



Ideas for a new day

PARAG MILK FOODS LIMITED

INVESTOR PRESENTATION

JANUARY 2017



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



1

Dairy Industry

2

Company Overview

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Competitive Strengths

4

**Strategic Initiatives &
Outlook**

5

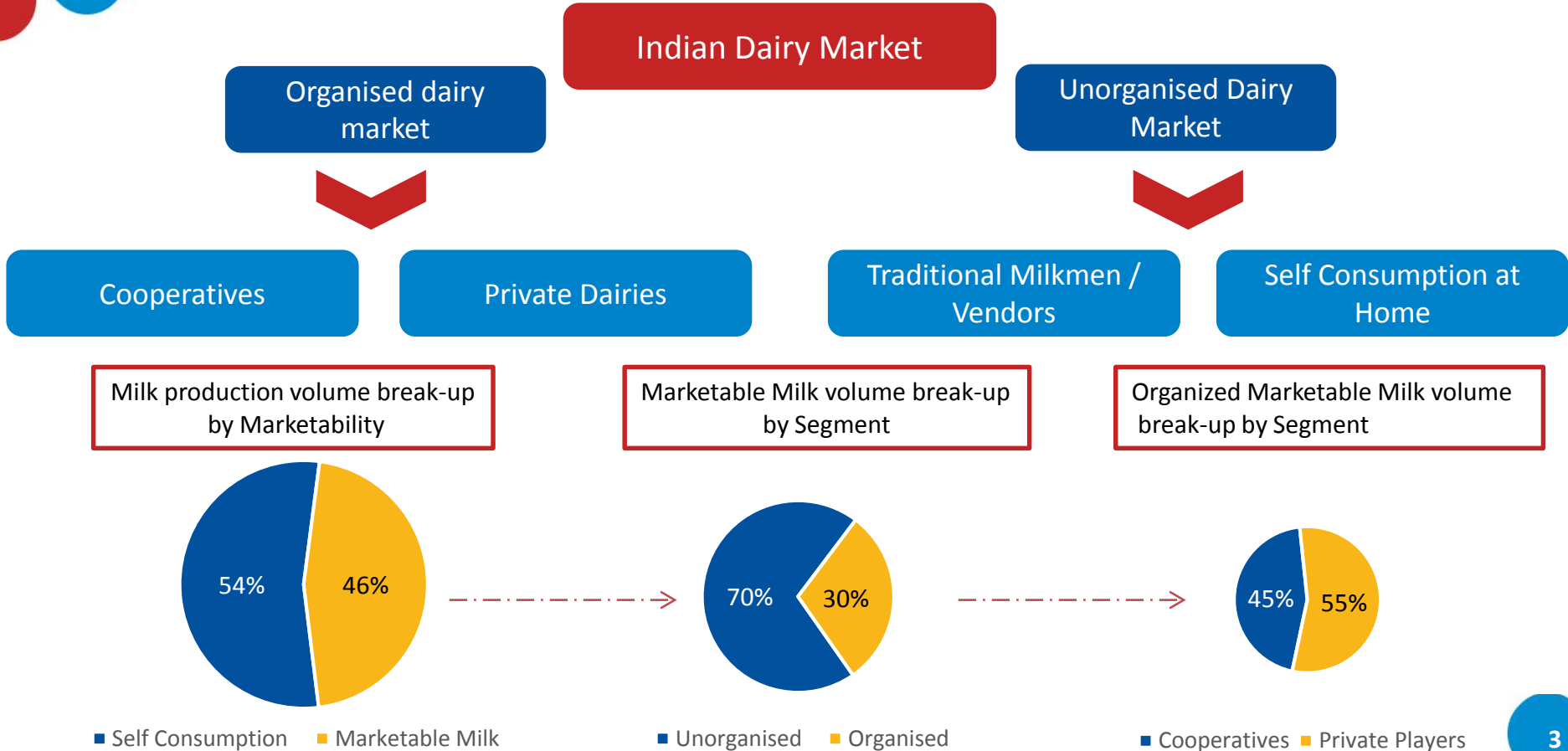
**H1 & Q2 FY17
Result highlights**

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Financial Outlook

DAIRY INDUSTRY

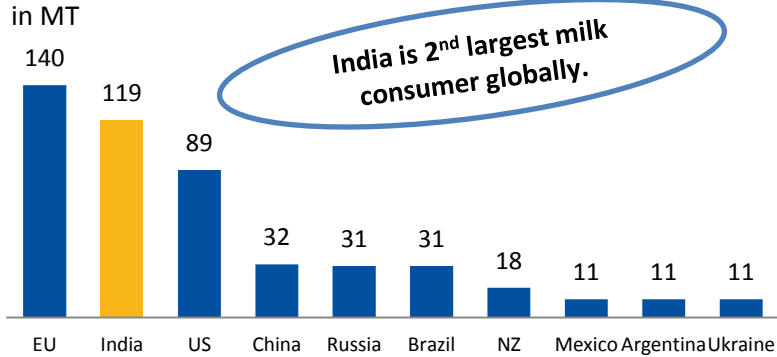
INDIAN DAIRY MARKET



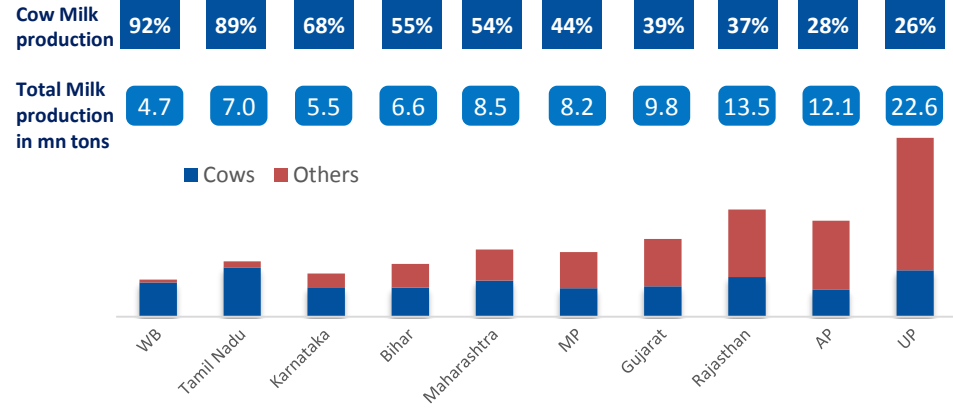
DAIRY INDUSTRY

INDIAN DAIRY MARKET

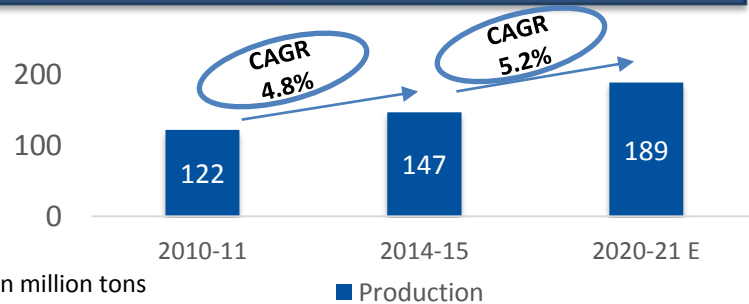
Milk Consumption in Major Countries – FY11



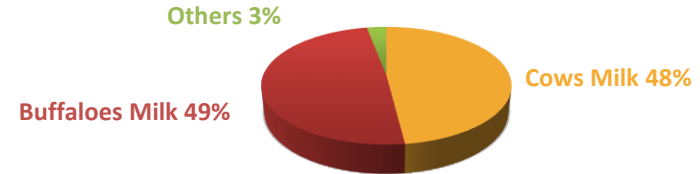
Parag's presence in key Cow belts in India – FY12



Expected growth in Milk Production Volumes



Milk Consumption by Type



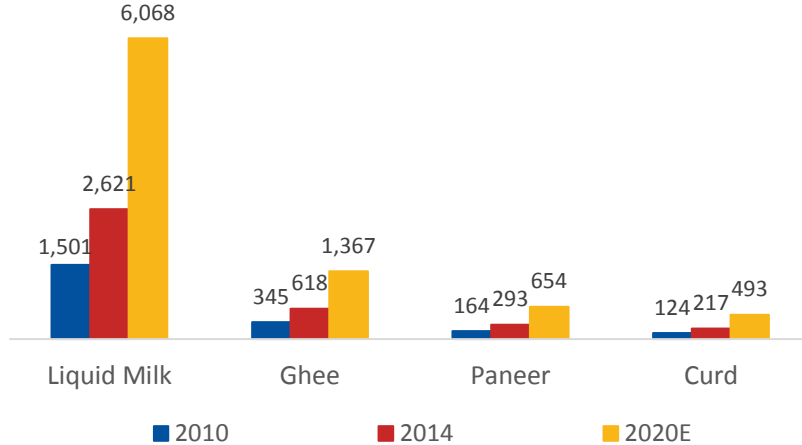
Faster growth is expected in Cow milk consumption in line with Developed markets

DAIRY INDUSTRY

INDIAN DAIRY MARKET SHIFT TO ORGANISED SECTOR

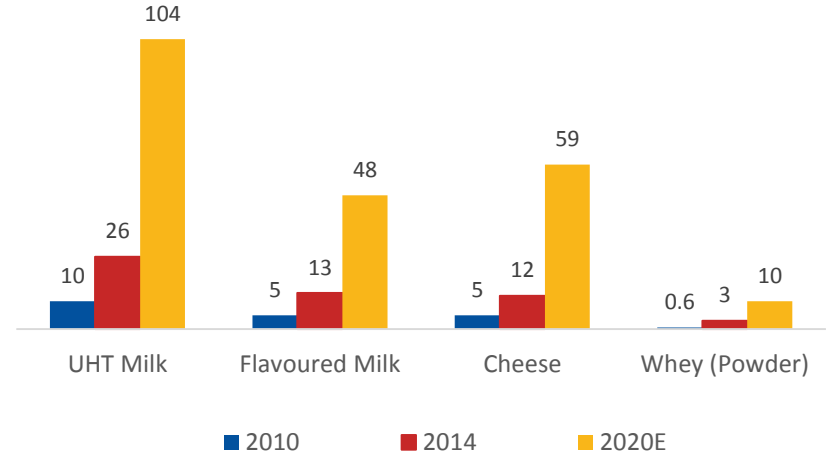
Market size of Traditional Dairy Products – Faster organised growth

Amount in INR Billion



Modern Dairy Products – Tremendous growth potential

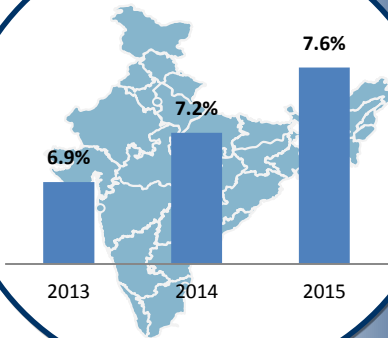
Amount in INR Billion



The traditional dairy products – Liquid milk, Ghee, Paneer and Curd are moving towards organised (Branded play) segment at a faster pace than the overall market growth.

The Modern dairy products (100% organised) – UHT milk, Flavoured milk, Cheese and Whey are moving at a faster pace than the overall market growth.

India – GDP Growth



Rising middle class population & income levels

- Middle class households to grow from 255 million in 2015 to 586 million in 2025 at a CAGR of 8.7%
- Rising income & disposable income to drive consumption of milk & dairy products

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

- Milk being important source of vital nutrients 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

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

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COMPANY OVERVIEW

EVOLUTION – MOVING UP THE VALUE CHAIN

1992-1998 Commodity player

- ❑ Established in 1992
- ❑ Primarily involved in collection and distribution of milk



1998-2008 Milk Products Player

- ❑ Developed the 'Gowardhan' Brand
- ❑ Started manufacturing Ghee and Butter at Manchar
- ❑ Launch of Bhagyalaxmi Dairy Farms
- ❑ Launch of 'Go' Brand for targeting youth of India.
- ❑ Raised first round of private equity funding from MOSL



2008-2016 Branded Foods Player

- ❑ Established 40 MT per day capacity cheese plant at Manchar
- ❑ Launched dairy plant in Palamaner
- ❑ Launched Farm-to-Home brand 'Pride of Cows' & beverages range with 'Topp Up'
- ❑ Raised second round of private equity funding
- ❑ Launch of Whey products and expanded cheese product ranges
- ❑ Focus on brand building and distribution



COMPANY OVERVIEW

ABOUT US: BRIEF PROFILE



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.

WE FOLLOW 3 TIER MILK PROCUREMENT SYSTEM

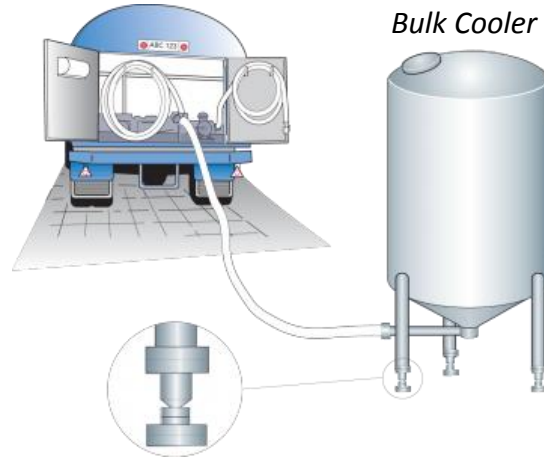
1st Tier Village collection centre



Everyday ~1.1 MN LPD of milk is deposited at 3000+ VCC



2nd Tier Chilling centre



This milk is transported to nearby chilling centres and chilled at 4°C



3rd Tier Dairy Plant



The chilled milk is then transported to our dairy plant

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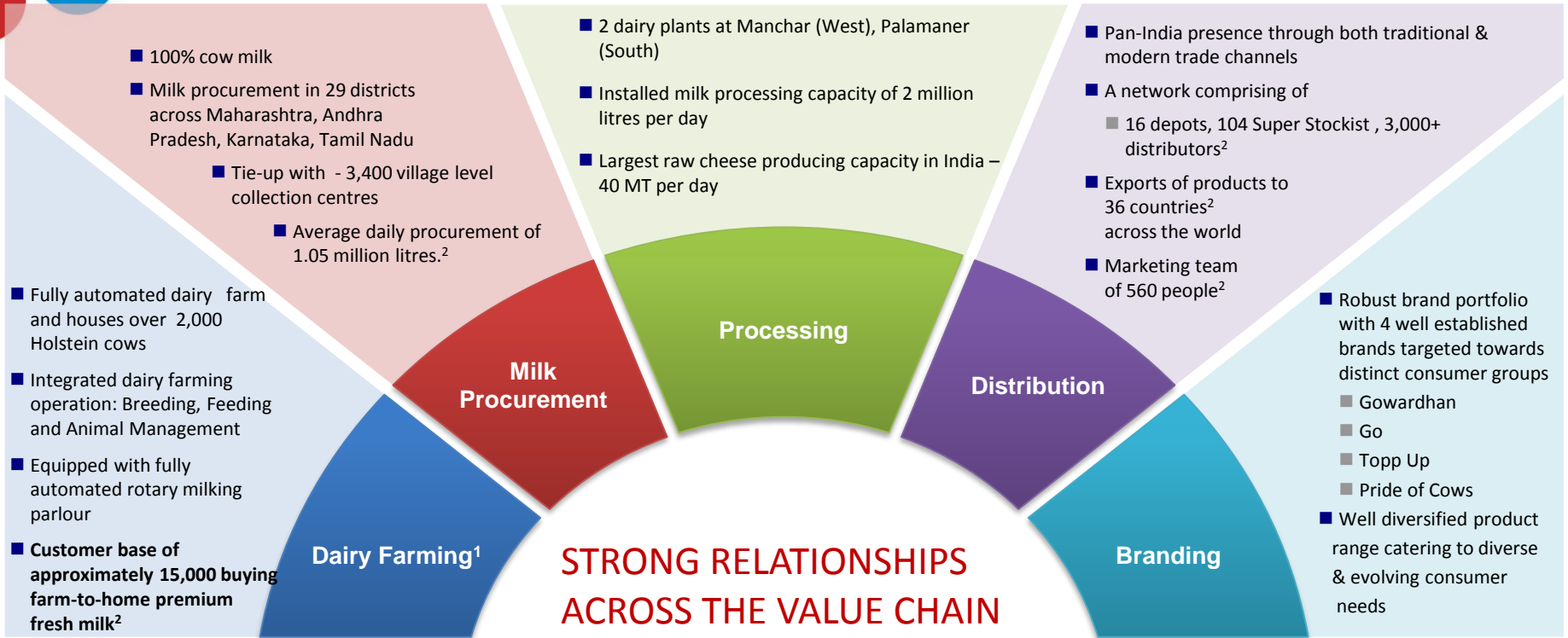
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COMPETITIVE STRENGTHS INTEGRATED BUSINESS MODEL



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

COMPETITIVE STRENGTHS

WORLD CLASS MANUFACTURING FACILITIES & PRODUCTS

Processing Facilities



Bhagalaxmi Dairy, Pune



Palamaner Plant, Andra Pradesh

Leadership in Dairy FMCG space



Second largest market share in Cheese



Most trusted & attractive Brand Recognised by TRA in Ghee



Only Branded player in "Farm to Home" milk



Leading private player in UHT category

COMPETITIVE STRENGTHS

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, jalapeno cheese
spread, herb cheese cubes



Pioneering and Leading
player in India to market
fresh paneer in retail stores
with a shelf life of 75 days



Leading producer of Whey
protein powder in India

2013

- 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

2014

- 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

2015

- 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

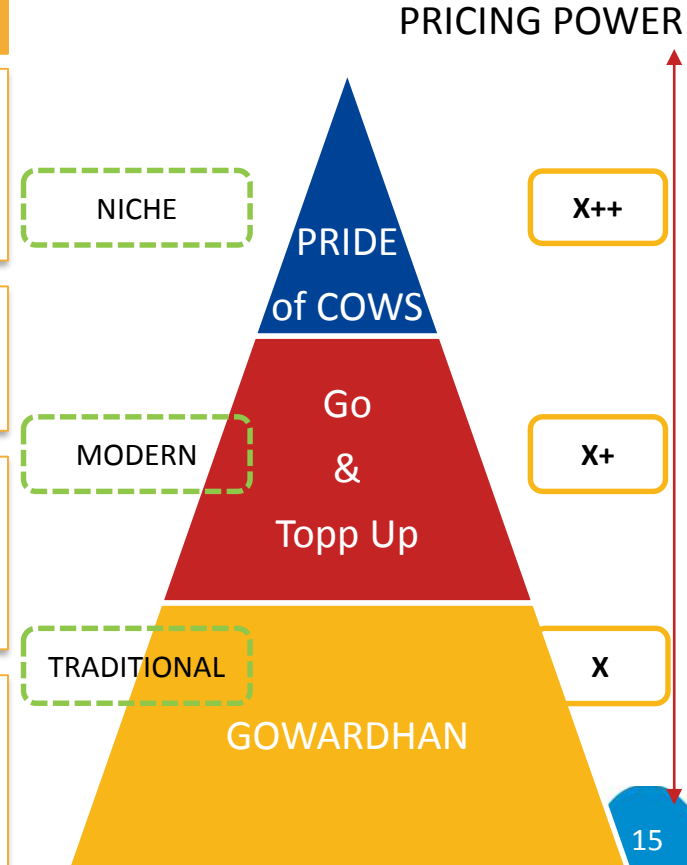
2016

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

COMPETITIVE STRENGTHS

DIFFERENTIATED BRAND & PRODUCT PORTFOLIO

Brands	Target Customer Group
	 <ul style="list-style-type: none"> Targeted at household consumers seeking premium quality cow's milk.
	 <ul style="list-style-type: none"> Targeted at youth generation & travellers as source of instant nourishment
	 <ul style="list-style-type: none"> Targeted at children and the youth generation, primarily for direct consumption
	 <ul style="list-style-type: none"> Targeted at house-hold consumption for traditional Indian recipes and to be used as cooking ingredients



COMPETITIVE STRENGTHS

EXPERIENCED SENIOR MANAGEMENT PROFESSIONAL

Leadership with industry knowledge & expertise



Devendra Shah
Executive Chairman

- Industry experience of 23 years



Pritam Shah
Managing Director

- Industry experience of 23 years

B M Vyas
Non- Executive Director

- Former Managing Director of Amul, a mechanical engineer by profession and 44 years experience in the dairy industry

Independent Directors

Key Managerial Personnel



Bharat Kedia
CFO

- Bachelors of commerce, Ranchi University, CA (ICAI) & CS (ICSI)
- Previously worked with Coca Cola Hellenic Bottling Company and TLG India Private Limited
- Amongst Top 100 CFO's in India as per CFO-100 ranking



Mahesh Israni
CMO

- Bachelors in Microbiology, Pune University
- Previously worked with Unilever and Pidilite



Akshali Shah
VP Strategy
(Sales & marketing)

- Bachelors in Management Studies, Mumbai University
- Post Graduate degree in FMB capital from SP Jain Institute
- Working with organization for past 6 years



Rachana Sanganeria
CS, Compliance Officer

- Bachelors of Commerce & Law, Mumbai University, CS (ICSI)
- Previously worked with Parle International Limited and M/s Bailley Beverages Limited

Sunil Goyal

- Bachelors degree in commerce, University of Rajasthan, CA by profession

Nitin Dhavalikar

- Masters degree in Commerce, Pune University & CA by profession

Narendra Ambwani

- Former Managing Director of Johnson & Johnson's consumer group, Bachelors degree in Engineering from IIT Kanpur,

Radhika Pereira

- Law graduate, Harvard University, Masters degree in law from Cambridge & Harvard University

Ramesh Chandak

- Masters degree in commerce, Nagpur University & fellow of ICAI since 1976

COMPETITIVE STRENGTHS

EXTENSIVE SALES, MARKETING & DISTRIBUTION NETWORK

Well entrenched Pan-India distribution Network



Enormous Potential to grow in India



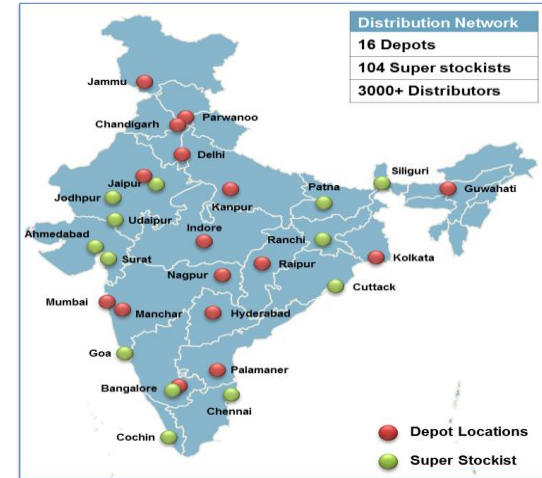
Pan-India Distribution network 16 depots, 104 super stockists, 3000+ distributors



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



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STRATEGIC INITIATIVES

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



STRATEGIC INITIATIVES

NEW MARKETING CAMPAIGN & PRODUCT LAUNCH

Parag Milk Foods assigns creative mandate to **JWT** for our flagship products '**Gowardhan**' Ghee and '**GO**' Cheese



Focused marketing campaign for 'Cow Ghee' with new slogan – '**Pyar ka Rang Sunehra**'

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



Raveer Brar using **Go cheese chutney** slice on his show '**Good to Go**'

New product launched during Q2 FY17



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

STRATEGIC INITIATIVES

KEY AREAS OF STRATEGIC FOCUS

Focus on Health & Nutrition

- Introduce healthy & nutritious product variants like
 - Milk based high protein drinks (Topp Up, T-Star, Go)
 - Colostrum products – as daily supplements
 - High protein, low fat cheese products

Increase Our Value-added Product Portfolio

- Offer wider range of farm-to home products under 'Pride of Cows'
- Focus on health & nutritional aspect in developing premium products
- Sell whey directly to retail consumers in the form of branded health supplement foods and beverages

Grow Our Product Reach

- Strengthen distributor & stockists base to achieve higher retail penetration
 - Addition of 6 more depots in FY17
- Introduce low unit price products in Tier III cities
- Identify specific states and regions in India to increase sales volumes

Areas of Strategic Focus

Increase Operational Efficiencies

- Leverage in-house technological, R&D capabilities to:
 - Maintain strict operational controls
 - Enhance customer services levels
 - Develop customised systems & processes

Increase Our Milk Procurement

- Strengthening existing farmer relations
- Offer quality & quantity based incentives
- Set up new collection centres & reach new districts
- To add 75 new bulk coolers, 100 automated collection systems

Focus on Strengthening Our Brands

- Enhance brand recall through strategic branding initiatives
- Increase Ad spend on diverse channels including television, newsprint, digital media etc.

STRATEGIC INITIATIVES

BUSINESS STRATEGY & OUTLOOK OVER 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
 - Focus on brand building through accelerating advertisement

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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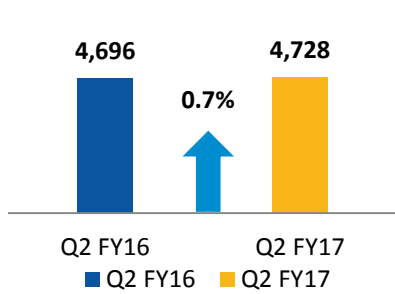
Financial Outlook

Q2 FY17 RESULTS ANALYSIS

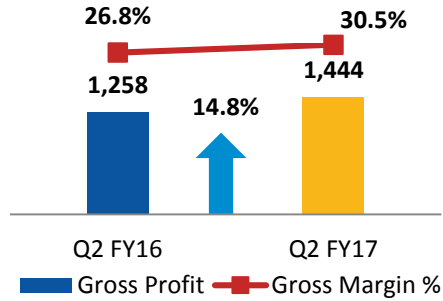
Q2 FY17 CONSOLIDATED FINANCIAL ANALYSIS

Q2 FY17 Highlights

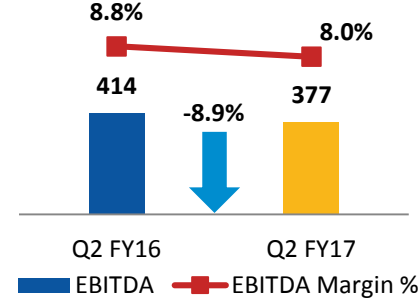
REVENUES



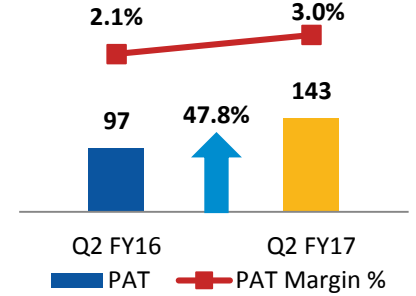
GROSS PROFIT & GROSS MARGINS



EBITDA & EBITDA MARGIN

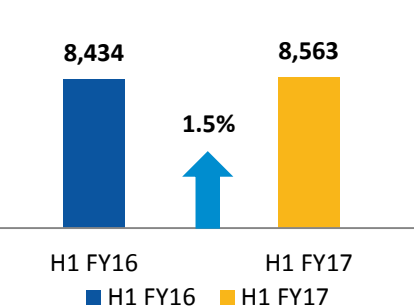


PAT & PAT MARGIN

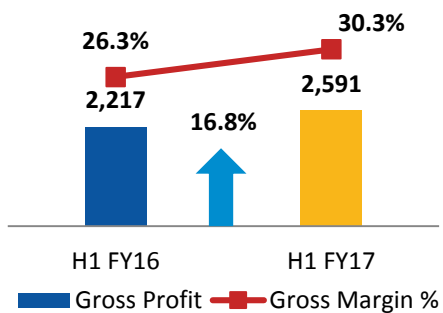


H1 FY17 Highlights

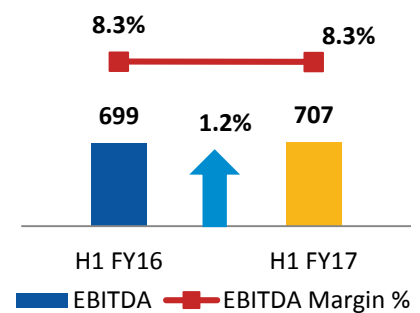
REVENUES



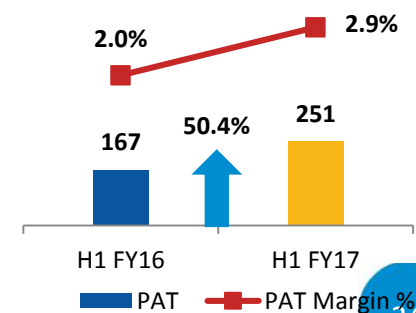
GROSS PROFIT & GROSS MARGINS



EBITDA & EBITDA MARGIN



PAT & PAT MARGIN

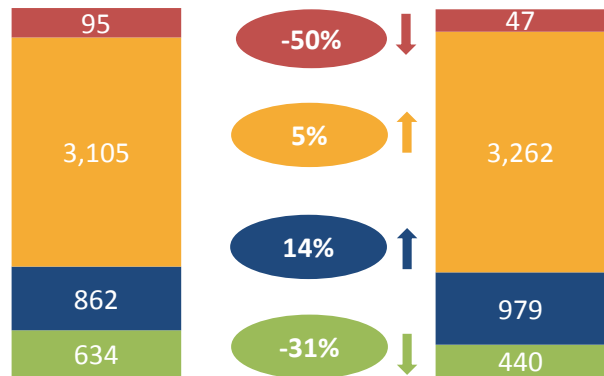


H1 & Q2 FY17 RESULTS ANALYSIS

PRODUCT WISE REVENUE BREAK-UP

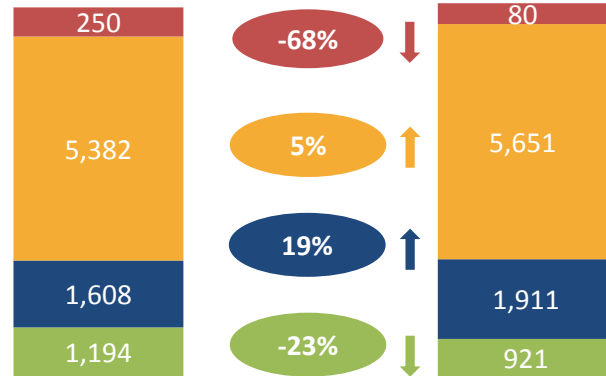
Q2 FY17 YoY ANALYSIS – REVENUE BREAKUP

Total Revenue: 4,696 (Q2 FY16) → 4,728 (Q2 FY17) **0.7%** ↑



H1 FY17 YoY ANALYSIS – REVENUE BREAKUP

Total Revenue: 8,434 (H1 FY16) → 8,563 (H1 FY17) **1.5%** ↑



- Other Revenues
- Milk Products
- Fresh Milk
- Skimmed milk powder

Q2 FY16

Q2 FY17

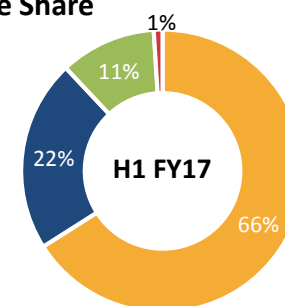
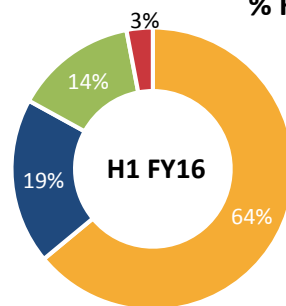
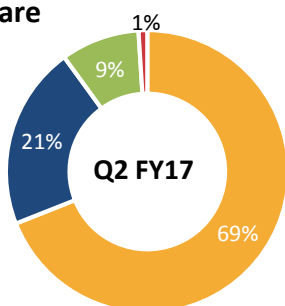
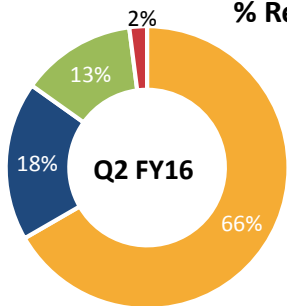
H1 FY16

H1 FY17

Amounts In Rs Million

% Revenue Share

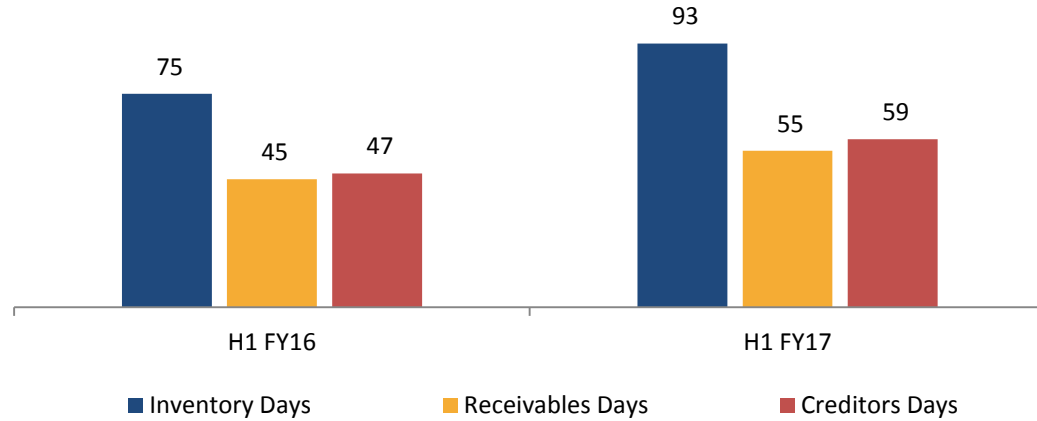
% Revenue Share



H1 FY17 RESULTS ANALYSIS

WORKING CAPITAL ANALYSIS

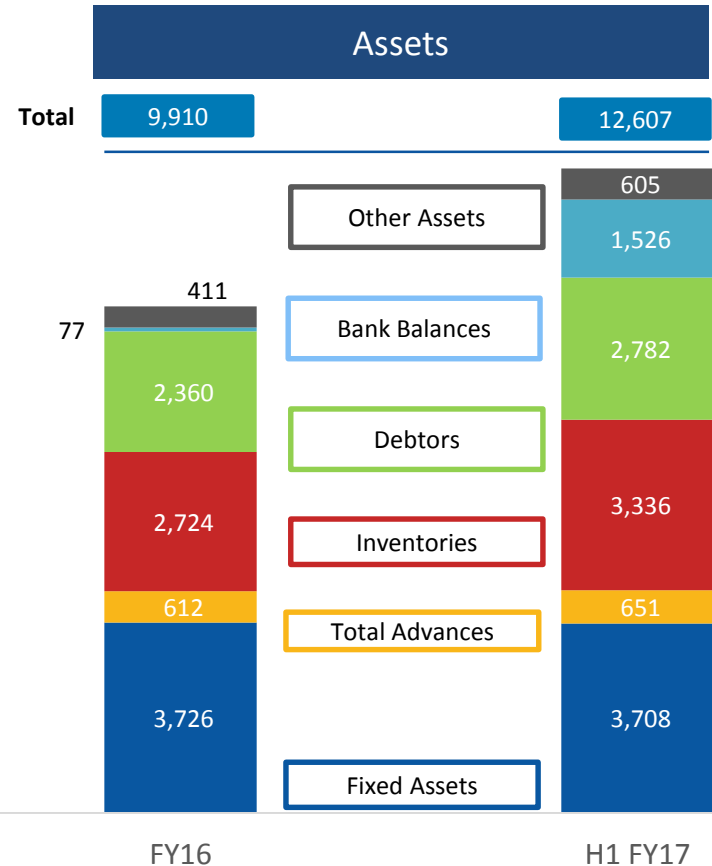
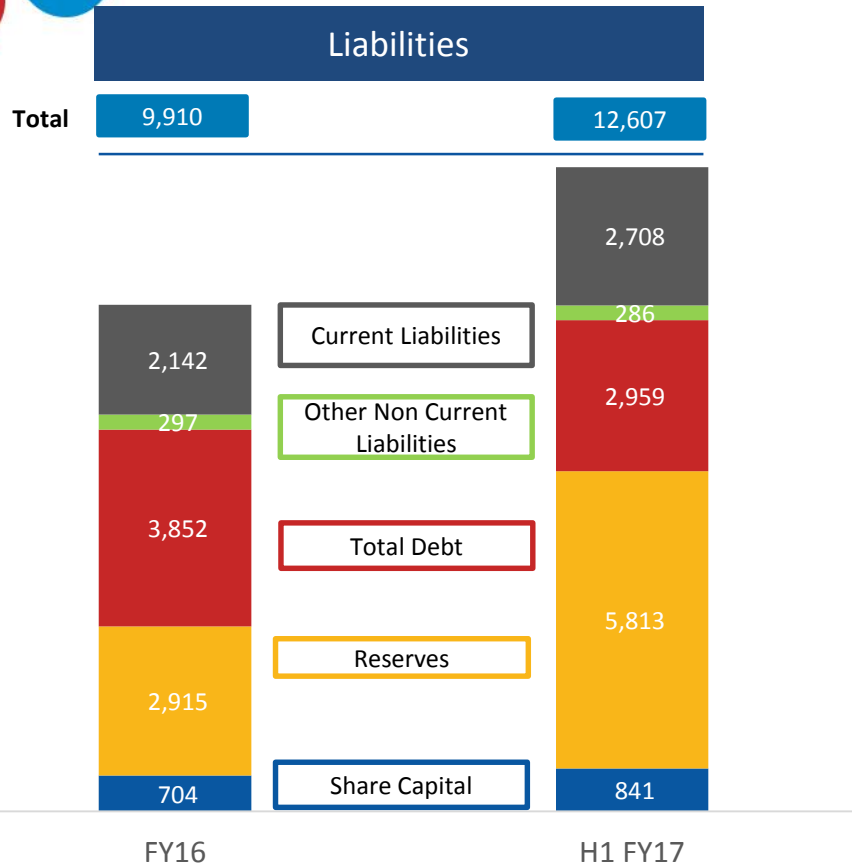
WORKING CAPITAL ANALYSIS H1 FY17 *



NET WORKING CAPITAL DAYS has increased from 73 days in H1 FY16 to 89 days H1 FY17

H1 & Q2 FY17 RESULTS ANALYSIS

Financial Health – At a Glance 30th September 2016



Amounts In Rs Million

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 18.6% 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 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.

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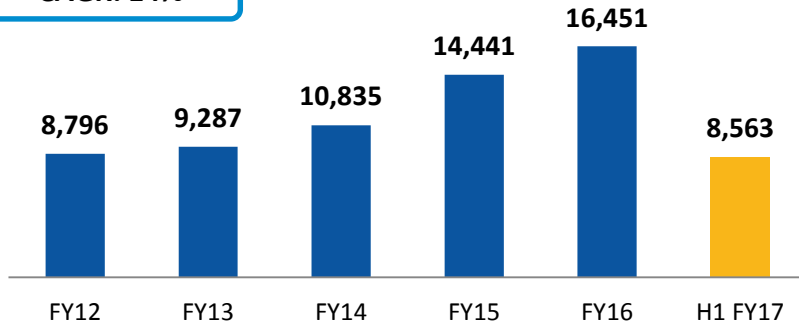


FINANCIAL OVERVIEW

HISTORICAL FINANCIAL SUMMARY

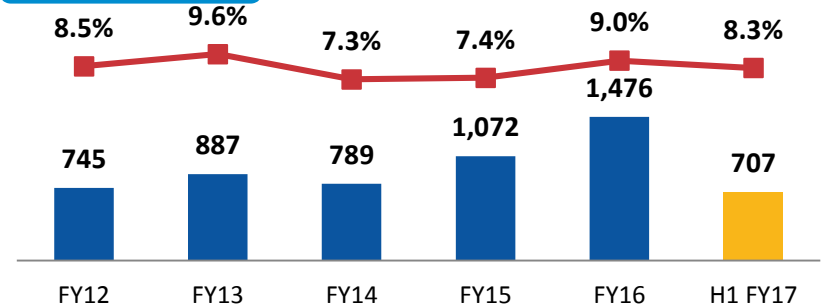
Net Sales (Rs mn)

CAGR: 14%



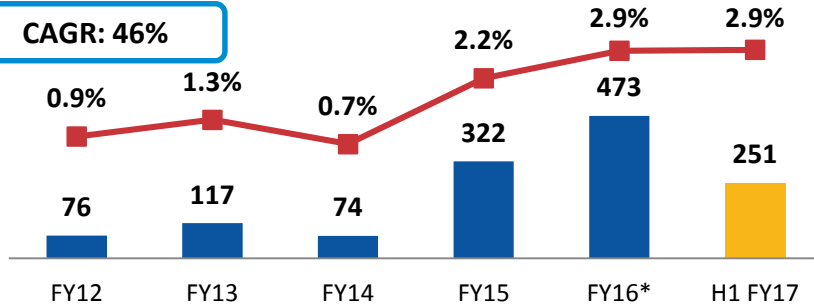
EBITDA (Rs mn) & EBITDA margins (%)

CAGR: 14%

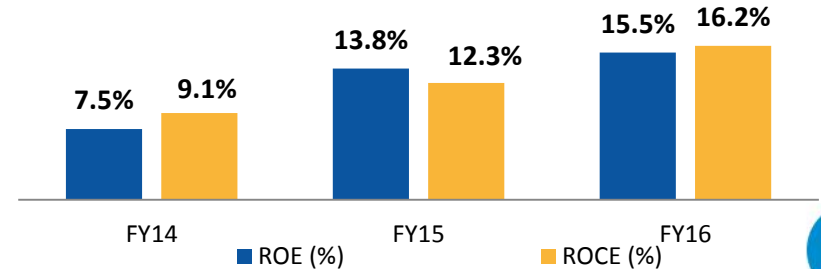


PAT (Rs mn) & PAT Margins (%)

CAGR: 46%



Return Ratios (%)



Amounts In Rs Million

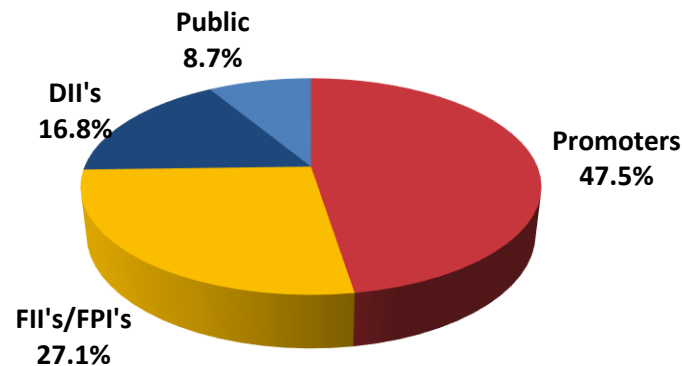
FINANCIAL OVERVIEW

SHAREHOLDING SUMMARY

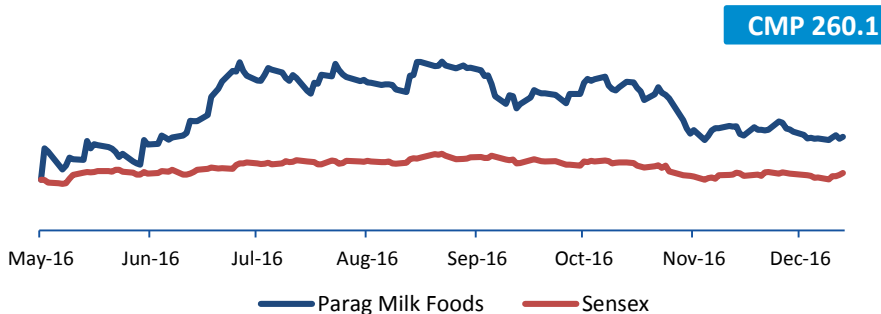
Top 10 Investors as on 31st December 2016

	% Holding
IDFC Trust	6.98%
Nomura India Investment	3.50%
New Horizon Opportunities	3.01%
Goldman Sachs India Limited	2.92%
IDFC Spice Fund	2.87%
Government Pension Fund Global	2.66%
Abu Dhabi Investment Authority	2.10%
Ashish Kacholia	1.88%
Quantum (M) Limited	1.79%
Tata Balanced Fund	1.65%

Shareholding as on 31st December 2016



Share Price Performance (Normalized) as on 31st December 2016



Market Data

As on 31st December 2016

Market Capitalization (Rs mn)	21,878.2
Price (Rs)	260.1
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

THANK YOU



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