres - 9.4 lakh litres on a daily basis, this numbers obviously keeps on varying roughly around 2-20 basis and average milk procurement price somewhere in the range of around Rs.22.50 per litre to Rs.23 per litre across in all the segments average out.

Jatin Karani: Sure, sir. And it seems like the weak pricing is continuing at the sourcing level since the price are pretty benign and expected to remain like this for the next quarter?

Vivek S. Nirmal: No, the prices have actually have started raising so these prices are a bit higher compare to the last quarter that is Q2 and so we are seeing this as an increasing trend while the trend has been slow in the last quarter but Yes, this is an increasing trend overall because the main reason for that has to be attributed towards the weaker monsoons which we have witnessed in the last thing. So globally while milk prices are pretty much depressed but India more or less is an insulated market with a lot of trade barriers and hence, in the country there are a couple of high milk producing states including Karnataka, Maharashtra, parts of Tamil Nadu somewhere and the Northern regions as well which have witnessed lower than the average rainfall and which is actually making this prices to on a rising trend.

Jatin Karani: Right, sir. So what was the comparable price for the last quarter?

Vivek S. Nirmal: It would be slightly 2% to 3% lesser then the current quarter?

Jatin Karani: Got it, sir, great, sir. And sir, on the depreciation side the comment that was made can you tell us what is the estimate on the life of these assets going forward considering the life was extended, right we believe that the life is longer?

Vivek S. Nirmal: So actually what has happened, on the September end Cheese Plant had just got commissioned so the capitalization and all has happed and in that particular time the proper assessment of the assets could not happen because since it was a new project and a lot of assessments were to be pending? Now it has just that assessments and all have been made and so whatever minor corrections are there has been fallen out in this particular quarter.

Jatin Karani: Sure. But typically what is the useful life of our Cheese Plant?

Vivek S. Nirmal: It is depends on asset, equipment to equipment but it ranges from like 15 years to 20 years in most of the cases.

Jatin Karani: Actually one more last question if I could have on. Sir on the B2C side, is there anything immediately planned in terms of our growth strategy are we looking at B2C more aggressively going forward, if you can throw some light on that side and what are we specifically doing?

Vivek S. Nirmal: We have launched a three new products in the last quarter including our two variants in Shrikhand and Paneer. I think this quarter we have seem to take that products across more formats right now it is in general trade, we are also now getting into modern trade with this format. We will also see a couple of more products especially with Dahi which is a flagship product in the cold chain channel of the company we are also coming with a couple of campaigns starting from next month because next month is the start of the summer season and we are also coming up with a couple of campaigns for differentiating our product. Prabhat has unique offering because with our production technology and excellent quality milk our Dahi is more towards home made Dahi so we are also planning a lot of campaigns around it in a couple of months to come.

Moderator: Thank you, Mr. Karani. We have our next question is from the line of Rajiv Desai from India Bulls Mutual Fund. Please go ahead.

Rajiv Desai: Sir, just wanted to know one thing SunfreshAgro industry and you will be entitle for duty exemptions and basically, just can you brief on the quantum of your benefits and can we expect in the quarter four or it will be in the next quarter or how it will be like just I do not know any idea of it can you just brief on it?

Vivek S. Nirmal: So actually it is basically a PSI benefit under the mega project scheme which Sunfresh Agro is entitled for and we have got the eligibility certificate. However, we are in a process of quantifying the benefits the calculations and all entire to happen so post that it is again a procedure of filing the claim and getting it. So we do not have exact clarity on the numbers right now but Yes, may be in coming couple of quarters we will be able to see that kicking-in.

Rajiv Desai: Sir, but as a group we will be benefiting in the first one quarter itself or remain staggered fashion?

Vivek S. Nirmal: Not it will be staggered it will definitely not be in one quarter it will be in a staggered way.

Rajiv Desai: And how long it will be continuing sir?

Vivek S. Nirmal: So that is what we are calculating right now because it has…

Rajiv Desai: Just the ballpark figure of this like in terms of benefit?

Vivek S. Nirmal: No, not really, we really do not have it because we have recently received it so the entire calculation and all that is still going on.

Rajiv Desai: So in any other facility likely to receiving it?

Vivek S. Nirmal: Sorry.

Rajiv Desai: Any other facility which you have applied like this?

Vivek S. Nirmal: So this so other point we have very regular but this is a bit slightly a different or a significant kind of one so that is why it has been mentioned.

Rajiv Desai: Okay. Sir, just also one more thing, just what would be your now cost of debt that you already come down to 0.3 but just would like to know it.

Vivek S. Nirmal: Cost of debt.

Amit Gala: Cost of debt our long-term debt is upwards of around 13% odd and our working capital debt is going to be in the region of 10% odd.

Moderator: Thank you, Mr. Desai. We have our next question is from the line of Sharekh Marchand from Ambit Investment. Please go ahead.

Sharekh Marchand: Sir, just on your retail sales could you help us with the break-up of what was the B2B and B2C contribution this quarter? And also you mention that you started stocking products in modern trade so, if you could throw some light on what products are being stocked and also what kind of response you are seeing there so if you could quantify the modern trade sales for the quarter?

Vivek S. Nirmal: Yes, great. You know in terms of B2B and B2C if we see historically last year we were around 75%-25% as a ratio it was increasing, able to see on a increasing trend however, on segmental basis will not be able to bifurcate it. In terms of modern trade just to throw a light on till now if you see Prabhat has been only available in general trade and we are available in more than 40,000 retail outlets across Maharashtra, Madhya Pradesh and Gujarat now as a conscious strategy, this is a year which we have entered into modern trade there are three chains to four chains which we have already started up which is Reliance, HyperCity and Big Bazaar, we are also in talks with a couple of the chains, rest of the chains including D-Mart and all wherein our products will be stocked and you will be see them in certainly in one and half two months to come. Right now we have been just started stocking our Ghee and Dahi over there and in next two months we will also be stocking our Paneer, Shrikhand as well as UHT milk in all these chains. Right now particularly the focus is on Bombay and in coming days this will be expanded to other mini metro cities as well as other major cities of Gujarat and Madhya Pradesh.

Sharekh Marchand: Okay, got it. So if you could also help me understand what the rate of growth was for the B2C segment during this quarter?

Vivek S. Nirmal: On segmental basis we do not have the bifurcated figures as such we do not track it on that particular segment wise.

Sharekh Marchand: Okay, sir, fair enough. And lastly on the Cheese Plant, can you share what the capacity utilization of this plant would have been in this quarter?

Vivek S. Nirmal: This is pretty low I would say it is just less than 5% that is what I would say maybe I would not be able to say it is like three to four but it is insignificant right now because the plant has been just very recently started as per our assumptions it will take us around nine months to 12 months to plan to ramp-up to a reasonable capacity, this is long product, cheese is a kind of product which also takes a lot of time for the proper customized taste to be developed as well as for clients to get it adopted to their system, it is longer route as compared to other products, so, Yes we expect around nine months to 12 months for this plant to get fully streamlined.

Sharekh Marchand: So the products that you have started supplying to customers so has it as per the quality standards or it is still going through the testing process?

Vivek S. Nirmal: No, it has been as per the quality standards we have cleared our first test which is normally there are pilots level test which goes into and these clients are may be large Pizza chains, Burger chains and all and quality definitely Yes, we have cleared, our plants are approved, the products has been approved and now we will start seeing a growth in terms of sales volume in all those channels.

Sharekh Marchand: So first quarter FY17 is when we should start expecting the…

Vivek S. Nirmal: Yes, on a smaller basis but in next year as you see as a whole in the entire year I think yes, we should be expecting a good amount of business coming from Cheese as a vertical.

Sharekh Marchand: All right, sir. And my last question was on the other expenses side, so that is fairly meaningful jump, was this because of higher advertisement spends or what is that attributed to?

Vivek S. Nirmal: So there are two - three components part of it, yes, first of all it is the sales promotion expenditure which also includes sale promotion as well as higher logistics on account of increased distribution of the cold chain products, consumer products especially. Second is also in terms of this in the Cheese Plant is now operational a lot of cold storages and electricity cost has gone up but then the impact of that will be seen in coming quarters so, that is one of the reason why the OPEX has gone up. And third is again our appraisals and all so the impact of which actually has come in this quarter so that is why we see a jump over there in the OPEX.

Amit Gala: And just to add to that we also had a decent volume growth as well so, as you can see our top-line has grown by six percentages and therefore, the corresponding variable expenses on the power, fuel, et cetera that also increased so, there is a volume component to it. There is anemployee cost increase due to increments that is the second component and third is of course the increased logistic cost due to our increase sale to consumer segment.

Moderator: Thank you, sir. We have our next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: Now my first part of question, if you can just explain me how much has the procurement volume gone up and what is the kind of procurement you will do this year and next year total procurement for the entire year I am talking about.

Vivek S. Nirmal: So the procurement volume if you see on year-on-year basis from 8.5 lakh to around 8.75 lakh we have grown to more than 1 lakh litres in terms of daily volume if we see, the quarterly numbers are of course high but I think daily volumes are much easy to understand so that is what even if you see on the quarter-to-quarter basis I think it is like 30,000 litres - 40,000 litres higher than the last quarter. If you see in last three years to four years we have been from 4.5 lakh litres we have grown to around 9 lakh litres plus now and again coming in next three years to four years, we need at least 14 lakh litres to 15 lakh litres of milk to reach up to a capacity utilization of 80%-90% so, I think we are on the track and we will see that much milk coming in from our procurement channels going forward.

Chanchal Khandelwal: Okay. And processing capacity you said is 15%-16% at a 90% utilization it would be 15 lakh litres, right?

Vivek S. Nirmal: Yes, that 14 lakh litres - 15 lakh litres is what we will require to get to the full capacity utilization.

Chanchal Khandelwal: Understood. The second line item which I wanted to discuss in the gross profit margin we have just seen a 60 basis points I am looking at Y-o-Y gross profit margin improvement, right. Now some part of cost you had explained is B2C and your cost of procurement has gone up 2%-3% now given your Cheese Plant will be running for the entire year next year, how much can we see an improvement in terms of gross profit or Cheese a better margin so how much can the gross profit margin improve for the entire year I am talking about the next year.

Vivek S. Nirmal: See Chanchal, I think the cheese definitely Yes, it is a better gross margin product in overall range of products and that will also the higher contribution of cheese as a product though overall range will also definitely contribute to the betterment of overall margins. So that also depends on how effectively and how quickly we are able to ramp it up. So right now we expect that in next year actually will start seeing the ramp-up so it really depends on that about how much impact we will be able to see it on the EBITDA and because that also has a lot of component on the cost milk and cost of milk is also I would say the most major, if you see other products like Dahi or Shrikhand and all the cost of milk is relatively but in Cheese the cost of milk is the highest component so that will also have some impact so we need to see how the milk prices pan out. And second, coming to your first question of 2% to 3% of the milk prices has gone up so Yes, that has impact as earlier answered it has impact differently in terms of different product wherever the component of milk is higher it will see a higher impact wherever the component of milk is lower it will see a lower impact.

Chanchal Khandelwal: So you said in Cheese you require more quantum of milk that is what you mentioned, right?

Vivek S. Nirmal: Yes, as an ingredients if you see what goes into Cheese is majorly, it is 99% or more than that is just the milk component it is no other ingredient added to it but milk will have a bearing on the cost of Cheese as well or the margins of Cheese as well.

Chanchal Khandelwal: No, but is Cheese are better gross profit margin business?

Vivek S. Nirmal: Yes, definitely.

Chanchal Khandelwal: And how much better we can get quantified for?

Vivek S. Nirmal: So again we do not do it on a product basis from product to product because again we have at least 15% to 16% products so it is really difficult to say that against which product it is how much percent but it is definitely better one of the best gross margin products I would say.

Chanchal Khandelwal: Understood. Lastly, on the other expenditure, other expenditure has gone up we understood you mentioned the energy cost for Cheese et cetera et cetera but now you have quantified that next year you will do some ad spent because you want to increase the B2C now for next year how much can this other expenditure go up what kind of EBITDA margin you result looking for next year?

Vivek S. Nirmal: So, right now if you see I think we are doing a pretty well we are maintained I think it is pretty stable we expect stable and healthy growth rate for next year as well as it comes in terms of EBITDA. If you talk about the marketing advertisement spends and all, we are in a process right now on of preparing our overall plan for our ATL activities, BLT activities the consumer promotional and all so I think once that is ready then we will be much clearer about the probable expenditure to be incurred in next one year or two years.

Chanchal Khandelwal: Okay. So roughly, we can assume, so the increasing gross margins from the Cheese will be used for ad spend extra kind of assumption we can make, right?

Vivek S. Nirmal: Not really because it also depends on what are the products we are to promote but I think Yes, if you see that yes, this is one number which could increases yes, but this is one number which could also increase expenditure as well yes, I think that is correct, these are two things which definitely will have an impact.

Chanchal Khandelwal: Okay. On the interest cost, 8 crores interest cost which you have booked this quarter 7.8 to be specific now your net debt is down to 140 crores so going forward if I just analyze that this is 7.8 into 4 is roughly 32 crores so that means your entire cost for the entire year next year should be in the range of 20 crores or even lesser unless you are doing a big CAPEX next year?

Vivek S. Nirmal: So we do not intend to do any big CAPEX next year that is for sure and Yes, I think around our interest cost which should be in a range of like 20 crores sub-20 or maybe in range of 20 crores.

Chanchal Khandelwal: Okay. Lastly, on the depreciation a bit now that you have re-channelize the life of the asset so is this the 8.5 crores will be the run rate for the quarter?

Vivek S. Nirmal: No, the run rate will actually be 8.5 plus as I said 1.6 so that will be rough in the range of 10 crores to 11 crores that should be the run rate.

Moderator: Thank you, Mr. Khandelwal. We have our next question is from the line of Pooja Ladh from Edelweiss. Please go ahead.

Avdhesh: Hi, sir this is Avdhesh here thanks for the opportunity. So my first question is how does pricing work at the retail B2C stage you said there is inflation in terms of the milk procurement in Maharashtra definitely and I agree there was a shortage of rainfall et cetera. But if I see the milk pricing in terms of pouch mil in B2C that is quite stable last three months to four months in Bombay it is quite stable so, why is there no pricing power correct me if I am wrong, so how do it work? Why there is so much of a raw material pressure why companies are not passing it on and so if you could explain that part?

Vivek S. Nirmal: Yes, definitely I think but that is a nature of the consumer branded product if you see it is very much true that if the milk prices have gone down the benefit also has to be passed on to the consumers, if we see Prabhat as such we are in a very limited way into the pouch milk business our major business come from ingredients and value added products but yes, for whatever business we have, we have not seen the overall industry prices going down and that is how in this particular segment right now the margins are pretty higher then what they have to be in a normal cases but what also happens is that during this particular period the entire benefit does not really come with the company there are some incidents where you will see the MRPs have started going down a bit in last four months - five months for example large branded companies have reduced their MRPs by at least Re.1 or Rs.2 a litre and then there are also some a lot of companies who then use this particular opportunity to increase the marketing activities or to increase their distribution the reach and all. And since this is fluctuating pricing so nobody really knows may be in next one quarter or two quarters if the prices really increase so nobody again takes the opportunity to reduce the prices because in this particular market of liquid milk I have seeing this since last many years, increment and prices is very difficult it is relatively easier in value added products because there the consumer is already prepared mentally to add shedding more for the value added products and for the convenience but for the plan milk it is really difficult to increase prices and that is also the reason why the people are very reluctant to reduce the prices when the milk prices are lower.

Avdhesh: Quarter-on-quarter if I see net sales is up around 5.5% and your gross profit is down around 2% and you said the milk inflation has been around 2%-3% but between sales and gross profit there is almost 7% kind of difference so what is the reason for 7% difference there but inflation is just 2%-3% should inflation be higher if 7% is difference?

Vivek S. Nirmal: So there are two components - three components as I said to the difference in the gross margin so 2%-3% is definitely the milk which I would say is the major and then there are rest one or two more things which includes our man power cost also has gone up substantially two - three reasons for that include our appraisals which have been effective. Second is our increased man power for Cheese Plant for the consumer business well and third is again the logistics cost because increased consumer focus also results in increased logistics cost in initial days where in we start a couple of new routes a couple of new distribution channels to reach the general trade and modern trade outlets and eventually once the pipeline starts getting filled with more and more products you see the cost per unit coming down, so I think this three reasons - four reasons put together have been responsible for the difference.

Participant: Got it, sir. And sir, depreciation is down both quarter-on-quarter Y-o-Y so is this the number which is sustainable around 9 crores?

Vivek S. Nirmal: In this quarter there is also an impact of high depreciation that was charged in Q2 so that is about 1.6 crores which is reduced further from the charge of Q3 so, therefore I think our run rate a normalized depreciation will be in the range of 10 crores odd, 10.5 crores.

Avdhesh: And lastly, sir, Orissa you are trying this new initiative, new team also is there so how has that done in the last three months and I understand those are slightly initial days but how are you seeing, is it meeting your initial expectation?

Vivek S. Nirmal: I think this food service segment overall is panning out very well.It is definitely new segment but it is a company’s DNA of understanding the clients requirement well and developing products around it has been our DNA in B2B I think that is being very useful for us in developing this segment and since we have also been associated with one of larger clients for their ingredient requirement that is also being a very positive thing for us entering into the food service segment for relatively smaller clients which include QSR chain, Pizza chains, Central kitchen, then they may be the ship chandler for the large canteen, there the product is getting acceptance very well because of the already the company has been associated with the large client and that is why the quality of the product is very good. Yes, so there are we are developing a couple of new products I would not be really be able to name a few of them because they are right now in development stage, in next three months to four months we have planned a couple of products lined up and that also again goes into ingredients and the categories if I have to say something are a couple of products in the Cheese category, we are developing a couple of products in the cream, fresh cream category we are developing over there. So again all value-added products but wherein we get a specialized niche, we found out a specialized niche and hence get better margins over here and develop a sustainable like a sales channel for us.

Moderator: Thank you, sir. We have our next question is from the line of Resha Hariya from Green Age Wealth Service. Please go ahead.

Resha Hariya: I wanted to understand our working capital requirement so, 2012 onwards it has increased from 8% of our sales to currently around 20odd percentage and it was largely owing to the increase in number of receivable days. So is it so that it has happened to our B2B clients typically these are the levels at which the receivable days are setting or are we expected to increase coming around?

Vivek S. Nirmal: Yes, so 2012 onwards if you actually it is not only 2012 may be 2010-2011 onwards it has started increasing slightly.Before 2012 we were mainly into our major products included concentrated milk and all which actually had a lower credit terms but 2012 onwards our power manufacturing unit started and then a lot of other unit started which actually produced a value-added product long shelflife products which went as an ingredient in a lot of institutional clients yes, there definitely the credit term is higher and that is what also has an impact in the higher receivable days and that is why the overall working capital you see going up from 8% to 20%. However, if you see that whether it is again further on an increasing trend I would say now I do not say it is increasing further but in fact if the focus of the company is on consumer products we can rather see further improvement in it in coming days.

Resha Hariya: And with key sales effective increase and we will be venturing into B2C product so then how will our working capital requirement shape up?

Vivek S. Nirmal: Cheese yes, there are one or two issues like Cheese our inventories might increase but even in Cheese it will be typically like any another ingredients which we right now operates into but in consumer business if you see our receivable days will be relatively lower than what those are in the institutional segment.

Resha Hariya: And we currently have fixed assets of around 450 crores so, what is the revenue that we can achieve on full capacity utilization seek revenue?

Amit Gala: So right now there is definitely different asset-to-turnover ratio as I said earlier for each of the product but yes, I think these assets right now which we are or whatever the projects which are in the pipeline right now I think it definitely has a potential to reach a revenue base of around 1,700 crores to 1,800 crores to in a range of that at a full capacity utilization basis.

Resha Hariya: Okay. And if we see our EBITDA margins very high in the industry if you look our peers so, once the move from B2B to B2C so how will the margin trend will look like, do we see margin being maintained at around 10 odd percent or how will they pan out?

Amit Gala: I would say the major thing which his responsible for better margin is nothing but our integrated business model.We are able to source milk directly from farmers which definitely give us edge over not only quality but the cost of milk as well. We have some geographical advantage of operating in the highest milk producing region in the country which is Ahmednagar district and then again, we have our multi-product manufacturing facilities which gives us anedge slightly over the manufacturing cost, we have a couple of distribution models where we even do not have distributors who deliver directly to the retailers as well. And most importantly again, we deal only into premium diary ingredients so, if you see we are in to certain products which not many people manufacture in this country, I think all these things put together are responsible for a slightly better margin in the industry again 7%-8% what the peers operate at we are able to operate at around 9%-10% in that range. In consumer business again yes, definitely the EBITDA is better but we are into middle of the pyramid consumer products. So we are only into Dahi, Ghee, Shrikhand, Paneer and all. We are not into very high-end products including Cheese and all wherein the gross margins are relatively very higher but I think we would be continuing to experience stable and I would be sustainably growing margins across our B2B as well as the B2B segment in coming days.

Resha Hariya: Okay. And you know now since we have repaid most of our debt and with operating leverage which could kick-in so can we expect that profit margins to could hover around 3-4%-odd?

Vivek S. Nirmal: Yes, obviously as we increase wrap-up our Cheese Plant and as we increase our consumer business it will lead to a better product mix from a gross margin perspective but also you need to understand that there will investment done in terms of building distribution channel building brand, etc., and therefore in any case we have, we do not want to, we have a no guidance policy, but I do not think I would say that there will be any major sort of expansion in terms of margin I would rather be cautious and say that you can take a balanced view considering the fact that there will also be significant investment done to build the brand and distribution.

Moderator: Thank you, ma'am. We have our next question is from the line of Manish Poddar from Motilal Oswal Institutional Equities. Please go ahead.

Manish Poddar: I just wanted to know about first of all the Cheese contracts which we have with the QSR players, could you just specify what are the basic terms of the contract? Do you supply particular xx quantity being supplied on a regular basis and what are the basic terms of the contract?

Vivek S. Nirmal: So Manish, I think right now we have just started the supplies as I explained this is very recent so we would rather be entering into contracts and coming in future we have not yet entered into contracts because the procedure goes this way normally first of all the plants are approved, the products are short listed, some products are purchased and trialed out in certain stores and all and after stable supply then further the longer-term contracts are executed. So right now I would say that we have not reached a stage we will be reaching that stage in a couple of months to come and that is when these contracts would be executed.

Manish Poddar: Sir, I am just understanding let us say from the QSR players they will be supplying it to multiple vendors and of which you will one of them. So do you get an initial quantity at the beginning of the month or beginning of the period stating that xx quantity has to be supplied by you all how does the process work for this space?

Vivek S. Nirmal: So if you see in terms of Cheese there are very limited players in the country. The capacity which we set-up is this right now we are the third largest player in terms of capacity and very shortly will be one of the major players in the overall thing as well. Here the quantity definitely there is guidance for the quantity for the entire year but then there is always running plan which spans across every quarter about how much lifting is going to be in very quarter because those stores also have to rely on their own forecast so if their own forecast are changing may be plus or minus that also has an impact on the overall supply quantities as well. The advantage in our case is that since, we have our own milk procurement the quality of milk is excellent and that has a very good impact on the yield for Cheese as well as the quality of Cheese, the quality of Cheese further impacts on their finished products as well so that is the biggest advantage what these guys are experiencing with our products and that is why we are quite hopeful that in coming days our share in their overall supply will be pretty much higher.

Manish Poddar: Would my understanding be right if I say let us say the leader in the category Amul is planning to follow the institutional Cheese category and if they follow a predatory pricing our strategy of growing the Cheese market would that come under risk because they have done a similar strategy let us say in the Butter in the margarine category over the last year or two they have followed a similar strategy would they follow a similar strategy in this category and your strategy come at risk according to you?

Vivek S. Nirmal: So if you say about Amul, Amul already is operating into this category.They are already supplying to even this QSR chains and all and the issue is that Amul procures all buffalo milk and all these Cheese particularly required for this channel are made out of cow milk so, we definitely have a distinct advantage over there and Yes, I think they are ramping-up capacities but if you see Amul already has a shortage in the market for their consumer products, their pipelines are always dry even in terms with the retailers, with the distributors and all and all their additional capacities will definitely help them to build-up the larger volumes in the consumer base. So institutional supplies they were already there I think they are there but I think that is one of the reasons why is see them not really been able to do this cow milk based products.

Manish Poddar: Okay. Just if you could specify how much would be the gross in the EBITDA margins for the Ghee business?

Vivek S. Nirmal: For?

Manish Poddar: For the Ghee business.

Vivek S. Nirmal: We actually do not do it on a product business on a segment basis really, Manish.

Moderator: Thank you. We have our next question is from the line of Ms. Sagarika Mukherjee from Antique Stock Broking. Please go ahead.

Sagarika Mukherjee: Just a couple of questions, one is what is going to be the effective tax rate for FY16 because for the third quarter the tax rate was a little high at about 40%.

Amit Garg: So I think for us the effective tax rate is going to be in the region of 33% or so that is what it will be for the I mean going forward that is what it will be.

Sagarika Mukherjee: Okay. And sir, for fourth quarter?

Amit Garg: Similar.

Sagarika Mukherjee: 33% for the fourth quarter?

Amit Garg: Yes.

Sagarika Mukherjee: Okay. And sir, what was the CAPEX for this year FY16, total CAPEX?

Amit Garg: This year you mean?

Sagarika Mukherjee: Yes, FY16.

Amit Garg: You know this year obviously we have capitalized our Cheese Plant so that is about roughly around 170-odd crores and apart from that we have a maintenance CAPEX in the range of 8 crores to 10 crores on an annual basis.

Sagarika Mukherjee: Okay. And sir, just one more question from the first-half balance sheet if one compares the fixed I mean fixed asset number from March 2015 to let us say September 2015, the gross fixed asset has not really changed much although you have commissioned the Cheese Plant. So just wanted to understand as to how the numbers could be explained?

Amit Garg: Are you looking at a console or are you looking at the standalone?

Sagarika Mukherjee: Console.

Amit Garg: I think we will just check-in, it should have increased, I do not know, I mean I do not have the numbers right now in front of me, I can get back to you.

Moderator: Thank you, ma'am. We have our next question is from the line of Druvesh Sanghvi from PROSPERiTREE. Please go ahead.

Druvesh Sanghvi: Just one of the previous participants asked about the EBITDA margins sir, I understand that you have the best EBITDA margins because you primarily operate your procurement out of just one district which is Ahmednagar then you have a lot materials going to two or three institutional customers so that will reduce your transportation and package cost. But going ahead as we acquire more between B2B and B2C what we call those restaurant segment and all that as we acquire flavor, how does this EBITDA margin play? So does EBITDA margins go down to someone like a Parag which has an EBITDA margin of 8% or do we remain where we are because the gross margins may go up and compensate for the higher transportation packaging and marketing cost?

Vivek S. Nirmal: Great. So if you see as a strategy yes, these are the reasons that our integrated business model remains the major contributor towards the better EBITDA. In consumer businesses if you compare them with the ingredient or the institutional business yes, the margins are better but again in consumer business you have I would say categories, so for example products like consumer oriented Cheese and all would be definitely having a lot of high gross margins which will also come up a lot of ad spends and other things. Then there is a segment which I the middle of the pyramid segment in which we particular operate in and focus on and then there is a segment of liquid milk and liquid milk again the EBITDA margins are lower but in the segment in which we operate we believe the EBITDA margins should be pretty much healthy and so we see a stable EBITDA margin profile going forward even with the consumer business going up because if you see for growth we also do not want to compromise with our product in which we operate in the ingredients space. In ingredients space we have premium products, premium clientele base wherein a very high quality milk is required but then that also has some limitations of growth so growth definitely is going to come from consumer products but then those kind of products which will also help us in maintaining our EBITDA margin as well so I do not see them going drastically up while our consumer products will be increasing as a share but I also would not see them as coming down significantly because we do not operate in liquid milk at the same time we are pretty much focused. We are not national, we are pretty much focused on central and western India, our plants are strategically located for distribution for example our Navi Mumbai plant is in very heart of the city which in 65 kilometers radius we will find a population of 3.5 crores residing so this some of these factors will help us to maintain our EBITDA at stable level.

Druvesh Sanghvi: Okay. So as you grow so say three years or four years later you may be doing say 15 lakh litres a milk per day so would Ahmednagar district alone suffice for this or you would probably have to move out and set-up some chilling center elsewhere?

Vivek S. Nirmal: We are already in the process.So we operate in around five districts which are adjacent to Ahmednagar and which has ample milk available with a healthier growth rate. Yes, of course the seasonal fluctuations like the weak monsoon this season will definitely see this agri based industry so a lot of these factors are obviously going to be a part and parcel of the business but overall in the region there is a good trend towards increment of milk as a business, farmer see this as their major activity now, it not no more a side business and that is why for coming three year to four years, we do not see a need to really diversify our region for milk procurement rather we will be building on our strength in the same region to achieve our desired volumes.

Druvesh Sanghvi: All right. And one question is on your liquid milk or pouch milk operations, I see that between 2014 and 2015, your pouch milk sales has not gone up really, are we consciously not trying to be in that segment that is number one and number two is do not you see that being in pouch milk is beneficial because let us say a customer who is drinking your pouch milk may someday see Cheese made by you or Paneer made by you or curd made by you he may just correlate that yes, I drink milk of this and hence I should buy this so does that factor not count at all?

Vivek S. Nirmal: I think that factor definitely counts.Our consumer – TG she definitely understands that a good quality milk means good quality products not really in terms of Cheese because Cheese is more a snacking kind of product so really the milk route does not help there but yes, in Dahi, Paneer and all we will definitely help you right there but what happen is if you see last two years we have also been pretty stagnant in liquid milk because honestly Prabhat Milk will be as good as bad or as Parag Milk or Amul and something like that because it is very basic commodity. We do not really have any USP, if you do not have USP then to push-up the sales volumes either you need to spend a lot in marketing or else then you have to discount the product heavily so that is why we have chosen that instead of that may we let that business remain stable, it would continue to grow but may be on a relatively slower pace but then our focus has been remained on value-added product including Dahi, Paneer, we have been doing very well in Dahi. We have started off well in Paneer and Shrikhand is of course a very recent product. Lassi we have tested, we have done a very successful pilot last year for Lassi, this we will be expanding on Lassi and Butter Milk as well and then UHT milk I think is a better segment.That is very close to liquid milk what you are seeing but under UHT milk with a 100-day shelf life without any preservative.This is again a very unique product in India we are among the pioneers to bring this product to India in UHT milk but not in tetra packs it is in pouches which is a very reasonably priced products and that has actually started picking up very well that is converting a lot of market on liquid milk because there we have a USP to communicate to the consumer with a bettershelf lifeand zero bacteria.

Druvesh Sanghvi: Right, all right. So got that point, last two questions, on this Cheese thing sir, what is the capacity that we have put?

Vivek S. Nirmal: It is around 1,000 tonnes per month approx.It is including Cheese, Paneer and all and it also has the product variance like Mozzarella Cheese, Cheddar Cheese, Processed Cheese, Cream Cheese and Paneer.

Druvesh Sanghvi: Okay. And then so we incurred 170 crores of CAPEX in this plant so what is the peak revenue that this plant can do let us say few years later we reach 100% utilization what will be the peak revenue here?

Vivek S. Nirmal: Should be expecting something like 350 crores to 400 crores.

Druvesh Sanghvi: Okay. And then do we have plans to enter into the wheysegment because I believe that is one of the bi-products which you get when you make Cheese you know the waste of Cheese you would be used for making whey powder and I think one of our competitors is doing that already.

Vivek S. Nirmal: Definitely, I think and that is why we make Cheese as a very high margin product, in 350 crores to 400 crores we do not calculate whey, whey will be a complementary stream of revenue for the Cheese which will actually make it a very good ROI in terms of investment as well and yes, but right now we have basic whey processing facilities. We are not into manufacturing high-end whey protein concentrates and all because it makes to invest in those segments once you have a significant volume of whey getting generated so it is sequential thing you get a good volume of Cheese first so automatically start getting a good volume of whey and then you invest in high end whey product which then gives us better margins and all or that is a better utilization of way in terms of optimum revenue recognition.

Druvesh Sanghvi: Yes, right, all right. And lastly your skimmed condensed milk which is probably one of the large categories that you operate and which is completely institutional and I think Mondelezwould make a very large portion of it. So I think the data that we read is their chocolate sales in terms of volumes have been slowing down and probably they may switch to milk power some day or they have probably already switched so, how do we aim to make-up for this revenue which we may probably will not grow or may probably go down in the coming years.

Vivek S. Nirmal: I think it is not that they are not fetching. Mondelez already uses a lot of milk power in their product, we also supply them since last two years but we do not see any change in the skimmed condensed milk volumes really because there are different product categories in which they go. Second yes, I think in terms of clients, it would not be very appropriate for us to comment on how their businesses are going on but I would say our business in terms of our clients have been steady or growing it is not coming down because what we also do as a policy we believe in de-risking the business by two ways first is by increasing more product categories as such and second is by increasing more number of clients. So if you see today it is not only Mondelez which we supply sweeten condensed milk to there are mostly all major biscuit manufacturing companies and all major confectionary manufacturing companies today are our clients and we have major vendor share with all of them. So I think that is a strategy to deal in overall way.

Moderator: Thank you, Mr. Sanghvi. We have our next question is from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.

Aakash Manghani: So on the part of segmental EBITDA margins I know you would not sort of diverse that however looking three years - four years with the sales split that you plan to have with higher share of consumer business where does your working capital cycle head to and what should be your return capital trajectory going forward for the next two years? Because if I look at all the listed players your working capital cycle is one of the highest probably but EBITDA margins are also high so, fundamentally I mean if you can sort of control that I mean return on capital can go up significantly.

Vivek S. Nirmal: So yes, I think you are right working capital cycle we are already in the process of improving it further.There are times of business growth wherein you are more aggressive on growth and that also definitely increases so our working capital is increasing working capital cycle or the CAPEX or the overall capacity you build and then there is a time where you are consolidating focusing more on margins improving working capital and all. I think now we have already build-up capacities we have built our milk procurement network and all and now is the time we are working more on consumer products, in consumer products inherently the working capital cycles are bit shorter or lower than the working capital cycles in institutional business and yes, that is the reason we believe in coming days we will see an improvement of working capital cycle and hence our overall ROCs will also improve.

Aakash Manghani: So you quantify that how much say in FY15 75%-76% on institutional business what would be the net working capital cycle over there vis-à-vis the consumer business?

Vivek S. Nirmal: So we do not do it segmental so even in the working capital that is why we do not segregate as such how much capital is deployed in each of the segment.

Aakash Manghani: Okay. And you do not even give the gross margin differential between the two segments?

Vivek S. Nirmal: No.

Aakash Manghani: It will be really very useful to get it probably in the next call or something because this is help us understanding our business…

Vivek S. Nirmal: A lot of our manufacturing facilities are common which manufacture the consumer products plus some co-manufactured product so since due to a lot of these commonalities we actually do not track it on a segmental basis but Yes, I think directionally that is what we have cleared that is what we have shared especially that directionally the consumer business is what we would like to have plus consumer business will definitely have shorter working capital cycles going forward.

Aakash Manghani: Okay. One or two things I want to clarify, I think I heard that your interest cost for FY17 would be in the range okay 20 odd crores is that correct?

Vivek S. Nirmal: Should be in the range of considering right now the cost of one quarter I think that should be the range which we should be expecting.

Aakash Manghani: And also one more thing I want to clarify between now and until when you achieve your peak revenue capacity of 1,700 to 1,800 odd crores there is no fixed asset investment, right only maintenance CAPEX?

Vivek S. Nirmal: Yes, the fixed asset investment is already which we have in the IPO also we have undertaken certain projects those are going on and then there is certain maintenance CAPEX which will go year-on-year Yes, so we do not have any major plans to set-up or to engage into a major CAPEX in the next two years - three years.

Moderator: Thank you, Mr.Manghani. Ladies and gentlemen, that was the last question, I now hand the floor back to the management of Prabhat Dairy for closing comments. Thank you and over to you, sir.

Vivek S. Nirmal: Yes, so thanks everyone for participating in the call. I think our segment or the sector is relatively new sector I think to the capital markets there are definitely two or three good listed companies in the space but our business model is slightly difference.The space is growing so we see quite a positive outlook in coming days. A lot of things you will be continuing to hear about Prabhat in terms of new product launches and all to come. So I think that is it, and our team is quite confidant to achieve our full capacity utilization and successing the products in coming days. That is it, thank you very much. Thanks for participating in the call.

Amit Gala: Thanks everyone.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us. You may now disconnect your lines.