"Prabhat Dairy Limited Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Prabhat Dairy Q3 FY2018 earnings conference call, hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I would now like to hand the conference over to Ms. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you!

Shradha Sheth: Thank you Stanford. On behalf of Edelweiss let me welcome you all to the Q3 FY2018 earnings call of Prabhat Dairy. From the management today, we have Mr. Vivek Nirmal – The Joint Managing Director and Mr. Raviraj, CFO of Prabhat. So without any further ado, I will hand over the call to Mr. Nirmal for his initial comments, post which we will open the floor for Q&A. Thank you and over to you Vivek!

Vivek S Nirmal: Thank you very much Shradha. Good morning ladies and gentlemen. It is a great pleasure to welcome all of you to this conference call to discuss the earnings for third quarter and first nine months of financial year 2017-2018. We had announced our Vision 2020 plan in October 2017 and had devised focused roadmap to grow our consumer business share from 30% to around 50%, introducing product variants with attractive packaging, strengthening our retail footprint by doubling our general retail range from around 1 lakh to around 2 lakh stores and also grow our presence in modern trade, increase our milk procurement capacity by focusing on direct sourcing and lastly, strengthen our scale in institutional business. We have already started taking steps towards achieving our vision 2020.

During the third quarter, we have grown our modern trade presence from 289 to around 320 outlets and our general trade reach has expanded from 1 lakh to around 1,25,000 stores. We have launched our exclusive retail stores in Maharashtra, branded as Goodness Zone. The stores are operated on franchisee owned franchisee operated model. This will help to provide entire range of existing and new products, directly to the consumer. We have planned to launch 500 exclusive retail stores in various districts and talukas across Maharashtra by 2020. We are investing in spending ads and growing our direct sourcing, with an aim to take Prabhat to every household. We are focusing on building our fresh milk storage, which will take our cow's milk to every household in our target markets.

Coming to the financial performance of the quarter, we witnessed an improvement trend on quarter over quarter basis with an increase in the revenues and profitability. Q3 FY2018, the revenues grew by 4.8% Q-on-Q and declined marginally by around 1% YOY basis, to around Rs.404 Crores. Revenue declined in value terms on YOY basis due to the decrease of around 14%-15% in terms of milk prices. There was a healthy volume growth across various products, largely driven by increase in sales of liquid milk, cheese and curd. Share of value-added products and milk was around 79% and 21% respectively. Q3 FY2018 gross profit grew by 10.7% QOQ and 19% YOY to Rs.93 Crores. Gross margins increased to 23% in Q3 compared to 21.8% in Q2 FY2018 and 19.1% in Q3 FY2017. This was basically driven by lower milk procurement price, which decreased by 9.4% QOQ and around 14.7% YOY, which is right now around 23.2 per litre in Q3 FY2018.

Our Q3 FY2018 EBITDA grew by 18.7% QoQ and was stable on YOY basis at around Rs.37.9 Crores. EBITDA margin increased to 9% in Q3 FY2018 compared to 8.3% in Q2. Considering the company's progress for Vision 2020, company took a conscious decision of reinvesting the benefit from improved gross margin in building and expanding the consumer business. There was addition in manpower to expand the direct sourcing of milk network as well. This helped in increasing average per day milk handling from 8.5 lakh litres compared to last year, to around more than 10 lakh litres in the last quarter. There was an increase in selling and distribution expenses as well, to expand the fresh milk distribution network. Increase in the share of consumer sale also led to higher transportation cost as the company is expanding its range and presence particularly with the cold chain network. Q3 FY2018 PBT, before exceptional items, grew by 53.1% QOQ; however declined 10.6% YOY to around Rs.10 Crores. Q3 PAT grew by 62.5% QOQ and PAT margin improved to 3.7 compared to 2.4 in Q2 FY2018. The recent Union Budget proposed the allocation of around Rs.10,000 Crores to the dairy farming infrastructure and fisheries. Animal husbandry has been facing a major challenge basically due to low productivity, which can be attributed to cattle breeding, health and availability of high quality fodder, which has also led to lower output in quality of milk. We are pleased with the government's proposal for funds allocation, which will help dairy farmers involving animal husbandry. This move is to boost farmer, as it will further enhance the yield and enhance income for farmers. This is also a part of government objective of doubling farmer's income by 2022.

Moderator: Excuse me, this is the operator. I am sorry to interrupt. Mr. Nirmal your voice is not clear, it is feeble.

Vivek S Nirmal: The higher production of milk will also lead to increase in productivity, which in term has will help in generating higher revenues for dairy companies. With this I would like now to proceed with question and answers.

Moderator: Thank you very much Sir. We will now begin with the question and answer session. We will take the first question from the line of Anirudh Joshi from ICICI Securities. Please go ahead.

Anirudh Joshi: Though the milk prices have gone down, we are not able to keep the entire benefit. Do we have to pass on the entire benefit to end consumers? We can understand that this remains the case with B2B consumers, but why are we required to pass on the entire benefit in case of B2C sales as well? Secondly, can you elaborate more on the 500 new stores strategy? Whether it will be own stores or franchise stores? Roughly what would be the store size and what is the revenue target we are looking at and the rationale behind this strategy, keeping in mind that we can anyway build the distribution network via the kirana stores and modern trade.

Vivek S Nirmal: Since 60-70% of our revenue comes from the ingredient business, the benefits are passed on. Last year when the milk prices were up substantially, we again saw very stable margins of around 8%-9% and even this year the prices are down. So, we have maintained our margins in both scenarios. In terms of consumer business, we have not passed on the milk prices decrease to the consumers. The MRPs of our products are same and hence we have witnessed healthy gross margin increase from 19% to 23%. However, our EBITDA right now is still at the same level. The management has decided to reinvest the additional gross margins, in the form of discounts to consumers, to the trade and specifically for enhancing sales and distribution. So, the price reduction benefit has not been passed on in terms of the consumer business segment. It has been reinvested, particularly to grow the business, which is a good opportunity for us right now. In terms of 500 retail stores, these are not company owned. These are managed by the retailer, the franchise. The only difference is that while we have a good general trade reach, but there are lot of general trades who do not stock all the products. We have a significant presence in Tier 2 and Tier 3 towns, where the availability of chillers and freezers are on the lower side. Prabhat Dairy is now recognized as an umbrella brand. The consumers have more preference for the product from the same brand. So, it is important for us to make all the products available under one roof, which could in turn drive sales in that region. That is the rationale behind having exclusive stores. The model is completely franchise owned franchise operated. It is not owned by the company, but it will be a standard process. We believe in building models and then ultimately replicating those models, after perfecting them in an area. We have piloted some of the models for the stores, perfected it and now we are expanding it, so the revenue target per outlet is in the range of around Rs.7000 to Rs.9000 per day per outlet. The benefit for us is that, with ice cream, the retailer's ROI is much better because there is good margin for the retailers, particularly in terms of ice cream and these outlets are going to be directly serviced by the company. There is no intermediary. It is a similar kind of a business over here. We have the idea and capability of managing the cold chain logistics. That is the capability we are banking and the target in next two years is to open around 500 outlets.

Aniruddha Joshi: Okay. Do you expect the milk prices to remain at lower levels or do you expect an uptick?

Vivek S Nirmal: The prices are stable. The Q3 and Q4 prices are at a similar level and we do not see any increase in the milk prices in this quarter.

Aniruddha Joshi: Okay Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: The topline on YOY basis is flat. You mentioned milk price deflation and the volume is healthy. So, what would be the volume growth on a YOY basis?

Vivek S Nirmal: So, YOY basis year nine months, we have witnessed value growth, not just on Q3 YOY basis. On nine-month basis, it is around 9% to 10%, in terms of value. 14% to 15% is our volume growth on YOY basis.

Percy Panthaki: On YOY basis, 14%-15% volume growth. So this 14% to 15% is for this quarter, right?

Vivek S Nirmal: Yes.

Percy Panthaki: For this quarter, the EBITDA is flat. So, with the 14% to 15% volume growth, flat EBITDA means that on a per unit volume, EBITDA is lower YOY. I understand you completely pass on the benefit to the consumer, but that should mean that on a per unit basis, your EBITDA remains flat and not declined.

Vivek S Nirmal: Yes, that is correct. In terms of our ingredient business, we pass it on. Our ingredient business is the strongest right now and our focus is on increasing our consumer business, if you see our gross margin on a YOY basis, it has increased from 19% to 23%, due to volume growth and other factors. But as a conscious decision, we are reinvesting all that money again, particularly in building distribution, in dairy products, a thorough cold chain network is required and hence the distribution costs are higher. So initially it takes a lot of time, money and energy to build the pipeline. Once the pipeline is built, ultimately the volumes come in and the cost per unit goes down. That is why in this quarter, our transportation costs are up since our sales team has been expanding and consequently our sales costs are up, which have cumulatively led to the flat margin.

Percy Panthaki: These costs which you mentioned, vary in line with the volume. The transportation costs or your procurement cost will probably increase in line with the volume of the business you do. In that case, how will you get leverage on these costs in the future?

Vivek S Nirmal: The consumer business contributes around 400 Crores – Rs.450 Crores to the topline and we are targeting 1,000 crores by 2020. Right now, the entire consumer business is in the development stage, so the percentage cost of transportation, logistics and sales, is expected to remain higher, and once the volume is built up, the cost of transportation or sales, does not rise in the same proportion. It remains where it is. Since it is the foundation and we are building our sales and distribution network, the percentage cost in terms of consumer business is higher.

Percy Panthaki: Right. I understood. So for your entire company, you are clocking EBITDA margins of about 8%-8.5%. Could you give us an idea of how different it is in the consumer business versus the B2B business, the EBITDA margins?

Vivek S Nirmal: EBITDA margins are similar in both the segments. On the ingredients front, we are focusing on specialty ingredients. In consumer business while the gross margins are higher, the sales and other operating costs are also higher. Bearing that in mind, I would say that the margins are in a similar range of around 8%-9%.

Percy Panthaki: As per your vision 2020, if you increase the proportion of consumer business from 30% to 50%, what kind of EBITDA margins you would be able to make?

Vivek S Nirmal: I would not be able to state the exact figure, but we are definitely expecting a very good growth in the EBITDA, compared to the current levels.

Percy Panthaki: Okay Sir. That is all from me. Thanks, and all the best.

Vivek S Nirmal: Thank you.

Moderator: Thank you. We will take the next question from the line of Dhawal Mehta from Yes Securities. Please go ahead.

Dhawal Mehta: Sir, could you shed more light on the franchise model? Wish to know the contours of the model in terms of the franchise fees. The payment terms for the franchise owner and what kind of ROI can the franchise owner expect?

Vivek S Nirmal: In terms of fees, there is a nominal deposit against which we provide them our freezer, chiller and we also do the entire decoration of that particular outlet, which costs around Rs.70,000 to Rs.80,000 and around 40%-50% of that is a fee. Depending on the sales of outlet, we also have a different margin structure wherein ultimately the fee could be reduced based on the business generated by the outlet and the ROI which the franchise owner can target, can be in the range of 25% to 40% per annum, depending on the region in which the outlet is located.

Dhawal Mehta: Okay. So, we will be focusing more on Ahmednagar and Nashik area, where our penetration is much higher vis-à-vis the metros.

Vivek S Nirmal: Yes Tier 2, Tier 3 towns are our major focus areas because we have a good distribution network over there. So relatively smaller towns like Nashik, Aurangabad, Ahmednagar and the interior parts, particularly the talukas where economic profile is much better. These are the areas, which we are targeting, and where relatively the competition is quite low, the brand is quite strong and our distribution is also strong. That is our preliminary target. Once we have a strong base, then we would be ultimately entering the larger cities like Mumbai or Pune.

Dhawal Mehta: So ideally for a franchise owner, what will be the ballpark revenue per store for him to breakeven?

Vivek S Nirmal: So the revenue breakeven is in the range of around Rs.4500 to Rs.5000 a day, but it also would largely depend on the mix because certain areas would be selling more of fresh milk while the other areas would also be selling ice cream depending on the location of the store. So, it could range anywhere between Rs.4500 to Rs.7000 per day depending on the profile and mix of the products sold.

Dhawal Mehta: Sir, we have been very aggressive in GT in this quarter. We have almost increased our presence by around 25% QOQ. Which geographical locations are we focusing on?

Vivek S Nirmal: The growth is not on a QOQ basis. The growth which we have recorded, is for the nine-month period i.e. the addition of 25,000 outlets and this is with the backing of our entry in the north-east region for our UHT milk products, over the last four to five months. We have also reached areas like Jammu, with our UHT milk. Combined, these are relatively new regions for us and we are also intensifying our presence further in Maharashtra, where we were not present earlier. For example, we are into milk packaging since the past two quarters and we are targeting areas of Marathwada in Maharashtra, for our liquid milk products. Combined, these new geographies have contributed towards our growth.

Dhawal Mehta: Can we expect our run rate to be around 25,000 to 30,000 annually?

Vivek S Nirmal: Absolutely, yes**.**

Dhawal Mehta: Okay. Thanks Sir. Sir, my last question is a bookkeeping question, Sir, our tax rate has been very low in this quarter, even if you see nine months, it is around 18.4%. So, what is the annual tax guidance which we should build in?

Vivek S Nirmal: Ravi, could you take this?

Raviraj Vahadane: So Dhawal, tax rate will be in line with the previous quarters.

Dhawal Mehta: Okay. So in FY2017 our tax rate was around 29%, so should we expect that it will be in the same range?

Raviraj Vahadane: No, it will be like that of Q2 and Q3.

Dhawal Mehta: Okay.

Raviraj Vahadane: But since we have booked additional income, it is an exceptional income which is why the tax rate was higher.

Dhawal Mehta: Okay. So, it will be in the range of 17%-18%, right?

Raviraj Vahadane: Right.

Dhawal Mehta: Will this remain the case for FY2019, FY2020 Sir?

Raviraj Vahadane: We cannot comment on that immediately.

Dhawal Mehta: Okay. Thank you and all the very best.

Moderator: Thank you. We will take the next question from the line of Manish Jain from SageOne Advisors. Please go ahead.

Manish Jain: Hi. I had two questions. The first one was on milk procurement. What is the peak procurement of milk that we are doing and how much of it is directly from the farmers, at this stage?

Raviraj Vahadane: Our peak procurement at the current level, is the peak. It is around 10.2 to 10.5 lakh litres per day, out of which around 7 lakh litres are directly sourced from the farmer and around 3 lakh litres is sourced from third parties.

Manish Jain: And when we are seeing a 15% reduction in procurement price? You want to increase your procurement, which obviously leads to significant reduction in profitability for the farmer. What measures are you taking to ensure that you can scale up in the next two to three years from a farmer's perspective?

Raviraj Vahadane: While it is 15% lower, we should consider that the prices last year were quite high. So even if they are 15% lower, the farmers normally calculate an average keeping in mind their future run rate and what has been there for the whole year. Even today the prices are good. We are paying in the range of Rs.22 to Rs.23, which are very good prices from the farmer’s perspective. The prices are going to keep on decreasing and increasing because those are very closely related to market mechanism. It’s more important to increase the productivity of animals and Prabhat Dairy fodder division programme has been successfully implemented since the last 10 years. We focused extensively on four pillars – first is breeding; second is feeding wherein we particularly take care of cattle feed and silage provision to farmer; third is animal management which particularly talks about the mechanization of the milking procedure and their loose housing, wherein the animal health is improved and fourth is overall health care, which particularly talks about vaccination in advance, deworming activities and the medical care for the animal. So, these are four pillars we particularly worked on and we have seen consistently that these four areas where we have been working, the yield of the animals have improved from 1800 to 2000 litres per lactation, to even up to 4500 to 5000 litres per lactation. I think that is the most important solution for farmers, when the prices are lower and that has been our intervention, particularly to ensure that for the farmers in the business, their profitability is maintained, and they remain interested in the business.

Manish Jain: Thanks. I will join back the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna: Hello. Sir, could you break up your earnings for this quarter? Your sales growth for the institution business and for the consumer business?

Raviraj Vahadane: We do not provide segment wise breakup Kaustav but our consumer business growth has been relatively higher compared to the ingredient business.

Kaustav Bubna: Sir, how are you going to tackle this problem because we have sales target, we have set out our vision and the institutional business is a highly commoditized business because if prices fall, you'll have to pass on the full benefit to your end customers, so what if milk prices stay down? If that is going to go even lower than what it is, it is going to impact overall revenue growth and if hypothetically, we are in a low milk price environment for the next one to two years, how are we planning to tackle this scenario, given the high institutional mix.

Raviraj Vahadane: Yes, I think the milk prices are low and weak and we have encountered this situation constantly in the last 18 years. We witness a couple of years of low prices and then a couple of years of high prices, so there is a cycle, and there is also an impact of seasons when we again see prices going up or going down. Besides revenue, stability is vital in dairy business, stability in terms of disposal of milk, stability in terms of revenue and stability also in terms of margins. So as a specific decision, we have taken a call to have a strong ingredient business. If you see our business model, we are not into commodity products like skimmed milk powder or butter, but we are into specialized ingredients which are customized according to the consumer's requirements. So, most of our clients are global clients or the larger Indian Food companies and products are customized to their requirements. So, the growth of the ingredient business is stable, which we have seen since the last seven to eight years. Here margins are relatively better and compared to the commodity dairy players in the country, the model of cost to us is of a great value. As I mentioned earlier that in the last one and a half years, we have seen a huge spike in terms of milk prices and that has eroded margins of players because they were not able to pass on the same price immediately to the consumers. But in terms of our business, we were stable at that point of time, due to the cost-plus model. So, while you cannot be getting the benefit when the prices are down, but you are also not at a great risk when the prices go up. Having said that, the consumer business is the next growth engine and we are chasing it quite successfully from around less than Rs.50 Crores five years back, to where we are now. We stand at more than Rs.450 Crores in terms of the revenues from the consumer business and we are pretty confident to reach our target of Rs.1000 Crores for 2020.

Kaustav Bubna: Okay. Sir, volume growth was 15% for this quarter. So, was this volume growth over Q3 FY2017?

Raviraj Vahadane: Yes.

Kaustav Bubna: Okay. So, could you break up volume growth for consumer business and institutional business?

Raviraj Vahadane: We do not provide the breakup, as I said, for both the segments.

Kaustav Bubna: But was institutional business volume growth in single digit Sir?

Raviraj Vahadane: Yes. Consumer business witnesses larger growth compared to ingredient business.

Kaustav Bubna: No, was intuitional business single-digit volume growth or double-digit volume growth?

Raviraj Vahadane: I will not be able to comment very specifically Kaustav, but I can say that consumer business had a larger growth than the institutions.

Kaustav Bubna: Okay and skimmed milk prices have increased, right, during this quarter?

Raviraj Vahadane: No, skimmed milk prices have not really gone up this quarter. Are you talking about skimmed milk powder prices?

Kaustav Bubna: Yes.

Raviraj Vahadane: They are bearish, and they have not increased during this quarter. In fact, they are down compared to the previous year.

Kaustav Bubna: Okay. Great. Thank you.

Moderator: Thank you. We will take the next question from the line of Pratik Lambe from ARM Research. Please go ahead.

Pratik Lambe: Hello. Good morning Sir and congratulation for very good results on quarter over quarter basis. My question is pertaining to the retail business. We can see that your gross margins have improved significantly as compared to Q3 FY2017, but they are not showing into your EBITDA margins and you have stated that there was an increase in the transportation cost along with an increase in selling and advertisement costs. So, our community or maybe the analyst community is very keen to know the numbers for your B2C business or the retail business, Sir.

Raviraj Vahadane: Numbers in what sense?

Pradeep Lamba: In terms of revenue Sir, from retail business.

Raviraj Vahadane: Okay so Pratik we do not provide a breakup as such, of the sales split between the retail versus the institutional business.

Pradeep Lamba: Okay, but you have stated that those will be definitely higher than your institutional sales.

Raviraj Vahadane: Surely.

Pradeep Lamba: Okay, so I think then the company is quite ambitious or in the line of achieving the significant 30% to 50% jump in terms of revenue share from the consumer business, right, Sir?

Raviraj Vahadane: Yes.

Pradeep Lamba: **W**ould you please comment on the ice cream business that you have entered in 2017. How is it going?

Raviraj Vahadane: So, ice cream is going well. We have launched our range of ice creams under the Volup brand in March 2017. It was a test launch. We had launched it only in four districts – Nashik, Ahmednagar, Jalgaon and Dhule. We have received decent response from these four to five districts. We are present in around 2000 outlets now and we are going to continue our soft launch for next three to four quarters. The target is basically to take this product across Maharashtra and to become a significant player in Maharashtra, over the next four to five years. In one year, we have understood that ice cream is a new segment for us and since it is a new segment for us, we also studied further about which product works at what price range, the distribution model. The revenue right now is pretty low and is expected to remain low for the next two, three quarters and once we have the current model in our hand, we will then be expanding this particular product across geographies, starting with Maharashtra, where we want to be a large player, post which we will be seeking the market outside Maharashtra.

Pradeep Lamba: Sir, could you shed some light on the EBITDA margins in the ice cream business? You mentioned that the transportation and the advertisement costs have been incurred for the B2C network. So, amongst this B2C network, on which products are you focusing specifically? Are ice cream and other products, consuming these costs?

Raviraj Vahadane: So, ice cream remains our focus. But since it is a soft launch and the geography is also limited, it does not contribute largely to our topline. That might start contributing in the years to come, when we will plan to expand it to more geographies. Right now, the main products of focus are fresh milk, curd, ghee, paneer, and these products would contribute highest in terms of the Vision 2020. In terms of margin in ice cream business, EBITDA margin is expected to be around 15% to 18% because normally the industry operates in the range of 15% and we being a dairy player have a larger advantage, so we are targeting 15% to 18% in terms of EBITDA, but right now we are not seeing that EBITDA because this is a soft launch again and the volumes are not enough to generate this kind of EBITDA margin as of today.

Pradeep Lamba: Okay. All right Sir. Thank you so much Sir.

Raviraj Vahadane: Thank you.

Moderator: Thank you. We will take the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Hi. Thank you for the opportunity. In the presentation you mentioned that our value-added products are at 79% and 21% is milk, is that right?

Vivek S Nirmal: Yes.

Prashant Kutty: This is for the entire business right including retail?

Vivek S Nirmal Yes.

Prashant Kutty: Just trying to get some sense on the consumer aspect. As you mentioned that as the scale of consumer business improves, EBITDA would obviously be going up. So from a consumer business perspective, what would be the mix of value-added to milk?

Vivek S Nirmal: Out of the total consumer business, 35% to 40% comes from fresh milk and rest 60% comes from other products like curd and ghee. So, 40% contribution is from consumer and remaining contribution of liquid milk comes from the B2B business, where we provide processed milk in concentrated form to companies for manufacturing their nutritional supplements.

Prashant Kutty: Sure, so does the 60% contribution from value-added products have the potential to scale up to 70%-80% of the consumer business? Because on one end, we are increasing our procurement, so I believe that there is a good amount of liquid milk as well. What is the target on that part, with respect to the consumer business?

Vivek S Nirmal: Fresh milk will continue to remain a significant proportion of our overall consumer business because when it comes to liquid milk, while the margins are lower, the advantage is the strategic location. Besides our main market in Mumbai, our second plant in Shirdi also has larger cities around it. The fresh milk which we collect, we are immediately packing and distributing it in the same region. We have also started a new packaging station on a third-party basis in Latur and we are also planning to start our milk packaging in Nagpur. Our milk is procured from nearby region and directly goes to the packaging stations without coming to our main factory, thereby saving transportation cost. Fresh milk is definitely a very important segment to be in, the reason is that it creates a larger network which is basically trade network and the consumer network as well, which is very important to sell value-added products like Dahi and Lassi, which have high gross margins. With milk being a daily consumption product, you can reach many households, which ultimately creates a strong brand loyalty. When it comes to milk, there aren't many significant private players and there is no single large private player in Maharashtra. On the contrary there are multiple players, especially in Southern India. So, we're trying to bridge that gap. Again, our high-quality milk is our strong point. Hence, the focus will remain on fresh milk and we do not see our value-added product share to increase beyond 60-70% in our total consumer pie. It could remain at the same level and fresh milk will also continue to grow.

Prashant Kutty: Sir, from a margin expansion perspective, will it have to be driven by incremental volume?

Vivek S Nirmal: More volume on the consumer business front. Margin expansion will be driven by high-end products like cheese, the contribution of which is low right now because the plant is relatively new, having commenced operations two years back. Now the capacity utilization is increasing. As you build the cold chain network, transportation and distribution costs increase but will eventually decline as the volume increases. Those will be the margin drivers. Apart from that, in next two years we are going to spend good amount of money on marketing and brand building, which will eventually help us to increase our margins at the trade level and at the consumer level. Currently we are vying for volume, and not margins, but after two years, we could consolidate, and we could chase margins. We have 4-5 initiatives in the pipeline, which will drive the margin growth in consumer business.

Prashant Kutty: Sure. My question is on the other expense side. I understand that this year you managed to register volume growth as well despite reduction in milk prices. You also mentioned that we are extending a quite a few promotions to consumers. How do you expect the promotions to shape up going forward, excluding the ad spend numbers and other distribution expenses?

Raviraj Vahadane: In terms of promotions, we will continue to be aggressive in terms of acquiring more consumers through promotions because our growth targets in consumer business are aggressive. We have been successful in acquiring new consumers through promotions as it is very important for the consumers to taste it. Most of the consumers we acquire, prepare all these dairy products on their own and don't purchase those from any player. For them, it is very important to taste the packaged dairy product for the first time and hence we believe more on trials and promotions. We will see that continuing in the coming quarters.

Prashant Kutty: Promotions will continue to be an integral part at this time?

Raviraj Vahadane: Yes.

Prashant Kutty: Sure, Just one clarification Sir. What revenue do we expect from the franchisees?

Raviraj Vahadane: It would be too early to mention anything about that because it is a new thing. Maybe in a couple of quarters, we will be able to gain a better understanding of the geography, demography and expected revenue. Post that, we will be having a fair clarity regarding the income generated out of these 500 stores.

Prashant Kutty: Okay. I am referring to your share in it. Let's say 7000 to 9000 per day per outlet is the revenue target which you are talking about, I am wondering how much would be your share?

Raviraj Vahadane: It would vary. These outlets are only in Maharashtra and in a couple of quarters, it could have a decent revenue share. More importantly, these outlets drive branding and while that particular outlet could sell certain things, but the sales in general trade around that outlet was significantly up, that is what our experience had been.

Prashant Kutty: Okay. Sure Sir. Thank you very much. All the very best.

Raviraj Vahadane: Thank you.

Moderator: Thank you. We will take the next question from the line of Ronak Jain from Vibrant Securities. Please go ahead.

Ronak Jain: Hello Sir. I just wanted to confirm that we procure cow milk, right. So, in our region, we do not have buffalos?

Raviraj Vahadane: Yes.

Ronak Jain: Okay. Wish to understand the reason behind the dip in procurement prices this quarter. Was it because of the seasonality effect**?**

Raviraj Vahadane: Yes.

Ronak Jain: So, will the procurement price increase from the next quarter?

Raviraj Vahadane: Yes, next quarter we will see a slight increase in the prices. There is seasonality but at the same time there has been good monsoon consecutively for two years, and the availability is much better. Yes, in summer we will again see the prices slightly going up, but we do not expect a very large uptick in terms of prices.

Ronak Jain: Okay. Got it. What would be our B2B operating margins for B2B segments?

Raviraj Vahadane: The gross margins – B2C is in the range of around 26%-28%, B2B is in somewhere in the range of around 16%-18%.

Ronak Jain: You are talking EBITDA margins right, operating margins?

Raviraj Vahadane: Gross margins. The EBITDA margins in both the segments would be in the range of 8%-9%.

Ronak Jain: So, both the segments 8%-9%?

Raviraj Vahadane: Yes.

Ronak Jain: The capacities that we have already established for our B2B operations, do we leverage the same for our B2C operations?

Raviraj Vahadane: Yes, some of them.

[The conference ended at this point because of network challenges which were reported on that day. There is no further recording available as a result]