

Parag Milk Foods Emerges as Fortune India's 'Next 500' Company



PARAG MILK FOODS LIMITED
Q2 FY17 RESULTS PRESENTATION
NOVEMBER 2016

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COMPANY
OVERVIEW

STRATEGIC
INITIATIVES &
OUTLOOK

Q2 FY17 RESULT
HIGHLIGHTS &
FINANCIAL
OVERVIEW

ANNEXURE



COMPANY OVERVIEW

STRATEGIC INITIATIVES & OUTLOOK

Q2 FY17 RESULT HIGHLIGHTS & FINANCIAL OVERVIEW

ANNEXURE



BUSINESS OVERVIEW

- Strong Promoter Pedigree with over 2 decades of rich industry experience. Incorporated in 1992, with collection and distribution of milk, we have now developed into a dairy-based branded FMCG company with an integrated business model.
- Diversified product portfolio catering to wide range of customer - Established "4 Brands" - 'Gowardhan', 'GO', 'Pride Of Cows' & 'Topp Up', having a large customer base & strong brand recall targeting specific customer segments through strategic positioning.
- Derive all of our products from 100 % cows' milk. Our aggregate milk processing capacity is 2 million litres per day and our cheese plant has the largest production capacity in India, with a raw cheese production capacity of 40 MT per day.

KEY STRENGTHS

- Integrated Business Model Encompassing the entire value chain - Procurement, Manufacturing, Distribution and Branding
- Robust brand portfolio with 4 well established brands targeted towards distinct consumer groups - Gowardhan, Go, Topp Up, Pride of Cows
 - Parag Milk Foods is identified as Fortune India's 'Next 500' Company
 - Gowardhan' ranked among the top 25 most trusted brands in the food products category
 - 'Go' Cheese was awarded "India's Most Promising Brand 2014-15" in the FMCG category
- World Class Manufacturing with 2 state-of-the-art Manufacturing facilities and Strong R&D capabilities
- Established Strong Relationships at grass root level with farmers, distributors & institutional customers and a large retail customer base.
- Established Pan-India Distribution Network of 16 Depots, 104 Super Stockists and over 3,000+ Distributors

STRONG FINANCIAL PERFORMANCE

- Consolidated Revenues, EBITDA and PAT were Rs 16,451 mn, Rs 1,476 mn and Rs 473 mn in FY16 having grown at CAGR of 17%, 18% and 58% over FY12-FY16
- Share of Commodity products reduced from 22% in FY15 to 12% in FY16
- Significant De-leveraging Efforts have helped improve PAT Margins from 0.9% to 2.9% over FY12-FY16.
- ROCE improved from 9.1% in FY 14 to 12.3% in FY 15 and 16.2% in FY 16, due to strong growth in Top-line and improving Operating Profitability and improvement in FY16 Debt : Equity ratio to 1.1:1.

COMPANY OVERVIEW

PRODUCT INNOVATION – KEY TO OUR SUCCESS STORY



PIONEERING PRODUCT INNOVATION WITH STRONG R&D THRUST



Premium quality cow milk
- “farm-to-home” concept
through Subscription
model



Go “Cheezooz” awarded
the “Best Children’s Dairy
Product” in the product
innovation category



Wide & innovative variety
of cheese including
gourmet cheese, creamy,
jalapeno cheese spread,
herb cheese cubes



Pioneering and Leading
player in India to market
fresh (not frozen) paneer
in retail stores with a shelf
life of 75 days



Leading producer of Whey
protein powder in India

2013

2014

2015

2016

- Emmental cheese
- Consumer packs of mozzarella cheese
- Yogurt in three new flavours of saffron, pink guava and vanilla
- Topp-up in four flavours
- Cheese spread in six flavours
- Parmesan cheese
- Cheezlets
- Vital milk in all markets

- New flavours in Topp-up of pistachio and butterscotch
- Cheese sandwich slices
- Cheese toppings for pizzas
- Spiced buttermilk in UHT
- Fresh cream in UHT
- Spiced buttermilk in Fino pack

- Whey proteins
- Sachet packs of ghee
- Buttermilk in southern spices variant
- Go Badam Milk
- Go Almette Creamed Cottage Cheese in two flavours
- Go Chutney cheese slices

- Spice-up Flavoured cheese slices
- Curd 10kg Bucket
- Badam Milk Instant Mix
- Cheese Wedges – Herbs and spices

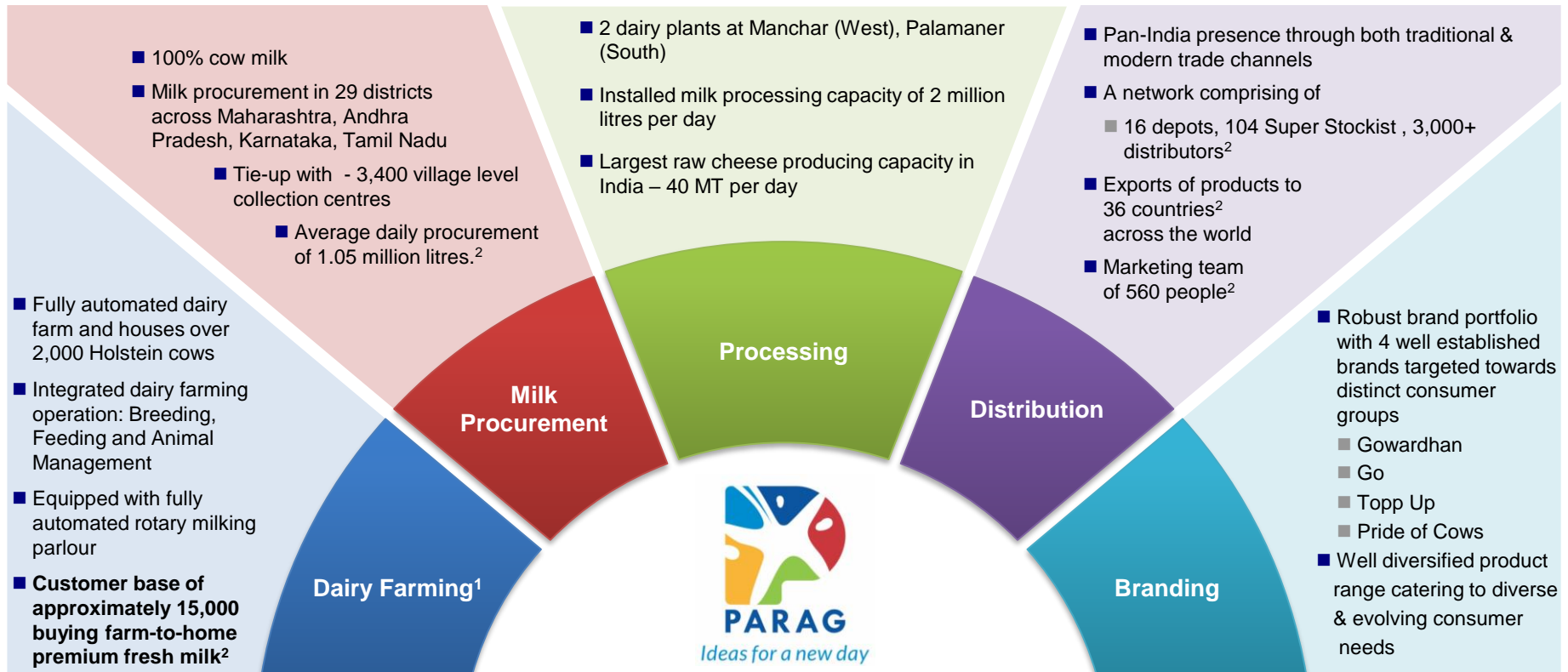
COMPANY OVERVIEW

DIFFERENTIATED BRAND & PRODUCT PORTFOLIO

Brands	Products	Target Customer Group
	 <ul style="list-style-type: none"> ■ Fresh Milk ■ Curd ■ Ghee ■ Paneer ■ Butter ■ Milk powder ■ Whey proteins 	<ul style="list-style-type: none"> ■ Targeted at house-hold consumption for traditional Indian recopies and to be used as cooking ingredients
	 <ul style="list-style-type: none"> ■ Cheese Products ■ UHT milk ■ Curd ■ Fruit yoghurts ■ Fresh cream ■ Lassi, Buttermilk, Badam milk 	<ul style="list-style-type: none"> ■ Targeted at children and the youth generation, primarily for direct consumption
	 <ul style="list-style-type: none"> ■ Premium cow milk 	<ul style="list-style-type: none"> ■ Targeted at household consumers seeking premium quality cow's milk.
	 <ul style="list-style-type: none"> ■ Flavoured milk 	<ul style="list-style-type: none"> ■ Targeted at youth generation & travellers as source of instant nourishment

COMPANY OVERVIEW

INTEGRATED BUSINESS MODEL - STRONG RELATIONSHIPS ACROSS THE VALUE CHAIN



Integrated Business Model that encompasses the entire value chain of the dairy based food and beverage business

Notes:

(1) The dairy farming business is housed in Bhagalaxmi Dairy Farm which is owned and operated by Bhagalaxmi Dairy Farm Private Limited

(2) As of 30th September, 2016

COMPANY OVERVIEW

EXTENSIVE SALES, MARKETING & DISTRIBUTION NETWORK



Well entrenched Pan-India distribution Network



Enormous Potential to grow in India



Pan-India Distribution network 16 depots, 104 super stockists, 3000+ distributors

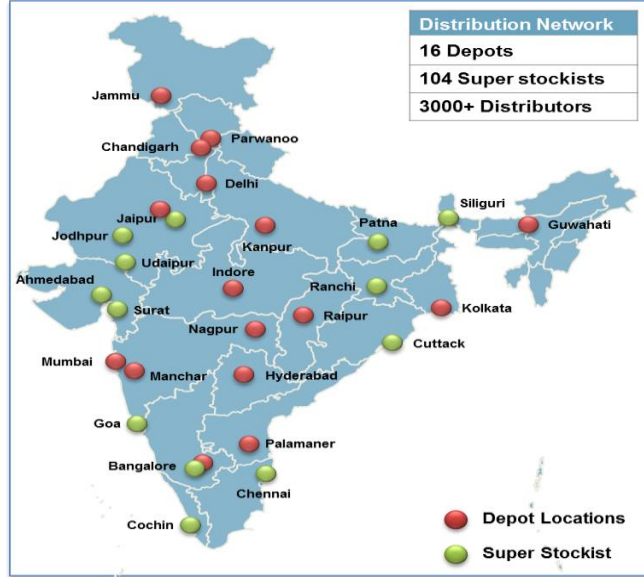


Dedicated sales and Marketing team comprising of 560 personnel¹ to serve our retail as well as institutional customers



Deploys product specific marketing & distribution strategy

Increased our territorial reach in Western region by opening a new depot at Jaipur



REGION WISE DISTRIBUTION NETWORK IN INDIA

Region	Depots	Super Stockists	Distributors (greater than)
Mumbai	1	2	250
North	5	31	450
East	2	17	300
West	5	28	800
South	3	26	1,200
Total	16	104	3,000

Note:
(1) As of 30th September, 2016

COMPANY OVERVIEW

WORLD CLASS MANUFACTURING FACILITIES



Dairy Farming



Processing Facilities



Manchar Plant, Pune



Bhagyalakshi Dairy, Pune



Palamner Plant, Andra Pradesh

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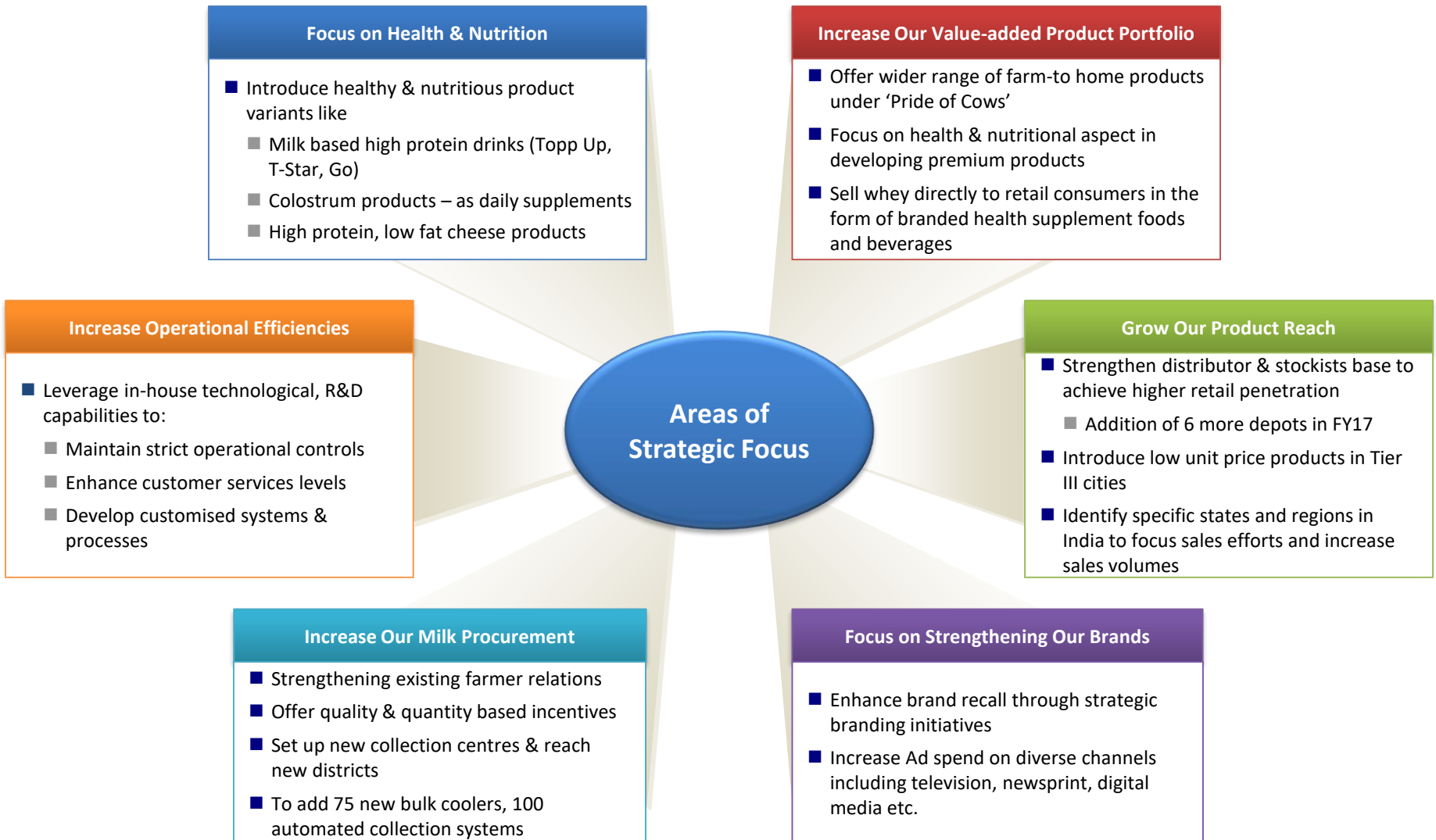


DEPLOYMENT & UTILIZATION OF IPO PROCEEDS

Sr. No	Objects of Issue	FY 17	FY 18	FY 19	Total	Current Status ¹
1	Expansion and Modernisation of existing capacities at Manchar & Palamner and improving marketing and distribution Infrastructure	832	626	19	1,477	144
2	Expansion and modernisation of the Bhagyalaxmi Dairy Farm	23	-	-	23	-
3	Partial repayment of the Working Capital Consortium Loan	1,000	-	-	1,000	1,000
4	General corporate purposes (Gross of Expenses)	284	-	-	284	284
	Total	2,139	626	19	2,784	1,428



Rs. in million, LLPD = Lakh litres per day, MTD = Metric tonnes per day



STRATEGIC INITIATIVES – BUILDING BRAND EQUITY

BRAND ASSOCIATION WITH CELEBRITY CHEF “RANVEER BRAR”



Association for Go Cheese and Go Fresh Cream Products with India’s most popular Celebrity Chef – ‘Ranveer Brar’



Signed Celebrity Chef Ranveer Brar for Go products



Ranveer Brar using Go cheese chutney slice on his show ‘Good to Go’



Ranveer Brar using Go products on his show ‘Good to Go’

Launching a dedicated You tube channel and special edition shows on Living Food Channel as ‘Good to Go!’

STRATEGIC OUTLOOK

BUSINESS STRATEGY & OUTLOOK OVER NEXT 3 YEARS

BUSINESS STRATEGY & OUTLOOK - NEXT 3 YEARS

ENHANCE PRODUCT PORTFOLIO

- **Focus on Branded Whey Products** - Plan to emerge India's 1st domestic company to produce and sell Whey protein consumer products
 - in the form of branded health supplement foods and beverages
 - Competitive pricing compared to imported brands (~40% import duty)
- **Focus to Increase the product portfolio of UHT products and Beverages to entice youth with our new variants**
- Offer wider range of farm-to-home products under 'Pride of Cows'

MAINTAIN SALES GROWTH MOMENTUM

- **Continue to maintain the revenue growth of CAGR 14% – (FY16-FY19)**
 - Share of Value added products to increase from current 66% to 70% over the next 3 years
 - To expand the capacity of cheese plant from 40MT to 60MT by FY17. Aim to increase our market share and domestic presence.
 - Robust growth expected in UHT & Whey products

IMPROVE PROFITABILITY & RETURN RATIOS

- **Within Value added Products, product mix is set to move towards margin accretive products such as Whey, UHT & beverages, cheese.**
- **Significant savings in interest due to reduction of debt of Rs. 100cr through the IPO Proceeds.**
 - Focus on Credit Re-rating leading to reduction in cost of debt due to improvement in capital structure
- **Profitability improved from 0.9% in FY12 to 2.9% in FY16 and endeavour to achieve >5% over next 3 years (FY16-FY19).**
 - Overall, this may lead to improvement in Return Ratios.

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Q2 FY17 RESULTS ANALYSIS

NEW PRODUCTS LAUNCHED DURING THE QUARTER



Go Spice-up – Flavoured cheese slices

- Launched at Pan India Level
- Attractive school box Packaging mainly targeting children and household consumption
- Flavoured cheese slices with traditional and modern cheese flavours
- Available in 5 different flavours – Kachcha-Aam, Aachari, Chutney, Peri-Peri and Schezwan.
- Available for Rs.160/-, net weight 200 gms``

Launched **5 New Flavoured Cheese Slices** during Q2 FY17
marketed as “**Monday to Friday**” concept

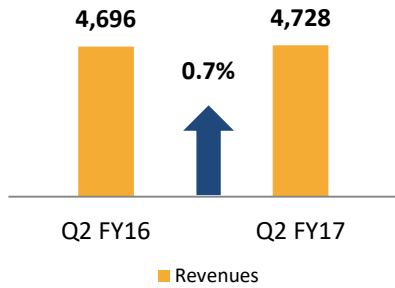
H1 & Q2 FY17 RESULTS ANALYSIS

KEY HIGHLIGHTS

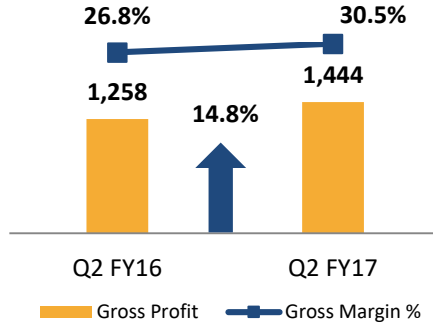


Q2 FY17 CONSOLIDATED FINANCIAL ANALYSIS

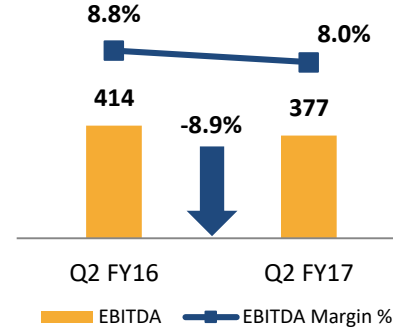
REVENUES



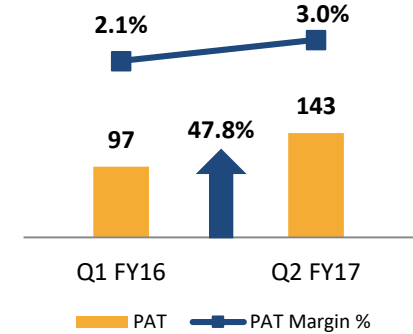
GROSS PROFIT & GROSS MARGINS



EBITDA & EBITDA MARGIN

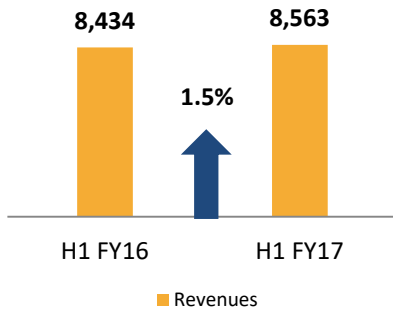


PAT & PAT MARGIN

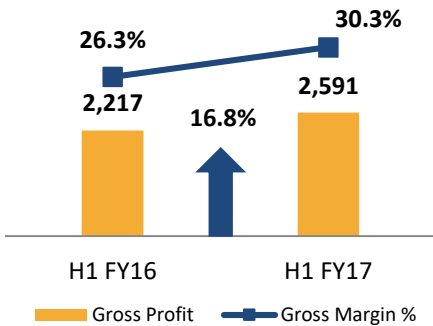


H1 FY17 CONSOLIDATED FINANCIAL ANALYSIS

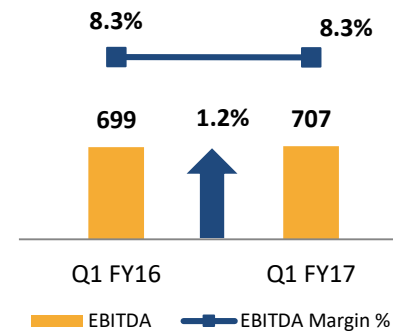
REVENUES



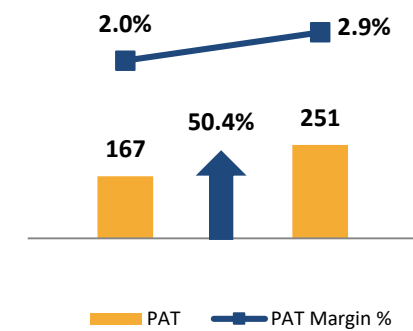
GROSS PROFIT & GROSS MARGINS



EBITDA & EBITDA MARGIN



PAT & PAT MARGIN

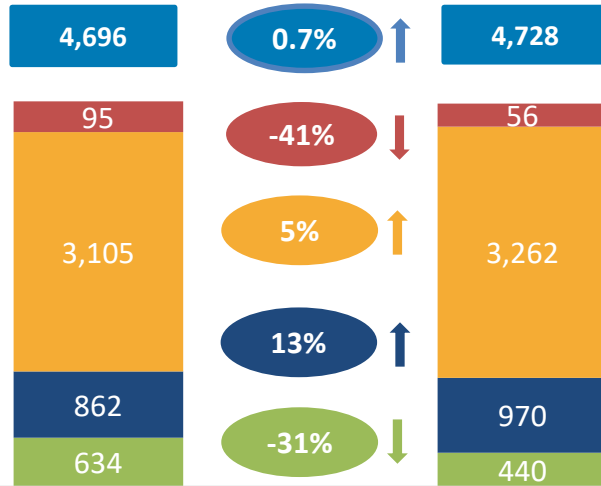


H1 & Q2 FY17 RESULTS ANALYSIS

PRODUCT WISE REVENUE BREAK-UP



Q2 FY17 YoY ANALYSIS – REVENUE BREAKUP

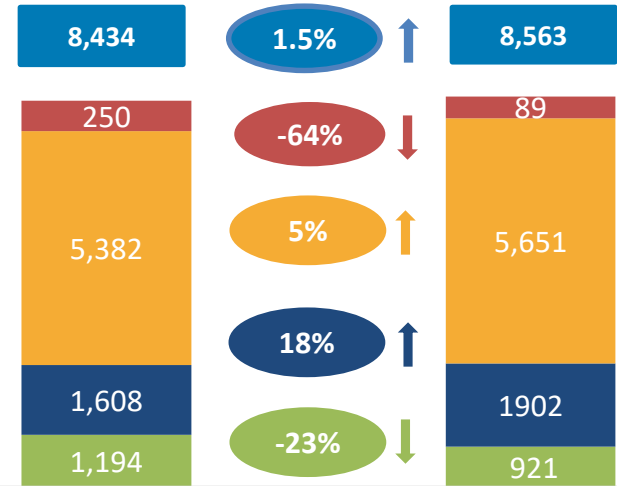


Q2 FY16

Q2 FY17

- Skimmed Milk Powder
- Fresh Milk
- Milk Products
- Other Revenues

H1 FY17 YoY ANALYSIS – REVENUE BREAKUP



H1 FY16

H1 FY17

- Skimmed Milk Powder
- Fresh Milk
- Milk Products
- Other Revenues

% Share	Q2 FY16	Q2 FY17
Skimmed Milk Powder	13%	9%
Fresh Milk	18%	21%
Milk Products	66%	69%
Other Revenues	2%	1%

% Share	H1 FY16	H1 FY17
Skimmed Milk Powder	14%	11%
Fresh Milk	19%	22%
Milk Products	64%	66%
Other Revenues	3%	1%

Amounts In Rs Million Note: Milk Products are excluding Fresh Milk, Skimmed Milk Powder and Other Revenues.

H1 & Q2 FY17 RESULTS ANALYSIS

CONSOLIDATED PROFIT & LOSS STATEMENT

Particulars (Rs. in Mn)	Q2 FY17	Q2 FY16	YoY %	H1 FY17	H1 FY16	YoY%
Revenue from Operations	4,728.4	4,696.0	0.7%	8,563.1	8,433.8	1.5%
Raw Material Costs	3,284.0	3,437.6	-4.5%	5,972.1	6,216.5	-3.9%
Gross Margins	30.5%	26.8%	375 bps	30.3%	26.3%	397 bps
Employee Expenses	206.6	187.4	10.3%	384.8	326.6	17.8%
Other Expenses	860.4	656.9	31.0%	1,499.1	1,191.9	25.8%
EBITDA	377.4	414.1	-8.9%	707.0	698.8	1.2%
EBITDA Margin %	8.0%	8.8%	-84 bps	8.3%	8.3%	-3 bps
Depreciation	115.0	64.2	79.2%	213.0	154.6	37.8%
Finance Cost	63.8	145.9	-56.3%	156.3	258.0	-39.4%
Other Income	23.1	-2.6	-	31.2	2.3	-
PBT	221.7	201.5	10.1%	368.9	288.6	27.9%
Tax Expense	78.5	104.5	-24.9%	117.5	121.4	-3.2%
PAT	143.3	96.9	47.8%	251.4	167.2	50.4%
PAT Margin %	3.0%	2.1%	97 bps	2.9%	2.0%	95 bps

Q2 FY16 and H1 FY16 numbers are unaudited

Q2 FY16 Seasonality Index (Rs. in million)

Particulars	Q2 FY 16	FY 16	Q2 as a % of FY 16
Revenue	4,696	16,451	28.52%
EBITDA	414	1,492	27.55%
PAT	97	473	20.51%



H1 FY16 Seasonality Index (Rs. in million)

Particulars	H1 FY 16	FY 16	H1 as a % of FY 16
Revenue	8,434	16,451	51.27%
EBITDA	698.8	1,492	46.84%
PAT	167.2	473	35.35%

H1 & Q2 FY17 RESULTS ANALYSIS

CONSOLIDATED BALANCE SHEET AS ON 30TH SEPTEMBER 2016



Particulars in Rs. Mn	H1 FY17	FY16
Equities & Liabilities		
Shareholder's Funds		
Share Capital	841.1	704.2
Reserves & Surplus	5,813.1	2,914.6
	6,654.3	3,618.8
Non-Current Liabilities		
Long-term borrowings	1,052.2	1,248.4
Deferred tax liabilities (Net)	94.5	109.6
Other long term liabilities	185.1	180.8
Long term provisions	6.1	6.1
	1,337.9	1,544.9
Current Liabilities		
Short-term Borrowings	1,610.6	2,358.2
Trade Payables	2,243.6	1,678.3
Other Current Liabilities	688.9	667.6
Short-term Provisions	71.9	41.8
	4,615.1	4,745.9
Total Equity & Liabilities	12,607.2	9,909.6

Particulars in Rs. Mn	H1 FY17	FY16
Assets		
Non-Current Assets		
Tangible assets	3,473.3	3,444.0
Intangible assets	4.1	3.4
Capital Work In Progress	184.9	232.7
Intangible assets under development	45.4	45.5
Non-current investments	0.1	0.1
Long-term loans and advances	213.3	157.2
Other Non-current assets	14.3	11.1
	3,935.4	3,893.9
Current Assets		
Inventories	3,335.8	2,724.3
Trade Receivables	2,781.8	2,359.9
Cash & Bank Balance	1,526.1	76.8
Short-term loans and advances	437.3	454.6
Other Current Assets	590.8	400.1
	8,671.8	6,015.7
Total Assets	12,607.2	9,909.6

H1 & Q2 FY17 RESULTS ANALYSIS

KEY HIGHLIGHTS & ANALYSIS



Revenues

Revenues grew by 0.7% YoY from Rs 4,696 mn in Q2 FY16 to Rs 4,728 mn in Q2 FY17

- Growth in revenues was relatively flat during Q2 FY17 primarily due to de-growth in SMP.
- Revenue Growth other than SMP is 6% in Q2 FY17.
- Slowdown in rural demand has also impacted the overall revenue growth.
- Export business witness good traction with an increase of 41.9% from Rs 129 mn in Q2 FY16 to Rs 183 mn in Q2 FY17.

Gross Margin

Healthy improvement in Gross Margin of 375 bps from 26.8% in Q2 FY16 to 30.5% in Q2 FY17.

- Gross Margin primarily improved due to strategically de-focusing in lower margin Skimmed milk Powder (SMP) business from 13% of total business in Q2 FY16 to 9% in Q2 FY17.
- The share of Value Added Products also increased by 5% from 66% in Q2 FY16 to 69% in Q2 FY17 which further led to the improvement in Gross Margin.
- Company has taken price increase in Cow Ghee ahead of the market in order to protect the margins impacted by increase in raw milk price.

EBITDA

EBITDA de-grew by 37 Mn YoY from Rs 414 mn in Q2 FY16 to Rs 377 mn in Q2 FY17

- Increase in Advertising and Promotional spends during Q2 FY17 was due to changes in marketing campaigns through our newly appointed agency JWT, however, annual FY17 overall advertisement spends are likely to remain within the budget.

PAT

PAT Margin improved by 97 bps from 2.1% in Q2 FY16 to 3.0% in Q2 FY17.

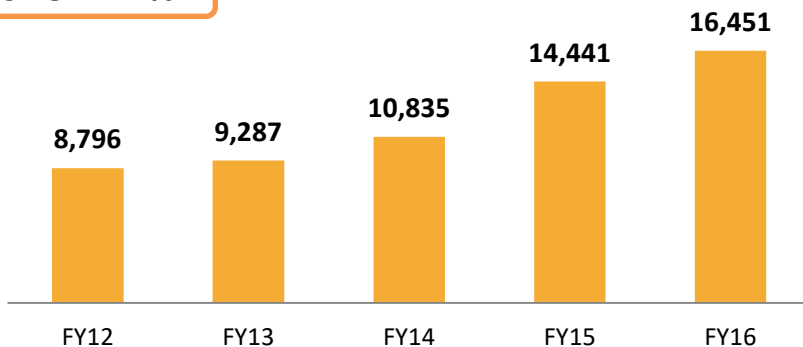
- PAT increased substantially on account of savings in Finance cost of 56.3% in Q2 FY17 due to partial repayment of borrowings in Q1 FY17.

FINANCIAL OVERVIEW

HISTORICAL FINANCIAL SUMMARY

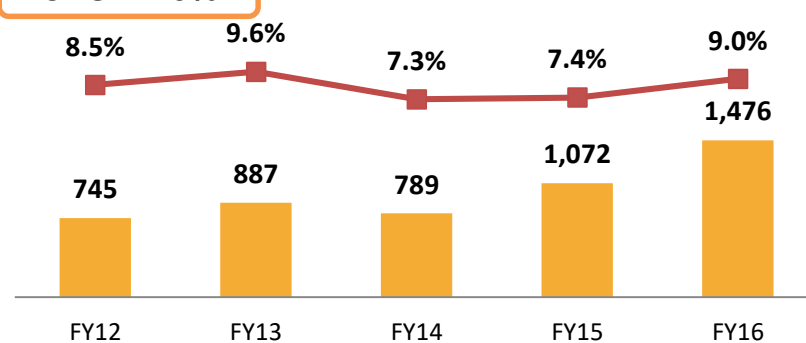
Net Sales (Rs mn)

CAGR: 17%



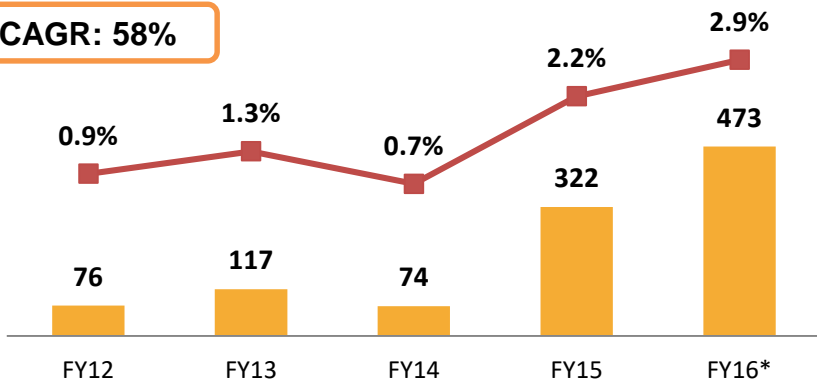
EBITDA (Rs mn) & EBITDA margins (%)

CAGR: 19%

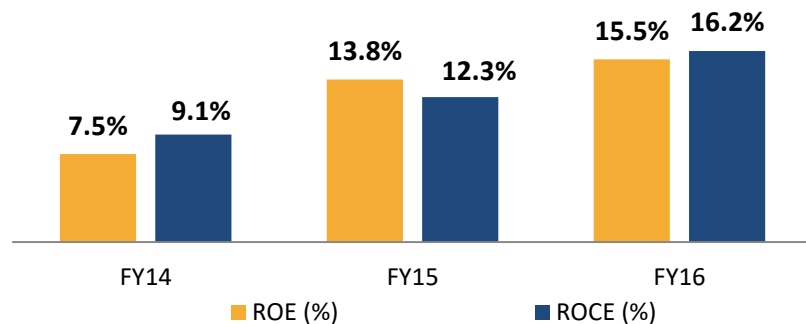


PAT (Rs mn) & PAT Margins (%)

CAGR: 58%



Return Ratios (%)



ROE: PAT/Avg. Equity, ROCE: EBIT/Avg. Capital Employed [(Capital Employed = Equity + Total Debt)]

FINANCIAL OVERVIEW

SHAREHOLDING SUMMARY

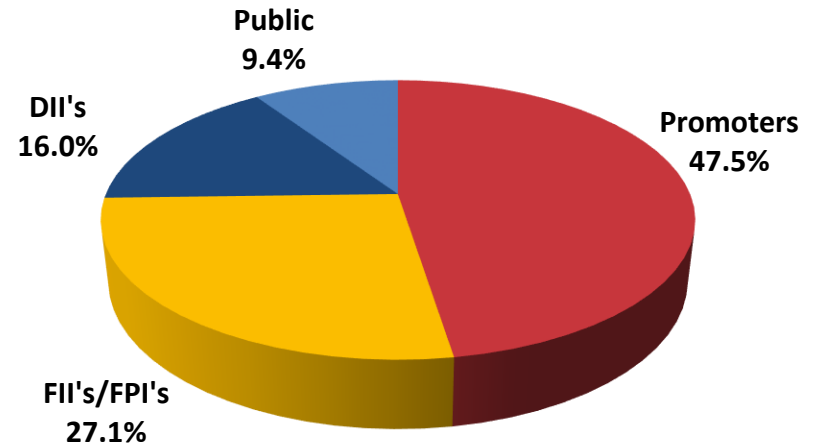


Key Institutional Investors at 30th September 2016 % Holding

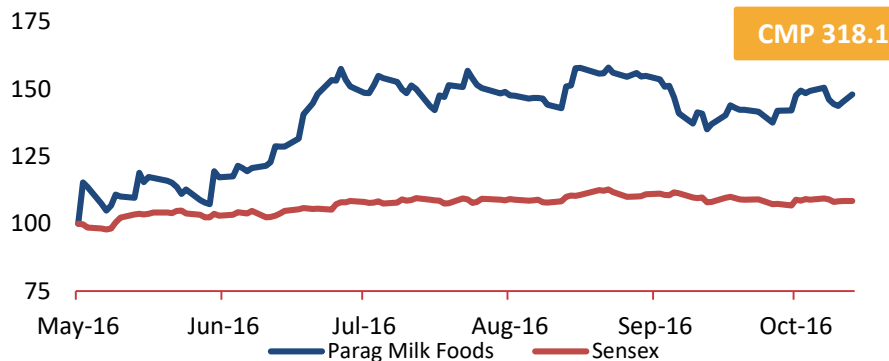
IDFC Trust	6.98%
Tata Balanced Fund	3.50%
Nomura India Investment	3.47%
IDFC Spice Fund	2.87%
Macquarie Emerging Markets	2.87%
Government Pension Fund Global	2.19%
Abu Dhabi Investment Authority	2.10%
Goldman Sachs India Limited	1.94%
Copthall Mauritius Investment Limited	1.83%
Quantum (M) Limited	1.79%
Morgan Stanley Mauritius Company Limited	1.52%

Source – Company

Shareholding as on 30th September 2016



Share Price Performance (Normalized) as on 30th October 2016



Market Data

As on 30^h October 2016

Market Capitalization (Rs mn)	26,756.8
Price (Rs)	318.1
IPO Price (Rs)	215.0
No. of Shares Outstanding (mn)	84.1
Face Value (Rs)	10.0
52 Week High-Low (Rs)	356.7-202.1

Source – BSE

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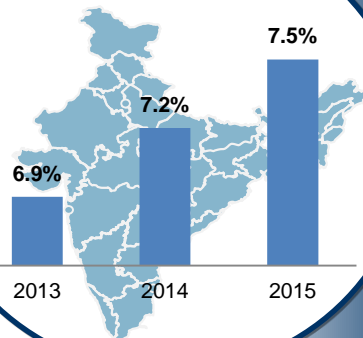
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India – GDP Growth



Rising middle class population

- Middle class households to grow from 255 million in 2015 to 586 million in 2025 at a CAGR of 8.7%
- Simultaneously, the working population will increase from 826 million in 2015 to 988 million by 2030

Rising income levels

- Rising income & disposable income to drive consumption of milk & dairy products
- India is witnessing continuous increase in GDP, expected to be US\$ 3,172 billion in 2020

Urbanisation

- Urban population expected to increase from 31.2% in 2011 to 34.5% in 2021
- Preference for clean, hygienic & ready-to-eat milk & dairy products to boost organised dairy industry

Changing Dietary Patterns with focus on Milk, a Perfect Health Food

- Milk being important source of vital nutrients - proteins, fats, carbohydrates & vitamins especially for vegetarians, consumers are shifting away from cereals to milk & dairy products
- 31% Indian population is vegetarian, ensuring continuous demand for milk & dairy products
- Increasing monthly expenditure proportion on milk & dairy products – Urban 16.4%, Rural 15.2%

Shift to packaged food to drive organised market

- Increasing quality & safety concerns increasing demand for packaged food, in particular pasteurised packaged milk
- Organised dairy market to grow at 19.5% CAGR over 2015-20
- Organised market share to also increase to 26%, in value terms, by 2020

THANK YOU



Ideas for a new day

Mr. Bharat Kedia
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