



“Prabhat Dairy Limited  
Q2 FY2019 Earnings Conference Call”

November 15, 2018



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**Moderator:** Ladies and gentlemen, good day and welcome to Prabhat Dairy Q2 FY2019 earnings conference call, hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in 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 hand the conference over to Ms. Shradha Sheth from Edelweiss. Thank you and over to you!

**Shradha Sheth:** Thank you Bikram. On behalf of Edelweiss let me welcome you all to the Q2 FY2019 earnings call of Prabhat Dairy. From the management today, we have Mr. Vivek Nirmal – The Joint Managing Director 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:** Good morning everyone. Thanks Shradha. It is a great pleasure to greet all of you once again on behalf of our board of directors and senior management. To begin by thanking all of you for having spent time and joining us today to discuss our Q2 and six months earnings for the FY2019.

At Prabhat, we have evolved a value proposition that is forward by technology, to steer our growth not just what today, but also for tomorrow. Our technological thrust is driving our strategy agenda to build an organization to cater for tomorrow needs of consumers and to deliver increasing value to all our partners and stakeholders including thousands of our farmers. It is enabling us to consolidate our strengths across the entire value chain of our business for the realization of our goal for the future as we move very aggressively towards the translation of our vision 2020 into real achievements. Our business model has transformed from being an established specialty dairy ingredients company to one of the fastest growing consumer brands in the last six years. Robust milk procurement system has been in the cornerstone of our success. The decision to grow our consumer business is motivated by strong potential we see in the overall industry, which is expanding exponentially at the back of evolving consumer preferences and taste. New-age consumer is taking new experience across all consumption segments planning the growth of the food business including dairy products, modern consumers seek the traditional taste and flavors of homemade milk while at the same time looking for the convenience of packaged foods. Our transition from pure play B2B dairy player to our consumer company steered by the needs and aspirations of these consumers who is more aware and discussing about the quality and origins of the food he or she is buying. In line with our vision 2020, we shall continue to strength our consumer proposition in the coming year to create a bigger ecosystem for our emergence of one of India’s leading FMCG companies.



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In terms of financial performance, our Q2 FY2019 total revenue has increased by around 8.5% year-on-year to around Rs. 418 Crores, there were strong growth in the consumer businesses led by milk, ghee, cheese, curd and paneer. Our gross margins have increased from 21.8% to 23.3% Y-o-Y largely due to reduction in milk procurement prices. The share of our value added products was 75% and 25% respectively. Our Q2 FY2019 EBITDA increased by 24.2% Year-on-Year to Rs. 39 Crores, EBITDA margin increased by 119 bps Year-on-Year to around 9.4%. Q2 FY2019 PAT has significantly grown by 36% Year-on-Year to around Rs. 12.3 Crores and PAT margin improved around 60 bps Year-on-Year to 2.95%.

Going forward, we shall remain committed on our growth of our value-added consumer business while maintaining our stronghold on our ingredient business. We are placing a strong focus on establishing our products under our brand Prabhat in both existing as well as new markets across India. We have started two new milk packaging stations in the state of Maharashtra, one in Amravati for catering to Vidarbha region and second in Solapur to cater the Western Maharashtra. This is in line with our strategy to become a pan-Maharashtra player in liquid milk and then to build the value-added products distribution network on back of the liquid milk business. We shall also look to further strengthen our distribution network and delivery systems and spread our retail presence across this date and for HORECA across the country.

Our cheese business is ramping up well and our strategy to grow business by focusing on HORECA clients and institutional customers in India as well as exports to key geographies is playing out well. In terms of export, the company has recently opened up markets like Egypt other countries in Africa and GCC. This is particularly for our products like cheese and butter. We have already procured orders from the Indian major chains including Domino's, Pizza Hut, and McDonald's brands and other QSRs. With respect to our B2B business, we shall further leverage our institutional relationship and quality certification obtained from such institutional customers to further grow our institutional business in India and globally. With this, I get the floor open for question and answers. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We have first question from the line of Sameer Gupta from IIFL. Please go ahead.

**Percy Panthaki:** Hi Sir, this is Percy Panthaki here. Sir just wanted to know for this quarter, what is the volume and value growth for your B2C business and again for this quarter, what is the contribution of B2C business to your overall sales?

**Vivek S Nirmal:** Our contribution is around 30% for this quarter to the B2C sales from the overall business. The overall growth is around 23% in terms of volumes, but which is also offset by some price realizations around 17%-18% so overall growth is in the range of around 8.5%.



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**Percy Panthaki:** Okay so the B2C business value growth is 17% to 18%?

**Vivek S Nirmal:** Yes.

**Percy Panthaki:** I see and this parlour network expansion we have been now talking for the last two to three quarters, we have done about 25 stores and the target is 500 stores in the next two to three years. So just wanted to understand I mean the kind of expansion in the parlour network, the pace would have to significantly pick up from the current levels. So do you think that is the realistic target that you have or it could actually spill over and take a couple of years more?

**Vivek S Nirmal:** In any distribution or retail network model the pace always is different, cannot expect the same pace in the initial year and at the further year so I think we already having a good pace wherein we are going slow right now, we are pretty choosy on the locations, on the partners we are working with and our focus is more than numbers right now to see that our current parlours become successful. We understand that what is the preference of each region, what is the local competition in each region and our partner earns good returns on that. This actually paves the way for other partners to further come in, become interested and then eventually this pace increases. This is exactly what we have seen in our milk procurement while we have expanded our network all across Maharashtra, we have particularly seen that our facilitator co-operate our bulk milk cooler, we get stronger and stronger in the village where they operate, we work a lot along with them and make them successful and seeing those success stories a lot of other guys get attracted and that is how the network grows at a faster pace. So that is where we are and we are pretty confident of getting 500 numbers in the next three years' time.

**Percy Panthaki:** I understood. Sir couple of questions on accounting basically your other expenses line has grown slower than the volume growth, these are typically expenses which are variable in nature. Of course, they are some fixed expenses also, but generally would expect this to grow in line with volume. So it has grown slower than so what is the reason for that and secondly your milk procurement Y-o-Y has increased by about 4% to 5%, which is again much lower than the volume growth. So does that mean that you have sort of sold from inventory or is there any other explanation?

**Vivek S Nirmal:** On the first thing, I think other manufacturing expenses actually have grown by around 13% Y-o-Y against our revenue growth of around 9% so actually...

**Percy Panthaki:** Volume growth is much higher?

**Vivek S Nirmal:** Yes volume growth in milk particularly, if fixed cost and other variable cost go down because in the same routes and the same channels, we pump higher products, we are not expanding too



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much in terms of geographies, we are rather concentrating on Maharashtra to further growth sales volume. What was your second question?

**Percy Panthaki:** Second question Sir is the milk procurement has again grown at 4%, 5% versus the sales volume of 23%. So have you consumed or rather sold from inventory or is there some other explanation for this?

**Vivek S Nirmal:** What we do is apart from procuring milk, we also procure dairy ingredient and is a factor of where are we able to source good ingredients at economical cost. So we also keep on procuring some ingredient like butter or some milk powders which eventually are consumed in our factory. So in the last quarter, we were able to source ingredients because right now the inventory level in the country is at higher level. Overall commodity prices are low so that helped us in procuring ingredients from outside. That has basically contributed for our overall material consumed.

**Percy Panthaki:** I understood. Sir when you say ingredients I think mainly SMP and less of fat would that understanding is correct?

**Vivek S Nirmal:** That is correct; it would be concentrated milk, skimmed milk powder, butter all three things put together.

**Percy Panthaki:** Okay. That is all from me Sir. I will come back in the queue if I have further questions.

**Moderator:** Thank you Sir. We have next question from the line of Siddhant Chhabria from HDFC Securities. Please go ahead.

**Siddhant Chhabria:** Sir my first question was regarding the outlook for milk prices. So this year monsoon has been patchy particularly in Maharashtra. So while I understand we are entering the season and volumes are significantly going to be higher, but what is your outlook for this summer, is there any risk in terms of inflation coming back?

**Vivek S Nirmal:** Normally there is always a business cycle or I would say price cycle wherein summer season prices go up every year, they have gone this year and then they have pulled off and similarly we are going to see next year also and this summer prices will go. Yes monsoon has been patchy and there is definitely an impact which happens on milk production in case monsoon is patchy, we have seen that in 2015, 2014 and now in last two to three years, the rainfall has been very, very good. This year they have been less, but in coming quarters at least we do not see any impact reason being whenever there is a shortfall of monsoon or rainfall, the fodder condition immediately does not deteriorate, it takes time because people have abundant fodder arrangements made for the winter season, which go till this summer season, but in the summer season in case the earlier year had monsoon deficit that shows off in the summer season. So there



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is a possibility that in this summer season... in the coming summer season, which is particularly March, April and May, the milk production will go down and hence the prices will go up. There is a possibility however that also could largely be offset by the larger stocks which are carried right now in the country, the larger corporative sector particularly dairy cooperatives have larger stocks of milk powders and butter and so the prices are depressed. That is also actually following the international market and hence even if the production is low I think the stock will start getting consumed. So as of now we do not forecast any significant milk price rise in the quarters to come.

**Siddhant Chhabria:** So in that case, do we expect the second round of subsidy by the government to continue or we would expect this to end now?

**Vivek S Nirmal:** Cannot say anything because the first round of subsidy for three months has already over. The money has been paid to farmers and government; it is a pass-on basis. The government pays the subsidy to the farmer. There are definitely discussions about continuing the subsidy, government might change the form, the fund term and all, but right now we do not have any visibility of that.

**Siddhant Chhabria:** Okay. Thank you Sir.

**Moderator:** Thank you. We have next question from the line of Dhiraj Mistry from Emkay Global Financial Services. Please go ahead.

**Dhiraj Mistry:** Hi Sir. So my question is regarding debt has been increased in our half-yearly balance sheet and there is somewhere around Rs.120 Crores of increase in our debt. So can I know where is going to use as I am aware there is no major capex plan by the company for the next two to three years?

**Vivek S Nirmal:** At least our stocks have increased at least by around Rs. 30 Crores, Rs. 40 Crores because we are actually also expecting plus season, there has been some milk powders, which are sitting as stocks, butter or cheese stocks and second there has also been some money, which has been blocked with state government to the tune of around Rs. 15 Crores, Rs. 20 Crores wherein the receivables which is basically again the subsidy of the farmers to be paid. The modality is that we pay first and then we get it from the government. I think it is more than that so and the subsidies of the central government which we receive again for exports. So all these things put together, our working capital requirement has slightly gone up.

**Dhiraj Mistry:** Sif I am specifically asking about borrowing, which has gone up not to working capital, so is that...?

**Vivek S Nirmal:** Our working capital borrowing itself has gone up not the long-term.



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- Dhiraj Mistry:** Okay, so do we expect this borrowing to come down by the year end?
- Vivek S Nirmal:** This would continue I think at least for this quarter as plus season remains and as we liquidate further inventories and all maybe at Q4 we could see this coming down.
- Dheeraj Mistry:** Okay and second question is regarding the tax rate, what is the blended tax rate we expect for FY2019 and FY2020?
- Vivek S Nirmal:** We have the full tax rate right now, which is applicable to us.
- Dheeraj Mistry:** That would be 33%, 34%?
- Vivek S Nirmal:** Yes.
- Dheeraj Mistry:** Okay. Thank you. That is it from me.
- Moderator:** Thank you. We have next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Hi Sir. Just wanted to understand the experience of yours in terms of keeping this subsidy from state government the cycle of the subsidy?
- Vivek S Nirmal:** Experience normally it is around two to three months of cycle so we have not got the August subsidy still now, which is around in sometime in October and November. So typically it is around 2.5 to 3 months of lag which the government has indicated and that lag we are getting it regularly.
- Nitin Gosar:** You have already received first trench of subsidy, so August is expected?
- Vivek S Nirmal:** Yes.
- Nitin Gosar:** Procurement has already started receiving payment?
- Vivek S Nirmal:** Yes.
- Nitin Gosar:** What is your payment cycle to the farmers?
- Vivek S Nirmal:** It is around every 10 days in certain areas and 15 days in certain areas.
- Nitin Gosar:** Okay so procurement which is done in first 10 days get paid on the 20<sup>th</sup> day, is that the way?



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- Vivek S Nirmal:** Yes.
- Nitin Gosar:** Right Sir. Thank you.
- Moderator:** Thank you Sir. We have next question from the line of Sriram Rajaram from Sundaram Mutual Funds. Please go ahead.
- Sriram Rajaram:** Sir there has been an increase in bank balances to the tune of Rs. 120 Crores and correspondingly as mentioned by the other participant, borrowings have gone up the short-term. So where we I mean are, are we accumulating cash for some purpose or just make us understand?
- Vivek S Nirmal:** These are the normal cash normally at the end of the quarter, at the end of the year we accelerator our debtors recovery and all and in case some sales happen for some profits come in at end of the quarter plus we also normally give advances to our milk suppliers. This is typically now this is season; we accumulate some cash particularly for giving advances for milk supplier growth for which typically a routine practice at start of every plus season.
- Sriram Rajaram:** Fine Sir and your other current asset are at Rs.110 Crores for the half year, any particular reason from Rs.40 Crores current asset? What is the increase Sir if I can understand?
- Vivek S Nirmal:** Other current assets basically are the receivables. These receivables are in the form of our loan and advances given to our farmers for the various issues like cattle field or cattle purchases and all and also our receivables from state government and all.
- Sriram Rajaram:** Fine Sir. Thank you Sir.
- Moderator:** Thank you. We have next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.
- Rahul Ranade:** Hi Sir just a bookkeeping question to start with, for the last two to three quarters actually standalone revenue higher than the consolidated revenue so why is that happening?
- Vivek S Nirmal:** Standalone revenues?
- Rahul Ranade:** Actually higher than the consolidated revenues that you report?
- Vivek S Nirmal:** Our CFO today actually is not on the call for some personal emergencies so we will have to get back to you on this particular question.



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**Rahul Ranade:** Okay it just started happening last two to three quarters I do not know why and another question, I just wanted to get a sense of how our market shares are moving within the Maharashtra, if you can give us a sense? How market shares in Maharashtra moving for us are say over the last one or two years since we are growing quite significantly?

**Vivek S Nirmal:** Our Maharashtra market share has been continuously increasing and liquid milk particularly, we are pretty large player in Maharashtra, and we will see the numbers particularly are not very reliable. These numbers of milk are not tracked by larger agencies, but as we have our industry intelligence for milk in the private sector, we are the largest player in Maharashtra right now, in private sector obviously cooperatives are much bigger than which are like Amul or Gokul, or Warna, which are there in various regions. Then in Dahi we are number two player in Maharashtra, Amul is the largest we are bigger than other players like Mother Dairy and all in Maharashtra. In ghee we are almost number four. We are not very big in terms of ghee, but overall the share is continuously increasing. Coming back to your first question actually what happens is we have our two companies, which is Prabhat Dairy and Sunfresh Agro and whereas the milk which is procurement business is happening in Prabhat Dairy which helps the Sunfresh Agro and since last two to three quarters, certain products Prabhat branded products are again sold back to Prabhat Dairy and then further sold and hence the revenues are larger but the transactions of milk purchase and milk sales happen, but eventually when the consolidation happen that gets knocked off and hence the consolidated revenue is lesser than the total revenue.

**Rahul Ranade:** Okay because of internal kind of stocking.

**Vivek S Nirmal:** Yes.

**Rahul Ranade:** Got it. Thank you.

**Moderator:** Thank you Sir. We have the next question from the line of Sameer Gupta from IIFL. Please go ahead.

**Percy Panthaki:** Hi Sir Percy once again. Basically just wanted to understand this government subsidiary of Rs.5 on procurement of milk, which is then converted into value-added products, how is the implementation and execution of that scheme going Sir. Specifically how long does it take for you to claim that Rs.5 back and what impact does this have on procurement prices in the regions you operate because players who are predominantly sort of into liquid milk and all the big cooperatives would have very liquid milk component. They would not be able to claim this Rs.5 from the government and therefore they would not be able to pay it out of their pocket either because they do not have that kind of margins, so has the procurement price actually increased by Rs. 5 or only by Rs. 2 or Rs. 1 I mean just some flavor on that as well as the implementation in the execution of the scheme?



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**Vivek S Nirmal:** First of all on the execution we get it after the period of around 2-1/2 to 3 months, so August money we have got in October and November and so we are expecting this September money in the next month and so the October money we are expecting in sometime in December and January. So that is going on a regular basis. Earlier they had some teething issues of data and all but now at government level those are resolved. Number two on the pricing impact when the scheme got implemented, prices are actually falling down and prices of the players who are engaged in product business or falling down because of the pressure on commodity prices, but that was not the case for pouch milk. For pouch milk, the sales prices were fine enough actually by Rs.24, Rs.25. Even when the subsidy started the pouch milk players for cooperatives continued paying Rs.24, Rs.25 and then the other players which were engaged into product manufacturing, they continued paying around Rs.20 and Rs.5 was added by the government so it really did not impact really the table or the prices like really did not see Rs.5 increase for the cooperative. For the private sector where we are paying out on Rs.20 so with the impact will remain that Rs.20, but the payment of farmer became Rs.25, but those farmers particularly started getting Rs. 4 to Rs.5 extra.

**Percy Panthaki:** Sir did not understand this because if I understand it correctly value-added products would typically have a higher margin than pouch milk so why it that the procurement price for value-added products is was lower than for pouch milk?

**Vivek S Nirmal:** No, see pouch milk first of all is not a very big business for Maharashtra, products are higher, and the powder, the butter and all and they have also an impact of the prices which are trending in the country or internationally because India also exports a lot of the products. Obviously that has a reverse impact on the milk purchase prices.

**Percy Panthaki:** I see. I understood and what about players who would have portfolio of products like they would be selling pouch milk as well as selling some value-added products etc., etc. So if they have portfolio of products obviously they would be I mean paying a particular procurement price, which would be just one price right, it would not be different depending on which product is finally going to be manufactured because it is a common procurement for them?

**Vivek S Nirmal:** They have been paying uniform procurement price to the milk suppliers, but they have been able to claim the subsidiary only for the products they have manufactured not for the milk they have sold so only that much portion had been eligible for the subsidy.

**Percy Panthaki:** Correct and are they geographies different for procurement as far as value added and milk are concerned, the reason why I am asking is when you said that predominantly value-added player is paying Rs.20 and predominantly pouch player is paying Rs.25 and if they are procuring in the same region then no one will be supplying to the value-added player because obviously the



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farmer I am getting Rs.5 higher here so is it like that the procurement regions are only very different for the different purposes of which the milk is put to?

**Vivek S Nirmal:** That is not the case. It is a common region in which people operate and since everybody paid around Rs.25, there was no reason for people to shift here or there.

**Percy Panthaki:** Correct but Rs.25 commonality was achieved after Rs.5 subsidy started before that you are saying it was Rs.20 for one set of procurers and Rs.25 for another set of procurer, so I am just wondering why the farmer....?

**Vivek S Nirmal:** No what happens if there is a surplus situation in the market even the pouch milk players are cooperatives do not pay Rs.25, because the milk is surplus so they had to bring down their milk procurement price.

**Percy Panthaki:** I understood. So basically the implementation of this scheme has probably hit the profitability of the pouch milk players?

**Vivek S Nirmal:** Yes in certain way because they had to actually increase their procurement price.

**Percy Panthaki:** But now the procurement price including the subsidy has stabilized that around Rs.25 in all parts of Maharashtra?

**Vivek S Nirmal:** Yes.

**Percy Panthaki:** Okay that is it Sir. Thanks and all the best from me.

**Moderator:** Thank you. We have next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

**Aniruddha Joshi:** Yes. Sir just one thing can you more about the new retail initiatives that the goodness stores that you are rolling out so what is the progress on that front? How do we see the retail stores panning out in rest of the year end FY2020 also?

**Vivek S Nirmal:** On the goodness basically on the retailing front we have two models one is the Prabhat Goodness Zone, second is Prabhat Express, Prabhat Goodness Zone is slightly larger format, which is retailing cum distribution hub, which caters to at least 50 to 60 outlets nearby and also retails to product and located in slightly residential area whereas Express is slightly smaller outlet and which is actually located in very highly commercial areas where the footfalls are very, very high. So these are the two formats on which we operate, right now we have more around 25 of them already operational. Now the speed is increased wherein every quarter we are adding more



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number of stores. Now here it is not only on we are just not opening the stores, we are focusing on the margins of the channel partner and more than that we are actually getting connected to the consumers directly. Technology has always been a very stronghold at Prabhat which we have already seen and milk procurement also where we have advantage of getting connected directly with more than 1 lakh farmers, similarly what we are doing is, we are registering all the consumers are at every Goodness Zone in our system. We are starting initiating of providing them loyalty cards and all and providing them various offers that if they buy regularly from the Goodness Zone, they get certain off on the products or they get certain products free at the end of the month and all and this is very new to smaller towns. There is no system or there is no experienced consumer have like this and smaller town. So that has actually started building up the loyal consumer. We also operate certain days like you see in the modern trades wherein we have a big day or we have an off day or the first-half every month is a special day where you have special discounts. So these are the kind of days we operate. We advertise those day particularly in that town with small auto rickshaws or handbills and leaflets and we ensure that new consumers are attracted to the outlet on the particular day. So lot of novelty factors we are bringing in that is working out very well and hence we have experienced that that is not working well in last cities, but working well in smaller towns. So that is the whole principle and that is how this number is growing. End of this year we are hopeful of achieving our number of around 100 Goodness Zone and Express put together.

**Aniruddha Joshi:** Both put together 100 you mean?

**Vivek S Nirmal:** Yes.

**Aniruddha Joshi:** Okay and in this means what is that trade margin that we offered and how it is different from the general trade and also what are the investments?

**Vivek S Nirmal:** There is no different trade margins whatever the retailer gets, it is the same retail margin what the Prabhat Express outlet gets, but the only thing is that the promotion or the special scheme what we operate or the special days what we operate is a completely cost which is borne by the company and as far as the Goodness Zone goes it is retail margin plus distribution margin because Goodness Zone is not only retailer, but also distributor for that particular area or particular town, we will get the retail margin plus distribution margin. It is different in case of different product in terms for percentage, but this is a principle.

**Aniruddha Joshi:** Okay and the other costly grant or salary of some of the sales people that is paid by company or it is paid by the..?

**Vivek S Nirmal:** No it is not paid by the company, it is paid by the partner, but we are now developing return models who work in cities wherein we might have to pay some rent or some salary for first three



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months or six months but that is under pilot that could be separate version in the retail stores itself. Right now we do not have full clarity. We will need three to four months after the pilot results are out. We will be able to device the model for it.

**Aniruddha Joshi:** Okay. Thanks.

**Moderator:** Thank you Sir. We have next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Sir just checking on the volume growth side you mentioned that the milk procurement growth rate was 4% and the B2C volume growth rate was 23% and it is 30% in the total business. So that would have grown 6% or some part of your business would have declined in volume because I do not see any draw down in your inventory. Could you give some color which part of your business has actually decline in volumes?

**Vivek S Nirmal:** As I mentioned earlier that powder business particularly, we have seen some reduction in powder business and that is where our powder inventory have also gone up but against that this other business of cheese and paneer and all has gone up.

**Pritesh Chheda:** That cheese... B2C will be part of this B2C 30% of the business right, what would be your total institutional volume growth rate?

**Vivek S Nirmal:** Remaining. The 70% is remaining.

**Pritesh Chheda:** That should have grown or declined at what rate?

**Vivek S Nirmal:** That is more or less stable right now.

**Pritesh Chheda:** 70% of your business is stable, 30% of your business has grown 23% and total milk procurement total is 4%?

**Vivek S Nirmal:** Yes.

**Pritesh Chheda:** Okay. Thank you.

**Moderator:** Thank you Sir. We have next question from the line of Siddhant Chhabria from HDFC Securities. Please go ahead.

**Siddhant Chhabria:** I just wanted to just follow-up on this question regarding B2B and B2C, what is the value and volume for both the segments?



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- Vivek S Nirmal:** Sir we do not disclose value and volume for particular segment again product wise, but as I said the volume growth on this particular segment in the consumer business, we have seen around 22%, 23% volume growth and B2B business, there is no volume growth, it is more or less stable. Certain powder business has come down, but it is more or less stable in terms of the overall business.
- Siddhant Chhabria:** Okay and company level, volume will be 26 right?
- Vivek S Nirmal:** Company level volume sorry?
- Siddhant Chhabria:** Company level volume growth is 26 and B2C is 23 so...
- Vivek S Nirmal:** 23% is the company level volume growth.
- Siddhant Chhabria:** Okay Sir. Thank you.
- Moderator:** Thank you Sir. We have next question from the line of Pratik Kothari from Unique Investment. Please go ahead.
- Pratik Kothari:** Sir just wanted me to reconfirm this in 2% to 3% is this for B2C segment or for the company as a whole?
- Vivek S Nirmal:** Which one, 23% is for the company...?
- Pratik Kothari:** 23% volume, for the B2C segment, what would be the revenue growth for the B2C segment?
- Vivek S Nirmal:** Revenue growth as I mentioned earlier, we do not really to give details split because we do not maintain detailed separate books of account if we give detailed separate always...
- Pratik Kothari:** I think on Q1 presentation you have given this.
- Vivek S Nirmal:** Sorry, please repeat.
- Pratik Kothari:** In Q1 presentation you had given the split. In B2C you had mentioned what is the volume growth and what was the revenue growth in Q1 presentation?
- Vivek S Nirmal:** But, if we have to mention it separately, we need to maintain separate books of account which we do not do. Hence we are now giving a detailed breakup.



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**Pratik Kothari:** Okay and Sir if you can throw some light on our target I mean six quarters to go and we want to reach 50% of our revenue share coming from B2C and we are currently at 30% so can you just throw some light how are we going to achieve this in the next six quarters?

**Vivek S Nirmal:** What is happening is, our retail focus particularly in Maharashtra is growing, our Goodness Zone and Express are growing and it is not only limited to the retail franchisee model. We are also opening up new areas like we have opened to new milk packing stations. Now this was completely virgin area for us in terms of distributing our product only long shelf life products like ghee were been distributed in the regions of Vidarbha or Western Maharashtra, we did not have our at present. With the new milk packing stations, we have our presence now and we are building up new distribution network for milk eventually Dahi, Lassi, paneer and all also will go across the same network and the Goodness Zones also have started coming up in those areas. In Vidarbha, they have started coming. In Western Maharashtra they have started coming and out of the 25, we have opened in this area also so this is going to be combination of the new geographies we are entered in number one. Number two the retail franchisee expansion wherein again we cannot say that it is not only in the current geography, but lot of new towns are getting opened and density of business wherein we have lower density in the current town and Goodness Zones, the density is going up that is number two. Number three obviously again if you see in the larger cities like Mumbai where we have large distribution network of our products like Dahi, we are adding up new products to the basket. Recently we have got in the new packaging of Panneer; we have recently developed butter 100gms and 500gms. So new products line being introduced in the same channel or same pipeline, these three are the main drivers, because we are again our some model trade obviously we are... in modern trade, our sales are also expanding. That is also one of the factor but we are confined to Maharashtra for our consumer business. For HORECA obviously we are all India. That is another segment wherein we have common distribution network of consumer business in HORECA, but these are three to four levels which we are working on to grow our consumer goals.

**Pratik Kothari:** Okay B2C business in this quarter given the (inaudible) 37:52 reduced our prices for products like curd, ghee, cheese?

**Vivek S Nirmal:** Yes for ghee, we have reduced MRP, for milk we have reduced MRP for certain time. Largely we actually operated trade discounts, trade scheme for the sales, but in ghee, we have reduced the MRP. For Dahi and all it is to the same level where it is.

**Pratik Kothari:** Okay thanks this is my last question where in general retails (inaudible) 38:18 can we give any number for that? Where are we on our general retail outlet?



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**Vivek S Nirmal:** General trade if you see Maharashtra we are around 50000 outlets now. In Maharashtra we are servicing around 50000 outlets in terms of general trade.

**Pratik Kothari:** Okay and pan India?

**Vivek S Nirmal:** Pan India, the reach would be more than around 80000 to 90000 outlets. We have consolidated our presence from the states in which we did not get great response for our products like Ghee and all before largely areas of East, Northeast, which also lower consumption market for Ghee, but we have continued to grow our presence for Ghee in northern states. So it is around 80000 to 90000, but the density if we see for the Maharashtra outlet is pretty high than the density of sales in the outlets, which are outside Maharashtra.

**Pratik Kothari:** I believe 80000 to 90000 numbers was 1 lakh at the end of FY2017 right?

**Vivek S Nirmal:** Exactly so we have consolidated and hence the certain areas where we already were operating for Ghee and where we did not get enough traction we have withdrawn from those areas, which is largely East and northeast and areas where we got success, we further increased our presence in those areas.

**Pratik Kothari:** Okay and we are confident taking this to 2 lakh maybe end of next year?

**Vivek S Nirmal:** Yes largely growth will again come from Maharashtra.

**Pratik Kothari:** Okay. Thank you Sir and all the best.

**Moderator:** Thank you. We have next question from the line of Nidhi Agrawal from Angel Broking. Please go ahead.

**Nidhi Agrawal:** I want to understand the business breakup in terms of how much is Maharashtra and non-Maharashtra sales?

**Vivek S Nirmal:** In terms of B2B largely it is outside Maharashtra because our clients are located all over India, we have most of them have factories in all parts of India, which are large confectionary guys in food or bakery guys. So it is Maharashtra, but most of the sales are also out of Maharashtra. For the consumer business our 70% sales come from Maharashtra and only 30% comes from out of Maharashtra.

**Nidhi Agrawal:** Okay and two years back how was this number looking?



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**Vivek S Nirmal:** Two years back in terms of consumer business is 45% to 50% only in Maharashtra and base was also pretty low or the overall sale was also pretty low but as we have seen Maharashtra sales have grown pretty rapidly and plus in the out of Maharashtra, we have withdrawn from certain areas so Maharashtra share is around 70% now. In terms of B2B it was more or less the same.

**Nidhi Agrawal:** Okay and how you see in next two years?

**Vivek S Nirmal:** In next two years if you see our target is Rs.1000 Crores of consumer business, we will expect at least Rs.700 Crores, 70% which is around at similar level or maybe slightly more than that to come from Maharashtra because our presence or the entire strategy is to become the largest player in Maharashtra.

**Nidhi Agrawal:** How big is the market in Maharashtra, how big it can grow?

**Vivek S Nirmal:** As I said earlier, there are no numbers released from agency, which have been tracked but if you see the trend, they are lot of small towns in which the market for pouch milk is growing rapidly and the number which is present at right now is not really which we are chasing, we are chasing consumer for shifting from buying loose milk to pouch milk. That opportunity is bigger in small towns where the cost of advertisement is lower and you can directly reach the consumer, you can engage with them through other milk products and all as well. So if you see overall markets size is pretty big, the 55% of the market on an average is unorganized but in rural areas, the number can go as high 70%, 80% as well. So liquid milk becoming largest contributor of our overall consumer business will bring in the major revenue and then that followed by other products, which we call us value-added products like Lassi, Cheese and pannier and all. We plan to build our overall sales of around Rs.700 Crores in Maharashtra.

**Nidhi Agrawal:** How do you see the competitive intensity, now we have Pathanjali, we have ITC, Britannia is also getting into pouch milk and also in value added product?

**Vivek S Nirmal:** Yes ITC and all has launched I think in East India or North, they do not have any presence here in Maharashtra. We are very, very specifically focusing on Maharashtra, I think Britannia also do not know the plan they have definitely declared the entry into dairy segment but it is not yet clear whether they are going get into the liquid milk segment or no Patanjali as yes, Pantajani has entered very recently with their special cow milk, but again I think liquid milk is different business, liquid milk unit to be first of all near to all the main cities but today we have five operations in Maharashtra for liquid milk. We have Shrirampur operation, we have Bombay operation, we have our operation in Latur, we have our operation in Solapur, and we have our operation in Amravati. This is the way we spread out milk packaging station network and each shares if you see radius of at least 150 to 200 kilometers sort of each packaging station, there is enough of opportunity. So first of all we have spread out. I think no other private player in



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Maharashtra as such a large network of packaging stations, we are the only one. That gives us a lot of leverage and second is our milk procurement is direct. So whatever milk procurement happens in those regions, the raw milk is directly send to those packaging station. So the fresh milk reaches the consumer very fast, which is again unique system in our case. I think with these things we are pretty confident of gaining customer acceptance and growing the business.

**Nidhi Agrawal:** Okay and lastly how are the exports this quarter?

**Vivek S Nirmal:** Exports this quarter, I have started actually this quarter particular in the quarter, which we are setting and we will see good exports. Last quarter the exports were in the range of around Rs. 3 Crores for the entire quarter, this quarter will be seeing at least Rs. 10 Crores of exports because we have been into exports markets since last two to three years, but it grows very gradually. Consumers who consumed there see the entire performance of the year throughout the season supply surety, quality and all. I think now is when we have really started getting the traction and particularly right now Indian milk prices also are low, which gives a parity for exports combined with some government incentives for export of it... central government. So I think for next couple of quarters we will continue seeing good export business.

**Nidhi Agrawal:** And where we are exporting?

**Vivek S Nirmal:** We are exporting in GCC countries right now and particularly again if you see in Africa, we are exporting to Egypt, and we also are exporting some small quantities to markets like Morocco, markets like Malaysia. These are the primary markets we are focusing on right now.

**Nidhi Agrawal:** Thanks for your taking my question and all the very best for the future.

**Moderator:** Thank you. We have next question from the line of Shradha Sheth from Edelweiss. Please go ahead.

**Shradha Sheth:** Vivek, I just wanted to get color on the balance sheet, how do we see that stabilizing, it is almost about Rs.180 Crores, Rs.185 Crores of debt so as on March how do we see that?

**Vivek S Nirmal:** We will see it at current levels because we are not raising whatever working capital requirements are there those are short-term borrowings are there, the long-term debt is right now pretty less to the tune of some Rs. 30, Rs. 40 Crores so we see it at current levels in days to come.

**Shradha Sheth:** We expected to be as the current levels, which is around Rs.180 Crores, Rs.185 Crores?

**Vivek S Nirmal:** Yes.



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**Shradha Sheth:** Alright thank you. Vikram any more questions?

**Moderator:** Madam we do not have any further questions in the queue.

**Shradha Sheth:** I think we have just one last question.

**Moderator:** Sure we have one question from the line of Abhishek Suryawanshi from ICRA. Please go ahead.

**Abhishek Suryawanshi:** Hi I just wanted to ask I mean our procurement right now our SMP prices are basically dependent, or has a large impact of that global SMP prices so how do we see that trend going forward?

**Vivek S Nirmal:** Global SMP prices are pretty low right now. They are in the range of around \$2000 per ton and they have been at this level largely so I think it is bottom. As far as the global demand is concerned because it has impacted on SMP prices and milk production as well. Right now at least for a shorter term, we do not see any change. In the longer term, they are factors which might impact because in the European certain regions now there are drought-like conditions, which could impact the milk production in Europe. There are drought-like conditions in China is well and hence the local production would go down and their imports would increase. Same about Australia. On the other side New Zealand season of milk has been very good this year and hence their production are increasing. It is very difficult to see how the next will pan out because these are the factors which generally impact the global skimmed milk powder prices. So we see them at the current level where they are for at least next four to six months and hence the powders will not really move out of India largely and again the powder prices will also remain at the levels where they are for now, but if the drought-like situations in Maharashtra and other part of the country continue, the milk production in next summer season might go down and which might be the source of respite, so the inventory sitting in the country because the inventories will get consumed off.

**Abhishek Suryawanshi:** Do you see any government interventions going ahead?

**Vivek S Nirmal:** Government intervention is already there like they have provided subsidiary to certain state government for exporting of powder then central government has MEIS scheme where they had 10% incentives, which they have eventually increased to 20% for exports and all. So government interventions have been good. These are not very large, but they are good as a boosters particularly to make this stock move out of the country.

**Abhishek Suryawanshi:** Okay. Fair enough. Thank you.



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**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Over to you Sir!

**Vivek Nirmal:** Thank you very much everyone now for attending this call. I think as we draw from our strength of the integrated degree business model, we see a lot of opportunities in years to come particularly for dairy business, we also see it evolving, we see the FMCG players getting into dairy with different segment like beverages and all, we see some players getting into the backend and trying their hands on milk procurement and all. This further actually emphasizes our focus on having a most robust milk procurement network for which today we are known across the country. We will continue to focus on that and we will continue to focus on our consumer business following our vision 2020. We are pretty hopeful of the export business and we are also hopeful that if overall the rainfall balances in the country, the milk price will again stabilize in the quarters to come. With this I again thank everyone for the participation in the call. See you next time. Thank you.

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