

KWALITY LIMITED

“Kwality Limited Q4 FY-16 Results Conference Call”

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MODERATORS: **MR. MANISH PODDAR - RESEARCH ANALYST,**
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Moderator: Ladies and gentlemen, good day and welcome to Kwality Limited Q4 FY16 Results Conference Call hosted by Religare Capital Markets 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Poddar from Religare Capital Markets. Thank you and over to you, sir.

Manish Poddar: Welcome to Kwality Limited Q4 FY16 Earnings conference call hosted by Religare Capital Markets. We have with us from the management Mr. Sidhant Gupta, Director; Mr. Sunit Shangle, CFO and Mr. Nawal Sharma, President, Business Transformation. Thank you and over to you, sir.

Nawal Sharma: This is Nawal here. Yeah, so first of all just we would like to share it has been a very good year for us. Sometime back we had taken a conscious business decision to change the business model from B2B to B2C and there have been considerable developments on that in line. With this B2C strategy we had worked out our complete organization reengineering plan. So we have the work is on all the fronts whether we are talking about brands, we are talking about product, we are talking about sales and distribution, we have been focusing on sourcing of milk, we have been reengineering our quality frameworks.

Then it is a complete reengineering of our IT framework and then within the heart there is a people track focusing on complete redesigning the culture of the organization and in line with this massive business transformation program under B2C strategy we have started getting very good results which are very obvious from current year's numbers where we have seen growth trajectory on whether it is topline or whether it is bottomline and over the next 12 to 18 months' time we see a roll out of high margin value added products in the categories of cheese, butter, flavored milk in Tetra Pak and these are bound to have huge impact on our bottomline.

So with the business transformation as an execution framework we are all set to execute our B2C strategy as a strategic shift over the next four to five years' time. If you see currently the mix is around 70:30 in favor of B2B but over the next few years' time we want to really reverse these ratios in favor of B2C. So that is on a high level what have been the vision what is the strategic game plan and how we intent to execute this strategy through a very comprehensive business transformation program which is touching all the aspects of dimensions of the organization and specifically in the areas of brand there have been considerable development.

When we talk about our strategy levers we have roped in Akshay Kumar as the brand ambassador and we have hired external consultants to help us basically in sales and distribution redesign on IT front we have engaged EY, Ernst & Young as our IT transformation partner who are helping us in terms of complete change in IT framework from B2B to B2C.

So these are a few highlights which are helping us in terms of having an impact on our numbers. So that is broadly about the vision for the next three to four years' time.

Now we can get into questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question first on the strategic choice before the company for expanding capacity versus improving profitability of existing business to the market benchmark level. So since I read that you are expanding again with a CAPEX of Rs. 500 crores in capacity, so I mean the first aspect of strategy should be improving the profitability of current business because we have large top line when I compare the listed players in the dairy business the profitability what we have is the lowest. So what is your thought at the management level in terms of improving profitability versus expanding capacity to building up more top line?

Management: You see when you talk about profitability, now profitability of the numbers is nothing but an outcome of your business model right. And second I mentioned it is very difficult to compare two organizations for the simple reasons, one we have got different product portfolio, number 2, they are in different stages of growth so far as the corporate life cycle is concerned. Now talking about our numbers, as you said why the profitability is low. If you see with the current mix it is 70:30 in favor of B2B this is a reasonably good profitability. So currently we are slightly upwards of 6% around 6.6% or so, right and the game plan is to improve the profitability over the next years' time.

Now what is the strategy, strategy is very clear. Introduce high margin value added products and change the product mix which is currently 70:30 you change the mix in the reverse direction over the next few years and that is how you will be able to improve your bottom line. And once the mix changes all the financial ratios will automatically change as a result of change in the business model. So, that is what will be the strategy for the next few years time and how we stand vis-à-vis other organizations.

Manish Ostwal: Okay, and secondly sir of our current total consolidated topline what is the Dubai contribution, what is the value added contribution or what is the commoditized product contribution?

Management: If you look at my standalone the total sales is around Rs. 5,730 crores. And out of this if we look we do almost 53% of this would be liquid milk both branded and institutionalized milk we would be 88%, powder will be 15%, curd would be around 8%, evaporated would be around 11% and skimmed milk would be around 3% and balance would be other small products. And in consolidated we have done a turnover of around Rs. 690 crores from our export business from our ancillary unit.

Manish Ostwal: Okay and what is the current advertisement spend as a percentage of revenue?

Management: We hardly do any ad spends though there are marketing expenses involved in the form of schemes, etc., but as far as ad spends are there are hardly any expenses on that.

Manish Ostwal: Because in your corporate presentation we have indicated that we are expanding marketing and branding in a big way so this percentage should go up directionally so what is the current percentage and what level this number should settle down?

Management: You see for this you have to understand the dairy industry the market construct. So it is a situation where against Rs. 6 lakh crores marketable value only 20% is organized sector. It is the situation of cut throat competition or grading price war rather there is enough room for ten very big companies to get into this they can slip or flourish. Now that being the industry background do not need to invest very heavily on the advertisement at least for the next five to ten years' time.

But we are getting in a big way into B2C so definitely there will be some spend on advertisement just to create a lot of hungama in the market and just to create a visibility that is the reason we roped in Akshay Kumar as brand ambassador. Now if I have to just quote some numbers so maybe Rs. 25 crores tentatively would be the amount for the current year and this will give us a fairly good visibility into the marketplace and balance there is a huge dependency on sales and distribution and industry itself will ensure that we are able to achieve our business targets over the next few years.

Manish Ostwal: Alright okay and last question is what is your milk procurement cost on an average for the full year and secondly what are our key markets in terms of sales domestic side?

Management: Can you come again with the second part?

Manish Ostwal: Key markets in terms of geography of states which are our key markets?

Management: As far as average milk price would be concerned it is around Rs. 34, Rs. 34.5 for FY16. The market if we talk about for procurement it would be Haryana, UP and Rajasthan and as far as sales are concerned we cover Punjab, Haryana, UP, Rajasthan, Delhi, NCR area.

Moderator: Thank you. The next question is from the line of Satish Bhatt from Advil Stock Broking. Please go ahead

Satish Bhatt: Sir, this question is specifically directed to Mr. Sidhant Gupta. Sir, basically regarding our new plant and the value added strategy what will be the peak revenue of the new plant vis-à-vis of 7.5 lakhs to 8 lakhs liters per day of capacity, what could be the peak turnover?

Sidhant Gupta: I think these are all kind of certain classified information but then if you look at the capacities that we will be able to do so we will be able to handle almost 9.5 lakh liters of milk per day and all this milk is going to be used for value added products. So if you kind of tentatively look at the realization so currently if we say that we will be doing only value added products. I think we should be realizing almost around Rs. 65 a liter from that.

Satish Bhatt: So will that turn out to be a Rs. 2, 500 crores turnover around?

Sidhant Gupta: So value matched out to that figure only.

Satish Bhatt: Okay and will it be fair to assume that the margins on a blended basis can be in the region of 20%?

Management: So I think some of the products if you look at from our portfolio also the current products that we are doing since some of the products definitely the margins are slightly above of that. But then since I think the earlier gentleman also asked but if you look at the revenues of our company I think we are the largest and then if you have to manage so much milk then obviously you have to create an absolute clear and good mix of the products that you can do. And that was the reason why we are doing institutional products also and the value added products also. But as Naval Ji said we are going forward the focus is only on the value added products and I think I can agree with you on this that the value added products the margins are kind of some of the products definitely are above 20% definitely.

Nawal Sharma: And just to give you another example to help you understand, let us say we sell double toned milk say around Rs. 28 a liter but if the same double toned milk you process as flavored milk you are able to sell it at Rs. 125 a liter. Now you can really estimate the kind of impact these high margin value added products can bring to your kitty. As in terms of conceptual understanding there are three layers, first is the commodity layer which is our low margin layer, above that there is a fresh product layer which includes products like fresh milk, curd, chaas, and above that the top most the creamy layer is the value added product layer where we will be getting into from next quarter onwards these series of some 8-10 variants which have been lined up. So this mix will definitely change the overall profitability.

Sidhant Gupta: And I think on this platform I would again like to request everyone that in phases people should visit our plant and spend some more time with us because then that will give them a clear understanding as to how this industry works. We will take them to the entity, to the village level, show them how this industry works what is critical that we have created. So it is not only in isolation that we have created anything we have created a very robust procurement system covering almost 4,500 villages almost 3 lakh farmers who are giving milk to us directly then having one of the best facilities spread across the three states. We have four plants in UP which is the number one state in terms of milk production then one plant in Haryana which is also on the border of UP which is the main plant Ballabgarh and then we have one plant in Ajmer.

And then you see the milk clinic enters that we have created once you see on ground then you will be able to appreciate the kind of work that we have done and nobody else in India I should say in private sector has done that kind of work that we have done on ground and that gives us the confidence that going forward we can really turn around the business into the 30:70 retail and institutional that we are doing and we are saying like four to five years we will be able to

turn it around and say that 75% of the revenue should be coming in from retail sales and 25% coming in from institutional sales.

We are very confident of achieving those numbers and the profitability as Nawal Ji has said that profitability is only a function of the product mix that you have and a function of the kind of things that you are doing. So if you are doing these things correctly if you have the procurement in place, if you have production capabilities to ensure market and anyway we all agree that market is huge and the market gives you a premium for that. So we are very hopeful that we will be able to achieve all the numbers that we are trying to talk of.

Moderator: Thank you. The next question is from the line of Ritesh Vohra from Incedo. Please go ahead.

Ritesh Vohra: Sir, what is our procurement model how do we procure the milk?

Management: Okay so sir there are two methods of procuring milk from the farmers. One is directly through the farmers which we call the milk filling center or the VLC model village level collection. On that model how it works that within a radius of 25 to 50 kilometers you open up milk filling centers and then they are linked to almost 200 odd villages. So you create routes where your waiters would go up and pick up the milk from four or five villages then it is milk is checked at the VLC level which is the village level collection center VLCC then once that milk comes into the entity it is again checked and then once it is there in NCC it is consolidated and through insulated tankers it comes to your plant.

The other method in North India which is prevalent is through the aggregator or the contractors. Now based on the quantity that they handle, we classify them as to contractor of A category, B category of petty contractor. So contractor is basically the milk is collected from the farmers but then the contractors or the aggregator they would collect all milk and then they would be the ones who would be selling it to the different plants and they would also be selling it to the unorganized sector. So the drawback in the contractor milk is that it is not the best quality milk, though it is coming from the same sources, but unfortunately the way they chill that milk is not the most appropriate method. And then also milking happens twice a day, morning and evening. So the NCC model when we talk of, then it is always two time collection.

So the morning milk which is happened you have to process that in say next in part time you have chilled it and then you have brought it to your plant. Whereas the contractor what contractor does is he will collect the morning milk he will collect the evening milk consolidate that and then he will sell it to the plants. So the problem with that milk is then milk is highly perishable the microbiological count goes up and that is why the quality deteriorates.

So that kind of milk can be used only for certain products. so that is the difference between contractor milk but otherwise contractor milk is all coming from the same sources. Now there is a lot of hype where sometimes you see before the festival that comes in that a milk has been made from urea in our plants we check milk for 36 tests. So in the farmer milk the 7 or 8 tests

happen at the village level, then there are almost 22 tests which happen at the NCC level and 36 tests that happen at the plant level. So there is no way any adulterated milk can come into that system.

Ritesh Vohra: Right so how much percentage of your current procurement is through contractors?

Management: It is currently almost around 20% from the milk filling center and 80% is through contractors.

Ritesh Vohra: So do you require some kind of investment, what is it required to turn this ratio around?

Management: It is a combination of few factors. The first is that you have to bring in a lot of technology into play these days. You need to give the confidence to the farmer that he is getting the right amount of money for his milk because in contractor model obviously the contractor there are five or six levels of middlemen. So they would never give the right amount of money which is due to the farmers. So what we have done we have put automatic milk collection units we call that AMCU in the village. So what does that ensure that the farmer gets the right testing for his milk.

See milk payment is always based upon the total solid content it has. Milk payment is never based on the quantity of milk. Quantity of the milk is important to find out the percentage so the percentage of total solid into the quantity gives you the amount which is to be paid to the farmer. And on an average if we are talking in North, we have buffalo milk or mostly 75% buffalo and 25% cow milk the ratio that we get is almost around 5.75% to 6% of fat and around 8.5% to 8.8% of essence which is solid know fats. It is only a combination of these two things in layman language we talk of almost 15% total solids. So the total solid consists of two parts fat and solid non-fat.

Ritesh Vohra: See my question was how do we reverse the ratio?

Management: Right there are two or three things which are required. A) you need the best manpower who have the connectivity in the village level who can talk to the farmers in their language, then you need to give them all these automatic milk collection units so that the farmer gets the confidence that he is given the fair testing and then you need to give the payment to farmers on time and then also to ensure that that milk within four hours of milking that is chilled. So these are the various factors which are needed and if you look at our in last five years from 0% to 20% of the milk that we have been to collect now in absolute terms if you see Amul does almost 90% of the milk from Gujarat, 10% only milk is collected from across the country. And which turns out to be almost 20 lakh liters in last 70 years.

If you look at our figures in last five years, we have been able to collect almost 7 to 8 lakh liters of milk from this system. So going forward we know because the areas where we are operating if we talk of Uttar Pradesh that has 18% of the milk in the country which is number 1 state in terms of milk production. Then we are operating in Rajasthan which has another

almost 14% of the milk. So between these two states we have 32% of the milk in the country so which translates into almost 14 or 15 crore liters of milk every day.

Ritesh Vohra: How much?

Management: Almost 15 crore liters of milk every day.

Ritesh Vohra: 15 crore liters?

Management: Yeah India is a country we have the largest reserves of dairy products in the world. And we are the largest consumers of dairy products in the world. We have highest milking animals in the world. So in terms of animals that we have we are number 1. So we have 30 million milking animals. So going by the statistics that I have shared with you we are very confident that there is enough milk that milk goes into the unorganized sector or that is directed to the contractor but vis-à-vis if you compare us to the contractors then obviously we have a better hedge in terms of all the things that I spoke about in terms of the technology that we are using and giving fair testing to the farmers in terms of our ability to give them payments on time and fair testing and other than that there are lot of initiatives that we have done.

So like we provide them strategies at no profit no loss basis, we provide them with veterinarian services, veterinary doctors are available, we provide them medicines at low cost, we also have various programs where we get insurances done for their health we are identifying cattle, getting their loans from the bank. So we have created a huge family of say 10 lakh people that is we call that Kwality family because for us they are the real stakeholders. And going by the historical numbers that we have been able to achieve in terms of our connect with the farmers that we have we are very pretty sure that we will be able to turn around. In fact, yesterday was the World Milk Day 1 June and at 6.30 am on DD which is the most watched channel among those our Chairman and our Managing Director had a great interview for half an hour because of the connect that we have been able to create with the farmers.

Ritesh Vohra: Right, my question is what is your strategy I mean does it require capital to infuse that is required to develop the manpower, what is your strategy to procure higher your milk?

Management: You are right it is a combination of everything you need capital, you need manpower and you need technology. And that is what we have been able to demonstrate that we have been able to do that and we are pretty confident that we will be able to take it to the levels that we are expecting it to go.

Management: We have already earmarked around Rs. 120 crores to increase this procurement out of which we have spent around Rs. 40 crores on this increasing this procurement and so it will be requiring CAPEX also.

Management: And conceptually if you have to understand there are three layers on which company is working. First is the financial layer where investments are being made, second is the operating layer so where we are talking about all this farmer to stick in their creating programs as you

talked about artificial insemination, education on basic hygiene, insurance, loaning and other support to the farmers. And then obviously there is the people layer so where we have one of the best talent from the industry. We are hiring to ensure that we provide the right supervision so that we are able to really nurture the overall growth in the farmer milk contribution. So on these three layers we are working in a very structured manner to ensure that we are able to increase from 20% and increase the overall farmer contribution of the milk.

Ritesh Vohra: Right so let us say right now we are procuring 20%, when do you think we will be procuring say 50% by what time?

Management: Four years to five years.

Ritesh Vohra: Four to five years is it?

Management: In about 50%.

Ritesh Vohra: Right and sir my second question is our EBITDA margin is very, very low as compared to other players and cash from operation last five years, four years were negative. So what is the reason for this? Why the cash from operation is negative?

Management: So you are talking about consolidated figures or standalone figures?

Ritesh Vohra: Consolidated.

Management: Okay. Basically let me talk about EBITDA margins. Almost 70% of the sales is to institutional investors where we get an EBITDA margin of around 4.5% to 5%. So once this ratio of B2B and B2C changes or there is an increase in this so this will definitely change. So it is again a function of kinds of sales that we do. The second thing that we have to look into this is again cash flow what happens is the credit period that goes to the debtors in case of institutional sales is much higher as compared to through the retail sales. So because of this reason it is looking largely to four years time as the sales was increasing so the amount of debtors was increasing but we are very hopeful in next say one and a half to two years time we would be operationally positive.

Ritesh Vohra: Why your amount of receivables is in the tune of Rs. 350 crores what is the reason for that?

Management: See basically the receivables are purely because you are selling it to the institutions. So like millions of people consume our products indirectly every day. We are one of the largest suppliers for almost all ice cream manufacturers and biscuit manufacturers. So once we are selling it to the institution obviously institutions ask for grace period. But as and when you are able to convert that into the retail sales definitely that is all going to look better and then one will also have to appreciate that in terms of real size that we have and once we are growing then there are certain things that you have to look at.

So the profitability is a very important component, but then growth was also equally important in those formative years when we were increasing our scale. But now yes once we have achieved the scale of handling almost 3.2 million liters of milk everyday now we are pretty confident that we can take certain steps and convert from institution to retail which has better margins and quicker realizations.

Ritesh Vohra: So when do you think you will be cash positive from operations?

Management: I think cash positive operation we can be even next year. Operationally actually if you look at standalone figures we are already cash positive for the last two years. In case of as we go by consolidated figures that is a problem otherwise we are already cash positive.

Ritesh Vohra: What do you consolidated in consolidation figures?

Management: It is a 100% subsidy that we have got in Dubai which is a trading hub. So we have to consolidate that.

Ritesh Vohra: So what do you do trading sir I mean why you do trading in Dubai, what is the reason?

Management: See basically we do trading of only dairy products so what happens that Middle East as a region if you look at it so there is no liquid milk which is available. So it is dependent only on milk powder for making milk. So even if you are traveling to those areas the Tetra packs or any milk that you get almost 90% of the milk is made out of powder and Middle East as a region imports almost 800 tons of milk powder every year. So we had set up this warehouse facility and this wholly owned subsidiary in Jebel Ali which is a free trade zone and we import from the New Zealand region, the Australian region and the European areas and then sell it locally.

Ritesh Vohra: You mean to say you import the milk powder

Management: Right, and then sell it locally to those areas and then there are certain limitations from India that you cannot export right. You cannot export to China, you cannot export to Malaysia, you cannot export to parts of European Union,

Ritesh Vohra: So do you do any value added to Dubai or you just buy and sell it?

Management: It is pure trading.

Sidhant Gupta: It is a small operation of pure trading it will need seven eight people that we manage and still that has been able to give us a contribution of Rs. 24 crores, Rs. 25 crores which is good by all parameters and it is purely

Management: Rs. 25 crores.

Sidhant Gupta: Yeah and it is a purely dairy products only.

- Ritesh Vohra:** Contribution of Rs. 24 to Rs.25 crores.
- Management:** Net profit yeah.
- Ritesh Vohra:** What is your revenue amount in that trading because you will be consolidating revenue also is it not?
- Management:** Yeah so the top line of that is almost around Rs. 700 crores and we are making I think around Rs. 28 crores of profit on that.
- Ritesh Vohra:** Profit or TBT?
- Management:** No it is net profit.
- Ritesh Vohra:** Rs. 28 crore of net profit. Can you highlight what is your Capex plan over the next four five years because I see you have done a lot of Capex last three four years. So what is your next Capex plan?
- Management:** No we are already under an extension plan and we started this extension plan one, one and a half to two years back. The total Capex plan is around Rs. 520 crores out of which Rs.120 crores as I mentioned earlier was purely for increasing the procurement and balance Rs. 400 crores is for this facility for value added products that is coming up.
- Ritesh Vohra:** So Rs. 400 crores you are putting in facilities as fixed assets?
- Management:** Yeah out of this we have already spent around Rs. 240 crores from this Rs. 400 crores.
- Ritesh Vohra:** Rs. 240 crores spend Rs. 100 crore is for working capital is it?
- Management:** No out of this Rs. 520 crores we have Rs. 120 crores goes into procurement in about -five years' time, balance Rs. 400 crores is for this project against this Rs. 400 crores we have already spent around Rs. 240 crores, balance Rs. 160 crores is to be spent in next one to two years' time.
- Moderator:** Thank you. The next question is from the line of Ankit Merchant from Kambatta Securities. Please go ahead.
- Ankit Merchant:** I have only two questions to ask. First is your change in business model from institution to retail what are the challenges which you are seeing right now when you changed your business model and how do you plan to penetrate this market and what is your pricing strategy would you adapt first and second is basically your margins has depleted in the last quarter for the fourth quarter. So what were the reasons for it?
- Management:** The effort is basically what challenges are we envisaging in terms of this transition from B2B to B2C. See we have a very strong view that changing strategic gears from B2B to B2C is not

about launching few products. We have to take a holistic view and that is the reason to ensure it is a seamless execution the strategy we have conceptualized this business transformation program under which there are seven tracks within the organization which are running.

Brand is first track, then we are talking about product track where the development of value added products is under way. Third is the sales and distribution track where we have created strategic business units for synergistic product portfolio. Then there is the sourcing of milk where there is a focus on how to increase the direct sourcing from the farmer. And then there is a quality track where we have integrated the quality organization reporting to Head of the quality so as to ensure that quality becomes the strongest function within the organization and then to overcome IT challenges we really we have roped in EY, Ernst & Young as our IT transmission partner who are helping us on two fronts, one is IT for IT and second is IT for business.

Here we have completely reengineering our IT framework to enable B2C and then there is a people track where lot of initiatives are being taken. For example, recently we became India's first dairy company to issue ESOPS. Around 2 million ESOPS were issued across the board no differentiation whether you are a simple MIS assistant or you are working as a General Manager within the organization and this too gives a clear signal we really want to partner employees as a part of this Group program and that also we are hiring one of the best talent both from within the industry as well as outside the industry.

So all these three 360 degree approach is being taken to ensure that we overcome all the challenges because if you ask me what is the challenge the challenge is how you integrate the complete organization. It is not about let us say procurement it is not about sales and distribution it is about how as an organization you are able to grow holistically in terms of seamless transitioning strategy from B2B to B2C. And that gives us the confidence through the structured approach that we will be able to have a seamless transition. Second question I would request my colleague to answer in terms of this minor dip. Actually it is nothing but just an aberration.

Management:

If you look at the figures my PBT is much higher than last quarter and if you look at year-on-year basis yes there has been an increase definitely. If you look at PAT yes there has been a fall because of an additional tax provision that has to be made. But that was only because of the PAT but if you look at PBT there is a substantial growth in PBT.

Ankit Merchant:

Okay what about the margin depletions in EBITDA I mean to say EBITDA margins there was some depletions in the EBITDA margin as well?

Management:

No as far as EBITDA margin is concerned last quarter there is always because of some reduction in prices normally last quarter EBITDA as a percentage is normally down as compared to third quarter. But what we look at is a complete year figure because we have a huge seasonality in the rate, the rate moves from one quarter to another so it does not make any point looking at quarter-on-quarter growth. What we normally work on is a complete year

figure. Then if you look at the whole year figures our EBITDA has substantially increased as compared to last year.

Ankit Merchant: Agreed. Just one more question coming towards the penetration side towards B2C because there are a lot many players present in the market already. What will drive your products forward compared to them, will it be on lower pricing or what would it be?

Naval Sharma: See so far as competition is concerned as we shared with you only 20% is organized. So there is a huge growth if you see if I share with you some numbers overall market is growing at a rate of around 15% by value and if you see the organized part that is growing 19% and within that if you see the value added segment that is growing upwards of 25%. So that is the kind of growth potential which is there. So in terms of market opportunities there is no dearth of opportunities. Even when big companies can -into this space and still flourish.

And pricing part is concerned we will be competitive so far as pricing is concerned. Under price we will be offering competitive prices, good quality products and a reasonably good brand support with a clear distinct brand positioning focused on active performance. What will give help us in terms of delivering against our business objectives.

Moderator: Thank you. The next question is from the line of Chetan Cholera from Pragya Equities. Please go ahead.

Chetan Cholera: Yeah can you give more color on the announcement which you have made today regarding the brand so who is owing the brand and can you just elaborate more on brand?

Management: Yes sometimes back we had acquired certain rights post which there have been certain dispute and our case was filed against **(Inaudible) 36.15** right. Now post deliberations, post discussions with all the stakeholders because we very strongly feel that a one to one discussion and working on a very positive note will help us resolve all these problems and litigation is not the solution. So after these deliberations and discussions among all the stakeholders finally it is a very good situation for us as Graviss has withdrawn the case and it is a kind of win-win situation for all of us and we are all set to get into next orbit of growth with the launch of next series and it is a very positive development for us and so there will be lot of support on branding and we will be supporting with shall we say Akshay Kumar has already been roped in as brand Ambassador. So you will see lot of support on brand front and we will be really creating distinct brand positioning in the marketplace so far as the imagery part is concerned. That will focus on actual performance unlike the typical general goodness of milk. So you will see lot of let us say focus on youth, energy so this is the kind of space that we will be operating in and with a very clear connect with the young customers.

Chetan Cholera: Who is the owner of brand, is there any cost involved for royalty or something?

Management: There is no cost involved for any royalty.

Management: There are no financial implications, no financial involvements as far as this decision is concerned.

Moderator: Thank you. The next question is from the line of Kamal Visaria from KM Visaria Family Trust. Please go ahead.

Giriraj: Hello Giriraj here I just want to understand like what is the sales mix during this FY16 we had revenue of over Rs. 5,700 crores, how much was liquid milk and how much was value addition?

Management: I think I covered this in an initial part of the question but I can repeat it again for your convenience. The milk was around 53%, out of this 36% was in institutional sales and 64% was retail sales. And then ghee was around 8%, powder was around 15% curd was around 8%.

Giriraj: Can you be a bit slow sir?

Management: Yeah sure.

Giriraj: Ghee was 8%.

Management: Yeah powder is around 15%

Giriraj: Powder 15%.

Management: Curd is around 8%, skimmed milk is around 3% evaporated is around 11% and charges around 2% and balance are other products.

Giriraj: Okay and how do you see the mix going in the next three, four years?

Management: You know as Naval also said we are focusing more on value added products and retail sales so probably going ahead milk might come down little bit but then it would be there it would be another substantial part but then value added products say this flavored milk, cheese, butter, etc., contribute a lot to the total.

Management: Like flavored milk cheese, butter, tetra packs cream all these should be contributing specially towards the revenue.

Giriraj: Okay and this Rs. 400 crores spending on the value added facilities is it particularly related to any of these items or like?

Management: All of these items are somewhat under the Rs. 400 crores.

Moderator: Thank you. The next question is from the line of Mitul Shah from Affluent Shares and Stocks. Please go ahead.

- Mitul Shah:** Just I wanted to know that when will we be able to see the launch of the new products coming in the market?
- Management:** You see around 8 to 10 variants of value added products in the category of flavored milk, butter and cheese are lined up over a period of next 12 to 18 months' time in a phased manner.
- Mitul Shah:** Okay so the revenue we will be able to see into the next 12 to 18 months that that is the thing that you are saying so campaigning will be start into after 12 months or it will start immediately from next month?
- Management:** You can expect advertisement or communication start from Q2 onwards.
- Mitul Shah:** Q2 onwards okay.
- Management:** Because that also happens to be the best season because once you know the Janmashtami comes in and the festival season kicks in then it goes like Diwali and Dussehra so you look at **(Inaudible 40:34)** all those winters the consumption of these products also go up.
- Mitul Shah:** Okay and you will be launching under the name of Kwality or there will be a special brand name for every product or it will be marked as a Quality product only?
- Management:** Yeah it will be the umbrella brand of the composite marks of Kwality.
- Mitul Shah:** Yes okay so from Q2 we are going to have the launches advertisement will start from the Q2 and the launches will be into the phased manner of 12 to 18 months am I right.
- Management:** Absolutely the launching of present products will immediately start like FDP, Fresh Dairy Products that can start in next two three months' time the value added products that is going to happen so probably every quarter you will be able to see some of the launches happening.
- Mitul Shah:** Yeah that was basically my question that how the revenue will kick in for the next 12 to 18 months that was my basic question.
- Management:** Yeah that you will see, launches you will see in every quarter.
- Mitul Shah:** Okay that is great. That is very good news and congratulations for resolving this case, now the growth part has begun for you so I am looking forward for it. Thank you.
- Management:** It was all due to God's grace and best wishes of our customers.
- Mitul Shah:** Okay nice. Okay thank you.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bid from Motilal Oswal Asset Management. Please go ahead.

Vaibhav Bid: Actually I wanted ask how is the CAPEX funded?

Management: As far as we have already spent around Rs. 260 crores, around Rs. 130 crores is from internal accruals balance is from long term loans that we have taken. For the balance we have already tied up with our bank.

Vaibhav Bid: And sir, what will be the rate of interest for this?

Management: Rate of interest is on an average basis it would be less than 12%.

Vaibhav Bid: And sir, going forward when valued products come in to the basket what could be the working capital cycle in terms because we will have to store milk and all these products for some time, right as an inventory?

Management: No, I do not think so a huge inventory required. Even if you look at present it is going to be in reserves only 12, 13 days' inventory. So the kind of product that we are looking at would not be required a huge inventory. As far as working capital goes these products have got the debtor cycle in these products are very less on the lower side very lower side. I think there was a tremendous decrease in the working capital or working capital cycle.

Vaibhav Bid: I mean where I was coming from is because cheese requires quite a lot of storing time?

Management: No, but that is only limited to summer in case of cheese and that also if you are during that those particular varieties. So that is the product that we are talking of. Cheese definitely one of it but there is the kind of cheeses that we will be doing would not meet that kind of pouring. And the other products like the butter and Tetra Pak and the sterilized flavored milk they are very fast moving you do not need to store them for a longer period.

Vaibhav Bid: And sir, this plant when would it commissioned?

Management: It is coming in standard manner. It is an integrated plant so each product can be started individually. It is not that the plant will start operating at one go. So few of the products as that earlier would start coming-in in the next three to four months' time. So it would be a staggered kind of roll out that will happen. And that is what we have been suggesting sir, you should keep come to the plant have a look at the plant because then it will become much easier for us to explain as to how it works and in phased manner we can start rolling out the products from next quarter onwards.

Vaibhav Bid: Sure, sir.

Moderator: Thank you. The next question is from the line of Ritesh Vohra from Incedo. Please go ahead.

- Ritesh Vohra:** Sir, what is our consolidated debt as of now on the balance sheet?
- Management:** The consolidated debt is around Rs. 1,330 crores.
- Ritesh Vohra:** And what is the net debt?
- Management:** We have got Rs. 50 crores of stats so landed will be Rs. 1,250 crores.
- Moderator:** Thank you. The next question is from the line of Harshil Cholera from Pragya Equity. Please go ahead.
- Harshil Cholera:** I just wanted to know regarding the branding related dispute. Who really owns the brand now after all of this?
- Management:** Okay in terms of the brand **(Inaudible 45:21)** Kwality we own that so we have already got it registered.
- Moderator:** Thank you. The next question is from the line of Debanjan Neogi, individual investor. Please go ahead.
- Debanjan Neogi:** I actually wanted to know like some more picture on the operating cash flow. The last year like March 2015 on the consolidated level **(Inaudible 45:46)**. So I want to know like what is the current picture right now as we talk in 2016?
- Management:** On a consolidated figure we have made a nominal positive cash flow from operations. I think the position will improve tremendously in next year.
- Debanjan Neogi:** So are we better than last year for this year?
- Management:** As far as cash flow is concerned, yes definitely on a consolidated basis, yes.
- Debanjan Neogi:** And next year what is likely to this is going up by like?
- Management:** No, it is very difficult to predict.
- Management:** Anyway it is only going to get better. I think that is all we can say.
- Moderator:** Thank you. The next question is from the line of Chetan Cholera from Pragya Equities. Please go ahead.
- Chetan Cholera:** My question has been answered.

Moderator: Thank you. We have the next question from the line of Rahul Jain from Prabhudas Lilladher. Please go ahead.

Rahul Jain: Sir, in terms of your trade receivables, your trade receivables has gone up by almost some Rs. 1,300 crores to almost Rs. 1,650 crores which is roughly an increase of almost Rs. 300 crores to Rs. 320 crores, on a turnover increase of Rs. 530 crores. So is the trade receivable positioning how is it taking place and what is your forward looking in terms of bringing down the debtor days?

Management: Basically we will have to look it from a different perspective. The reason for this increase have been debtors relating to our export business. So there was some issues in our export receivables during the last quarter because of which as these debtors are all on particular date but if you look at the current figures I think there is a tremendous improvement in that. So most of these debtors have been received in April and May. There was some issues involved in the banking system because of which we may not come through. So this was an aberration in last quarter and I think this has already been taken care of.

Management: And also in March end there were four or five holidays more than five holidays. So I think because it is for a particular day so almost around that could not be covered in to that. And **(Inaudible 48:34)** so in this current quarter that figures look much better.

Rahul Jain: And sir, what is this amount with regard to short term loans and advances which we have about Rs. 175 crores?

Management: So basically these are advances to the contractors and farmers for milk.

Moderator: Thank you. We have got question from the line of Rahul Jain from Prabhudas Lilladher. Please go ahead.

Rahul Jain: Sir, you mentioned about the new facility to handle almost 9.5 liters per day and you have also mentioned that the value added products can be sold at around Rs. 65 per liter which the turnover can be around Rs. 2,500 crores. In how much time and you also mentioned sometime back this capacities will come in stages. At some stage you have some value added products coming in and then gradually. So during what year can we expect this entire so called the new facility to come at full capacity or in which year can we expect this facility to generate a turnover of roughly about Rs. 2,500 crores or around?

Management: If you look at the complete capacity that can be only around FY19.

Rahul Jain: So FY9 will be the first full year of operation where the entire capacity can generate?

Management: Yeah, because part of the product would start only in FY17. Part in FY18 then if you look at complete yes, FY19 would be the complete year of the entire.

- Management:** And then we have taken all the conservative figures. So though we know the market is much bigger but then we have taken it in stages. So both in terms of the figure that we would be doing from the facility.
- Rahul Jain:** And if I am right as on today is your value added products about 47% of the turnover?
- Management:** No, we do not owe any value added products as of now. What we do our fresh dairy products there are retail products that we do like fresh dairy products and ghee and these are just 33% of my total sales as of now.
- Management:** So some of the people quantify that as high value added products but then we classify high margin, high value added products as value added products in this division we call it as a FDP which is the fresh dairy products division.
- Rahul Jain:** So what is that as a percentage of sales today?
- Management:** Around 33%.
- Rahul Jain:** And you expect this to go up in next two years to how much?
- Management:** It is very difficult.
- Rahul Jain:** Before the new facility comes in?
- Management:** As we said that in the next four to five years we want at the increased level we want it to be around 75% coming in from the retail sales. And mind you this 33% as we do also is almost more than what most of the peers companies are doing. So we are talking of almost around Rs. 1,800 crores of topline from these products.
- Moderator:** Thank you. The next question is from the line of Ritesh Vohra Jain from Incedo. Please go ahead.
- Ritesh Vohra:** Sir, what will be our peak debt in when this project comes on line next year?
- Management:** See that it is difficult because we are looking for another term loan of around Rs. 200 crores to Rs. 225 crores. So it depends upon its deployment and when we will drawdown.
- Ritesh Vohra:** So it will not exceed beyond Rs. 1,500 crores?
- Management:** I will tell you one thing. You look at our debt profile almost 80% of our debt is working capital debt. There is hardly any debt. Out of this Rs. 1,300 crores almost Rs. 1,000 crores is working capital debt. So depending upon if we are able to roll out the product then the working capital may automatically come down if we are able to increase our retail sales. So it is very difficult to predict the peak debt in next one, one-and-a-half years. Because what we are hoping is this working capital debt should come down.

Ritesh Vohra: See if I want to summarize your company basically in today's con call. Basically you will try to move from institution to retail, try to move from bulk procurement to a retail procurement and commission this plant. I mean is this the correct way to put it?

Management: The first we will try to improve to enhance but then I think first, we have already demonstrated from zero to Rs. 1,800 crores of topline in say last four years and from zero to almost 20% of procurement from farmers in five years. So I think we been to a greater in the sense we were able to demonstrate that yes, it is possible. It is not that we are only talking in air that this is what we are going to do. If demonstrated then we have done that. And that is what I mentioned that if you look at the value added products so called value added products that we are doing till now FDP it is almost Rs. 1,800 crores. I am sure that compares to most of the other peer companies that we have. But definitely the focus would be to enhance and start working on bettering these numbers. But I think you put it correctly we have already demonstrated that it is possible and we have done it. So it is not that we are only talking that we will do it, we have already done it. And I am proud of that we have been able to do it successfully and maintaining all the relationships with procurement we are doing all the relationships in the sales community. So I think we are quite happy the way things have shaped up and we are quite confident that going forward definitely we will be able to achieve what we are talking.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Management: Thank you very much and again one suggestion or one request from our side. Please come and visit us, please visit the milk chilling center, please visit the facility. Have a look at the facilities spend some more time understand a bit more about the industry. Unfortunately, in this call we have not been able to talk more about the industry and how it works. And this is though India is one country but then it is very diverse in terms of the areas where we are operating and then if you compares that to the western part of the country or the southern part of the country.

So I think it will be quite interesting for everyone to come down to this facility and also see the entity. See the challenges on ground and see what we have been able to create and then once you see that then I am sure you will be pretty confident that whatever we are talking of achieving those numbers those are all going to happen by God's grace. Thank you very much everyone. Really looking forward to seeing you now in this facility.

Moderator: Thank you. Ladies and gentlemen, on behalf of Religare Capital Markets Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.