



Ideas for a new day

Dear Shareholders,

Thank you for your continued support during the three decades of Parag Milk Foods Limited. Your Company over the years has emerged as India's largest FMCG- Dairy Company offering milk and milk-based products made from 100% cow's milk. Our brands Gowardhan, Go, Pride of Cows, and Avvatar are the well-recognized leader in their respective product categories.

While we were working on the integrated business model and making our footprints in the dairy FMCG market; along with the entire globe the COVID-19 pandemic impacted the Company. Despite recording a very strong performance in the last fiscal year; unforeseen situation arising out of COVID-19, the Company had to take an inventory write down.

Over the last three decades Parag Milk Foods have built a very strong goodwill and relationships with the farmers as they are the key stakeholders and hold an important position in the dairy value chain. During the pandemic which we thought will last only for a shorter period of time. We had to support the farmers and their families during these tough times. We, accordingly forecasted the sales and changed the product mix skewed towards high-value products that will help us sustain the business on a longer-term basis. We collected every drop of milk that arrived at our factory in a view to support these farmers. We planned, produced, and built inventory with a view to capture the market share.

Our anticipation on selling these value-added products produced from excess milk procurement unfortunately got disrupted due to frequent lockdowns that affected the continuity of the business with HORECA and large institutions who curtailed their business for their strategic reasons. Not only the forecasted growth in the sales not materialized but it also resulted in non-movement of stocks and built up perishable inventory in the supply chain.

Since the Company manufactures products which are perishable in nature and are governed and regulated by strict production and storage norms notified by FSSAI, the company had to mandatorily write down its inventory to comply with the guidelines.

There was also change in the policy with respect to infant food due to which the Company could not supply the stock of whey protein the main ingredient in the infant food formula to the end consumers. We also had to write off the inventory that was built for this segment.

Further, as an additional precautionary measure, the samples were sent to appropriate authorities like NABL-approved labs. The company also appointed an independent accounting firm to evaluate the quantity and the value of the inventory.

Due to the consequential impact of the above, the write down of inventories to the net realizable value during the year amounted to INR. 5,095 mn. This is a one-time hit that the company has taken due to the Covid led uncertain situation. Post the write down of inventory, we are back to the pre-covid levels.



Parag Milk Foods Ltd.,

CIN-L15204PN1992PLC070209

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In addition, there was a notification that fixed the base selling price of milk procurement for farmers so that their livelihood is protected. This resulted in an increase in our cost of raw material procurement prices as evidenced by the Price Settlement Agreement entered into with the milk aggregators. The impact of the above on the financials is INR 1,179 Mn which was adjusted against milk advances and cost of raw material consumed.

In spite of all the above said matters, there is no uncertainty in meeting the financial obligation. These items are one-time situation specific exception and do not impact the ongoing business operations.

The business performance has been strong and we continue to nurture and expand our product portfolio and categories. Further, in line with the general upswing in the overall commodity prices, the milk prices have also seen an increase and to offset the impact of this increased procurement cost, we have already implemented price increases across all of our product categories, and same has been absorbed by the markets, reflecting our brand strength.

FY 23 has started on positive note, we are not only focussed on our core categories but also expanded our beverage line to capitalised the summer that enabled us to achieve high volume growth.

We are in the process of further strengthening the management team with professionals by appointing Chief Executive Officer and Chief Financial Officer shortly. We are pleased to inform you that the Board of Directors have decided to appoint Ms. Akshali Shah as Executive Director. She has been associated with the Company for over a decade and has been instrumental in growing the new high-value segments of Parag Milk Foods Limited.

Over the years of experience in the dairy industry, I would now like to take the advisory role and guide the team regularly. I am confident that the new leadership group will drive the Company forward. Further, I will continue to direct the operations, manufacturing, and business efficiencies that will enhance our strategic value proposition and will reflect in our performance in the coming years.

We at Parag Milk Foods would continue to embark on our journey to manufacture good quality nutritious products and deliver a sustainable business for our stakeholders.

We thank you all for the continued support during these tough times and we assure you that we will perform to your expectations and scale new heights for the products and strengthen the brands for the long term sustainability of your Company.

Yours Faithfully,

Devendra Shah
Chairman



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