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MILK & MILK PRODUCTS
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Date: 02 February 2024

The General Manager Department of Corporate Services **BSE Limited** Phiroze Jeejeebhoy Towers Dalai Street, Fort Mumbai-400 001	The Manager Listing Department **National Stock Exchanges of India Limited** "Exchange Plaza", 5th Floor, Plot No.C/1, G Block Bandra-Kurla Complex Bandra (East), Mumbai 400051.
Scrip Code : 543306	**Scrip Code : DODLA**

Dear Sir/Madam,

Sub: Transcript of Q3 FY24 Results Conference Call held on Monday, 29 January 2024.

In Continuation to our letter dated 19 January 2024 the Company had organized a Q3 FY24 Results Conference Call with the Investors/ Analysts on Monday, 29 January 2024 at 16:00 Hrs (IST). A copy of Transcript of conference call held with the Investors/ Analysts is enclosed herewith and the same has also been uploaded on the Company's Website at www.dodladairy.com.

This is for your information and records.

Thanking you,
Yours Faithfully,
For Dodla Dairy Limited

SURYA PRAKASH MUNGELKAR
Digitally signed by SURYA PRAKASH MUNGELKAR
Date: 2024.02.02 18:06:57 +05'30'

Surya Prakash M
Company Secretary & Compliance Officer

"Dodla Dairy Limited
Q3 FY2024 Results Conference Call"

January 29, 2024

ANALYST: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

MANAGEMENT: **MR. SUNIL REDDY – MANAGING DIRECTOR - DODLA DAIRY LIMITED**
MR. B.V.K. REDDY – CHIEF EXECUTIVE OFFICER - DODLA DAIRY LIMITED
MR. MURALI MOHAN RAJU –FINANCE CONTROLLER – DODLA DAIRY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Dodla Dairy Q3 FY2024 Results Conference Call hosted by ICICI Securities. 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. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks, Muskan. On behalf of ICICI Securities, we welcome you all to Q3 & 9M FY24 Results Conference Call of Dodla Dairy. We have with us senior management represented by Mr. Dodla Sunil Reddy – Managing Director; Mr. B.V.K. Reddy – CEO; Mr. Murali Mohan Raju –Financial Controller. I congratulate the management for excellent set of numbers in Q3 & 9M FY24 and hand over to the management for the initial comments on the quarterly performance, then we will open the floor for question-and-answer session. Thanks and over to you sir.

Sunil Reddy: This is Sunil. Thank you very much Aniruddha for giving me this opportunity. Hello everybody. I welcome you all to Dodla Dairy Q3 & 9M FY24 Earnings Conference Call. I hope you all had the opportunity to go through the company's Q3 and 9M FY24, earnings collaterals uploaded on the exchange.

I am happy to share that Dodla Dairy was able to reap the benefit of the peak 2023-2024 plus season coupled with positive festive spending, enthusiasm and deepened procurement and widen distribution networks. Dodla Dairy revenues grew by 12% YoY to INR 2,338 Crores in the 9M FY24. The company's value added and fat and fat product sales continued its growth momentum clocking a 15.1% YoY growth at a INR 640 Crores, thanks to the robust distribution network and strong brand recall.

Dodla Dairy's VAP sales pie also has expanded by 95 bps YoY to 28% of the overall revenue in the 9M FY24. Dodla Dairy has strategically positioned its processing plants in key markets and procurement clusters. The company continues to strengthen its procurement capabilities during the quarter. Dodla Dairy achieved its peak procurement at 17.5 lakh liter per day registering a growth of 36.7% YoY.

The company's processing plants are fully automated resulting in enhanced operational efficiencies and product standardization of the dairy and VAP products. It is indeed satisfying to see our team effort fructifying with the company's EBITDA margins reclaiming the double-digit mark after eight quarters. Dodla Dairy EBITDA margin expanded by 315 bps YoY to 11.1% in Q3 FY24.

Dodla Dairy continues to strengthen its integrated business model proposition through organic and inorganic growth opportunities. Since inception, Dodla Dairy has expanded its capacities of seven plants through green field expansion and seven plants through brown field expansion in India, i.e., in the states of Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu, and also one plant in Africa in Uganda specifically.

Additionally during the ongoing financial year, we have scaled our Orgafeed, which is our cattle feed business capacity from 80 metric tons per day to 480 metric tons per day in the Q2 FY24. Our Country Delight Dairy Kenya has also added an addition processing capacity of 1 lakh liter per day in January 2024. Additionally, our team is also scouting for appropriate land for building a dairy plant in Maharashtra. We would keep our shareholders, analysts and investor fraternity posted about any further developments with the respective Maharashtra plant through exchange filings.

We aim to maintain our growth momentum by judicially investing in our brand. During January 2024, the company aired television commercial with the long-term view for the first time on leading regional and digital channels to tap the festive vibes of Makar Sankranti and Pongal. Dodla Dairy team is actively working towards accelerating its go-to-market strategy, leveraging its strong brand, and consistently deliver consumer delight through its diverse product portfolio.

The company strides to satiate the evolving consumer demand through diversified product portfolio and widen its presence. The management is committed towards delivering long-term sustained growth with its robust business model, strong balance sheet, and net debt free status, coupled with adequate cash balance for organic and inorganic growth.

Lastly my sincere gratitude to our extreme stakeholders for the continual trust of Dodla Dairy's vision. We continue to strengthen our government framework through our trust on ESG practices. Dodla Dairy's team remains committed to support its dairy farmer network and fulfill the consumer health and nutritional needs through our milk and VAP products.

Now with this brief, I would hand it over to the CEO of our company Mr. B.V.K. Reddy. Over to you sir.

B.V.K. Reddy: Thank you so much Sunil Sir. Very good evening to all participants, our team's ability to maintain competitive edge in the dairy industry has powered us to conclude a healthy quarter with a revenue growth and strong key performance indicators. We are continuously enhancing our footprints, strengthening our PAN India ambition. As on December 31, 2023, we procured milk from around 1.4 lakh dairy farmers out of which 90% are provided with a regular direct payment in the bank accounts.

Our direct procurement model has further strengthened, wherein we are buying almost all the milk directly from the farmers across over 8,600 villages resulting in cost saving and established deep rooted relations with them. The Company continues to grow its farmer's network through several farmer centric approaches, which include transparent milk pricing providing quality cattle feed at a competitive price, prompt veterinary service for the animal health, and several knowledge enriching programs for the milk farmers. Dodla Dairy's Orgafeed division keep supporting the agriculture community on dairy industry. Orgafeed sells cattle feed directly to the farmers through its procurement network thereby strengthen its relationship with farmers by optimizing livestock health and enhancing the productivity.

Dodla Dairy continues to prudently invest in Orgafeed to tap huge untapped cattle feed market potential. Accordingly, the company's total cattle feed plant capacity was ramped up nearly six times to 480 metric tons per day during H1 FY24. Orgafeed's revenue stood at INR 60 Crores in 9M FY24 with EBITDA approximately INR 5 Crores during the same period.

In terms of our presence, we serve 13 states in India supported by 15 processing plants with nearly 22 lakh liters per day capacity. We currently have 139 chilling centers plants as on December 31, 2023. We have 638 Dodla retail parlors. We also have a strong network of 2,100 milk and milk distributor channel. We have around 2,500 agent networks that all establish in many areas of the country.

Dodla Dairy looks forward to strengthening its grass to class business model layered with backward as well as forward integration. Our presence in the entire dairy value chain including research, procurement and storage, processing, distribution and cattle feed amplifies the management clear focus on the long-term business vision. Accordingly, the company aims to enhance operational efficiencies with automation, digitalization, initiatives, and increase distribution network thereby delivering a sustainable value for our esteemed stakeholders.

That concludes our update on strategy, which we believe has been a positive in most satiate. With that being said, I would like to open the floor for the question-and-answers. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: Hi Sir. Thanks for the opportunity. What was the average procurement price and realization price for this quarter?

Sunil Reddy: That is at the consolidated level or we will give you the standalone level. The consolidated price for the quarter ended is INR 57.49 that is the sales realization, INR 37.67 was the procurement price.

Aditya: What was the amount of curd sales for this quarter in rupee term.

Sunil Reddy: In terms the percentage of curd sales, in terms of value was at INR 132 Crores in Standalone and the volume percentage I think for the Q3FY24 was around 20.9% at Consolidated

Aditya: We have been just talking up on inventory for the last two quarters. So, is it reasonable to assume that we will be able to lock in our margins at these double-digit levels for at least the next one to two quarters, and the second half margin of financial year 2025 would be dependent on the fresh season next year?

Sunil Reddy: Yes, see because like we have been telling earlier. Now, we are trying to actually strengthen our procurement and not try to match it exclusively with the sales. So, we will have an inventory buildup that will happen, but it is not going to be a substantial large inventory because if you look at it, if you are handing 75,000 tons of milk and milk solids, our inventory buildup would be to the tune of 4,000 to 5,000 tons of powder and ghee, which is not a large volume. You are right in saying that next half of the year will depend on what the prices will happen, it might have an impact. But to explain it to you for some reason the prices of powder and ghee in the commodity sale are not going to go up, means, milk procurement prices will remain lower and will keep the profitability up on the milk side. For example, the milk and milk prices, milk availability comes down, and if the commodity prices will go up, we will have our own commodity to use up for our own consumption. So overall I think it help us in maintaining more stable numbers as we go forward with the change that we are doing now. So in terms of procuring more, keeping our own procurement, which will bring down our procurement price effectively, and impact of inventory change will not be that much on the numbers.

Aditya: Generally, in Q4 are the procurement prices lower in Q4 as compared to Q3?

Sunil Reddy: Prices in Q4 are maintaining almost the same stable levels as Q3, invariably past trend we used to see an increase, but this time we have not seen an increase and we are assuming that the price will not go up for Q4.

Aditya: My next question is on demand. We had talked about inflation affecting the demand for our products in the last call. Do you see the situation is improving or is it similar to last quarter?

Sunil Reddy: I think the situation is slightly improving. Basically, I think it is also so as we keep getting a little bit weather driven, once the temperatures are moving up, let us say even for January now the numbers are trending to move up more than what they were from the last December numbers. I think as we go forward it will start to move up. So very broadly speaking the inflation that happened, when we took the price increase it was not necessarily simple price increase that happened, but also the volume increase in the per pack bases that happened. We are assuming now that the consumers will start buying more volume in terms of, if somebody was buying one pack with a lower volume, and now they have got used to it and they get adjusted from the next year onwards. It will go back to the two-pack volume that they will be buying, and we are anticipating that the sales will increase. More than that like we said about the ads that we are putting in trying to create more infrastructure. We are also trying to do more active work on pushing our sales volume.

Aditya: My last question is on your Africa business. So, our sales and margins have dropped in Africa, what has led to this, and why have the tax rates increased in Africa business.

Sunil Reddy: Basically, in Africa we had a small one time hit of a local issues, and somebody has been done the business. Therefore it drop down a little bit, but otherwise I think it will continue to be maintaining the same as the previous year. It will improve as we go forward.

Murali Mohan Raju: No compared to the last year it is not dropped actually, slightly, but it will come back.

Aditya: When would we see the benefit of this new capacity, which we have now commenced in Kenya. What kind of growth and margins are we looking for Africa in the next two, three years?

Murali Mohan Raju: Yes, see this month only we commenced our commercial production, and the capacity of the plant is 1 lakh liters per day, and we are hoping that 20,000-30,000 liters it will catch in a couple of months.

Sunil Reddy: So I think two, three years we think we will do 50% at least a comfortable operation and keeping in view whatever seasonality's are required or more than that.

Aditya: Sure. Thank you sir for answering my questions.

Moderator: Thank you. The next question is from the line of Jainis from Spark PWM Private Limited. Please go ahead.

Jainis: Congratulations Sir, on a great set of numbers. My question is a bit longer perspective. Now that we have around INR 250-260 odd Crores of investments or liquid cash in hand plus a steady operating cash generation. What is our Capex plans for next three to four years and how do we see the capacity for the funds being utilized? Are we going to reward our shareholders if the Capex plans are not there in place?

Sunil Reddy: Broadly speaking, if you look at it like I said earlier, now we are moving forward to expand to go to our larger number of volume. I think we will start using more of our money a) in inventory and b) in terms of considering our future growth plans of the plant in Maharashtra and the procurement to increase. We will not be having that much of cash surpluses because we are now planning according to the cash that we have for a faster growth rate. But, yes, we will be looking at rewarding the shareholders as we go forward with the smaller whatever the left over cash with us. We will look at it as to reward the shareholders, if there is a buildup of more cash; otherwise, we will be majorly concentrating on growth. Rewarding the shareholders will be a smaller proportion, but I think for the next three years we have clear path of growth.

Jainis: So in terms of your Maharashtra expansion plan, what is the kind of capacity that you are considering and what will be the amount that will be deployed for that.

Sunil Reddy: We will look at it as a 5-lakh liter capacity at least to start with and look at between INR 150 to 200 Crores of capital deployment on that plant alone, but the supporting structure that we will require in the chilling centers and all that and the other areas will take another INR 50-60 Crores and a regular Capex for market and market expansion will be at least INR 30-40 Crores a year. So based on that we will be looking at the next two, three years to spend of at least INR 400 to 500 Crores range to take us up in our growth path, because now if we are saying that we are in India handling around 15-16 lakh liters, even a 20-lakh liter jump will require that kind of a cash to reach 20 lakh liters.

Jainis: So 5 lakh liters per month.

Sunil Reddy: 5 lakh liters per day.

Jainis: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: I was just asking that in terms of procurement. If you could just kind of highlight which are the areas where you are seeing a lot of traction coming in and is this traction kind of expected to accelerate as well, because we seem to be now well ahead of our targets in terms of our milk procurement targets that is one point. Secondly, in terms of the sales does not seem to be commensuration in terms of the procurement numbers be it your milk sales or your curd sales. Even to an extent even the value-added sales as well. So we spoke about adding inventory, but just want to understand how the overall demand situation, if you could just give some color.

Sunil Reddy: Yes, so I will just give you the broad explanation and BVK will step in with more of the numbers. So two things that you are asking is procurement; we have very strong growth and where is the traction coming from, and the second part is relating to the sales and the differential of what we are going to do with inventory buildup that is going to be happening. So I will take that as the two questions and go ahead and say regarding procurement now we are concentrating on the states of Tamil Nadu, Karnataka, Andhra Pradesh, and Maharashtra. Telangana is a very small portion. I think effectively the team playing between whenever whichever year the price are cheaper increasing growth and other areas is where we are able to keep our prices down and I think more in terms of direct to the farmer, quality improvement and lot of other activities, what gives us the traction and procurement to keep going stronger. BVK will go into the specifics of which region and where the traction is more stronger for us. The second thing when we look at it from the sales point of view if the inventory buildup does happen, it happens on two products one will be VAP which we call it as butter or ghee, and the other will be in powder. Last year we were net buyers of around 3,000 tons of powder or so and this year I think instead of being a net buyer will become a net seller maybe it is depending on our own captive requirement and how the procurement plays out for the next six months, and the fat we can either try to enhance our ghee, consumer sale which should add to our bottom line better or we will look at it as a bulk volume. So, I will hand it over to BVK to give you specifics on traction of which states or procurement is at the moment and where do you think the traction in the states will be later.

B.V.K. Reddy: Yes, see compared to all the states now AP is still leading number one position followed by Tamil Nadu, then Karnataka, then Maharashtra. So, our numbers in 5 lakhs plus we are collecting 9 months average from Andhra Pradesh, and close to 5 lakhs is Tamil Nadu and close to 3.5 lakhs is from Karnataka, and around 2 lakhs from Maharashtra, and small quantity around 30,000 liters from Telangana.

Prashant Kutty: So suffice to say that Tamil Nadu seems to have seen the sharp amount of rise in that because we were already doing a good number in Andhra Pradesh that is what I will tell that. So I presume Tamil Nadu probably would have been a positive support.

Sunil Reddy: Yes, Tamil Nadu we have a traction this time, we got larger number of increase in Tamil Nadu comparatively. I think we are now concentrating also in terms of Maharashtra which will be the next larger traction for us, and the others will grow in the same steady state.

Prashant Kutty: When you are talking about sales, I presume you just said that going forward you are not seeing too much of margins to be under pressure, but I did not understand one point that why are we building up so much of inventory it has been almost one and a half year that the inflation has been actually hurting us in the past, but now we probably seeing a steady state kind of numbers. So any reason as to why you probably feel that there is a need to add up one should be holding this.

B.V.K. Reddy: See, now we know inventory we have only two issues, one is fat, another one is SMP. SMP normally all these years we used to buy SMP in the fourth quarter. See we were net buyers, so we used to buy roughly about 4,000-4,500 tons every year from December onwards till March even sometimes April, May also depending upon the requirement. So this year now they would not be see any purchase SMP purchase from outside party because we have our own SMP. So that is why your inventory look like it shows inventory number it is more, and except the fat, the only fat, fat also nowadays because high fat milk is going day-by-day more and more quantity so our fat consumption also for our own consumption itself we required 1000-1500 tons fat also, because last year, last before year also we purchased butter from outside, third party. So this year may be slightly little surplus only fat that we are going to sell it outside. SMP is not the big issue, SMP we going to consume our side.

Sunil Reddy: Like we were saying right, we are now moving away from being a net buyer to being a net seller rather than being a net buyer. The double advantage we get is by increasing more and more of our own procurement if you look at the overall five-year period, it will stabilize the margins.

Prashant Kutty: This quarter margins would not include any kind of sale of powder or fat sales any number on that to quote.

Sunil Reddy: It might happen only maybe 6 months later. So fat of out sale depending on how the flush pans out as we go forward. If there is even more and more milk coming in, we might have to end up doing that, but not in immediate. We are waiting for at least for another two, three months when we make the call.

B.V.K. Reddy: Yes nowadays see demanding also is very less and people who are not able to hold this SMP and fat. They are only selling for this price. So we do not sell it now, right now. We will hold it for some time and then we will see.

Prashant Kutty: Understood. Thank you so much and all the very best to you.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy Capital Management Private Limited. Please go ahead.

Mythili Balakrishnan: Coming back to that volume point right, which I think most people have raised. If you remember during last quarter you had talked about the fact that volume per pack has been reduced, there have been so many rate hikes, and that is affecting volumes. Do you see a trend of that reversing with time in this particular quarter, do you think it will take a little longer for us to reach normal growth levels.

Sunil Reddy: I think normal growth levels, we will know by mid-March towards end of April month. Normally as summer sets in and temperatures go up we will see that the change in the consumer pattern, that is when we will have to wait and see, and we will know by then what the trend is going to be like.

Mythili Balakrishnan: Got it, and then in terms of growth, we had mentioned that our current cash and we are sort of increasing our Capex in line with our growth expectations. So what is the sort of growth expectations that we see for ourselves over the next two, three years.

Sunil Reddy: In revenue term, we still trying to target the 15% value growth, revenue growth and because now like we have the three divisions which are working if I broadly bring it down to Dodla, the dairy in terms of Indian dairy operation, our cattle feed and Kenya. Cattle feed and Kenya alone should contribute another couple of hundred Crores of revenue in the current year itself in terms of the growth that we are anticipating, and even the kind of inventory that we have build up even our own captive use of that inventory versus selling it or whichever way we look at it to maintain for the immediate year the 15% growth is not a challenge, we will be able to manage that easily, and the Capex that we are doing for the future and continuing to grow is to keep in the same lines and trends.

Mythili Balakrishnan: Got it 15% odd level of revenue growth, and in terms of the margins. While obviously we will see some bump up during this flush season, but over a longer-term range what would you sort of target as the margins for the company.

Sunil Reddy: If I look at it as a three-year cycle normally because as you have seen from the last year, this year cycle you can see how it affect the dairy industry. I think looking at higher single digits to closer to double digit is the norm that we will try to target for as we go forward.

Mythili Balakrishnan: So 8% to 10% kind of a range.

Sunil Reddy: Yes, for the long term.

Mythili Balakrishnan: Also wanted to check with you on your tax because that seemed to have shot up, especially in the subsidiary. So wanted to check on any one-offs, which is there in that item.

Sunil Reddy: Yes, there is a one off, it is basically related to our international business which Murali will explain.

Murali Mohan Raju: This year we have declared a dividend in Uganda of INR 35 Crores which we have came to Dodla holdings in Singapore. In a consolidated level it was Squared off INR 35 Crores of receipt and payment, dividend and paid and receipt, and whereas the taxes implication is there, 15% of tax in Uganda and 17% that is 32%, but there is a 10 Crores of receipt only on the tax item. That is the reason this quarter seems to be higher side, but going forward that will not be there.

Mythili Balakrishnan: Got it, thank you, that is all from my side.

Moderator: Thank you. The next question is from the line of Resha Mehta from Green Edge Wealth. Please go ahead.

Resha Mehta: Congrats on a very good margin performance. I just had two questions broadly. The first is that, since the price hikes taken maybe little price hikes or by reducing the grammage or the volumes per packet. Since that has been taken, and that is already in the base. So, how do you see this future growth that you have guided for 15%-20%, how much of that would be volume driven and this balance between volume and the price hikes that we have taken, because if we see recently the volumes have been muted because of the consumer sentiment not just in dairy, but across the consumer segments? So that is question number one.

Sunil Reddy: Good. You want me to answer this and then you will ask another question.

Resha Mehta: Yes, would be great if you could go ahead with this.

Sunil Reddy: So, I think two things. First I will just give a broader thing and BVK will also step in. To look at the short term of the current year of growth like I was explaining earlier it is not a bigger number for us because even if I look at it as a 3,000 plus kind of a number that we are targeting for the year end, and if I take the 15% growth, which translates to around INR 450 Crores kind of a requirement, cattle feed and Africa alone will contribute toward the Rs.175 Crores or 200 Crores will just come from these two alone. So to get even a 5% increase in regular volume growth if we get in our day-to-day operation of the dairy we will achieve the 15%.

B.V.K. Reddy: See this year we are expecting coming year that is 2024-2025 some roughly about 7 to 8% in the volume growth overall, and there will be inflation at least by 2%-3%. So definitely we are hoping, and added to that the Kenya just we started, so that is going to give an advantage for the next coming year, and also feed also new plant has commenced only couple of months back, so in feed also we are expecting another INR 100 Crores additional revenue. So all these definitely 15% revenue growth is very comfortable that is what we are looking.

Resha Mehta: So for FY2025 you are saying 7% volume growth is still doable despite the grammage cuts that we have taken.

B.V.K. Reddy: Yes.

Resha Mehta: Also because of this muted volume growth across the industry, right. Are there any thoughts or of the other industry players as well as us in terms of restoring back the original volumes per packet or restoring the original grammage per packet or let us say reducing the MRPs or something of that sort.

B.V.K. Reddy: I do not think so, because I think we never has it happened historically. I think for the past 25 years that we have been operating in India the reversal has not happened there might be the things in terms of if the prices further come off and if procurement really is must stop dropping then we might increase the volume to maintain this current margins, we might not try to expand the margins exponentially if more production coming in. We might then take that the volumes, but I think we will try to keep the margins in the current trend. I think if we get another price, let us say, if we get another volume price decrease in procurement and our margins are going to be shooting up further, we rather try to keep the consumer comfortable at that point of time by giving more volume rather than trying to take larger margins, slightly there will be a price pack correction, but not the price.

Resha Mehta: Understood, and lastly, so this was a change this time that for the first time we went on TV. So, is there any structural change in thought process here and let us say if we are able to maintain our margins in the high single digit to low double-digit kind of band, then do we see our marketing spends going up because today as we see ad spends as a percentage of sales is almost negligible. So structurally do we see a shift here in ad spends.

B.V.K. Reddy: We do see a structural shift in ad spend, like we said now we are trying to look at the larger growth structure in the overall period we first buffering up our procurement so that as we go forward we never run short of a product to sell and also trying to move into the more the brand visibility and getting it to be a more stronger brand from where we are now.

Resha Mehta: So, despite all the marketing or the ad spend kind of going up, we still aspire to be in that high single digit to double digit kind of margins.

Sunil Reddy: Yes, we will continue to be there because of overall other profitability’s that is coming we will continue to maintain.

Recha Mehta: All right. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Bhavesh from DB Investment. Please go ahead.

Bhavesh Jal: Thank you for the opportunity. I have couple of questions, the first is on the inventory front. So, we saw a buildup of inventory in H1. So, I just wanted to understand what is the current state of inventory and what are the year end numbers we are looking at, and second is on the front of you saw certain resignation by CFO and Head of Sales and Marketing. So, is there any change in the top management position we are looking at further ahead.

Sunil Reddy: The inventory part I understood Bhavesh, what is the second part of the question.

Bhavesh Jal: Second part is like this resignation by CFO and Head of Sales and Marketing in this quarter. So any changes in top managements going ahead.

Sunil Reddy: The change in top management, now we have already I think we will be making an announcement shortly about the new people coming into play because already I think finance we have already decided and also marketing we have found because we are also looking at a like you said major structural shifts that we will be doing as answering to the previous question, and regarding the inventory buildup we will still be, yes, the inventory will be higher than compared to last year because we are going in improving our procurement and taking our own milk to a higher level. The exact numbers will be BVK will be able to.

B.V.K. Reddy: Yes, the last March also we were holding roughly about INR 150 Crores inventory. So, right now during 9M FY24, we have roughly about INR 350 Crores, maybe by end of March 2024, it may become 400 Crores, but net-net it will be only around 280-300 Crores, net inventory will be very high, but after March also normally we used to buy every year normally we are buying around 3,500 to 3,800 tons of SMP. So, that is not now going to happen because since we have enough stock. Number two and also last two years we have seen 2023 and 2024 also we used to buy butter see last 2023 we have purchased around 500 tons and 2024 we also purchased 1000 tons of butter. So now this coming year since we have a stock there would not be any SMP or butter purchase. So net, net after consumption whatever surplus is there, we will sell into the market. So selling market only happens only after March 2024.

Bhavesh Jal: That is what inventory position is right now sir.

Sunil Reddy: We would not see much, I think we will see only maybe a INR 50 Crores to 100 Crores of differential in terms of surplus shortage, but we need to keep that going if you want to get more growth. So the growth is in view we do not mind keeping the additional inventory.

Bhavesh Jal: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Vandit Dharamshi from Alpha Invesco. Please go ahead.

Vandit Dharamshi: Congratulations sir on great set of numbers. Two, three questions. First regarding say from the three to five years, what kind of advertising and promotions can I be looking at in terms of percentage to sales.

Sunil Reddy: In terms of percentage to sales advertisement spend will be I guess not even more than, it will be only in the points we will try to see in the maximum of 1% maybe will range between 0.4% to 0.7%.

Vandit Dharamshi: Second question is in terms of employee expense, I think as we do some new hiring, we might see that go up and this sort of seem to be reasonably lower. So how do you see that part moving.

Sunil Reddy: Employee expense we will normally have that increase on a yearly basis. The 10% of the growth in employee expense is something which we normally maintain, but on a per liter basis we keep track of it, so that our growth sort of compensates the cost of employee expense.

Vandit Dharamshi: Last bit on Maharashtra plant thing that you spoke about. So, before we come up with the plant, do we plan to do a soft launch to Maharashtra in terms of sales?

Sunil Reddy: No, this plant is more in terms of procurement and then converting it into products that we already need, but yes soft launch will be in the area surrounding Solapur that we will be operating not necessarily that we will enter into Maharashtra State as a whole, but it will start in more or less in a soft launch it will start as a slow entry into Maharashtra. Sales in the Sholapur in around and then move forward.

Vandit Dharamshi: Lastly on tax expense. We should normalize it at 26%-27% going ahead.

Sunil Reddy: Yes, it will be normal 26%-27%. This is only one time like explained by Murali that we do not keep money in Africa. We try to keep it for some time because we wanted to get some tax residency certificate in Singapore but it was getting a little delayed, so we did not want to take the risk of keeping money in Africa so we moved it to Singapore and that is the reason the tax impact.

Vandit Dharamshi: Okay sir, wishing you all the very best for the future. Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Hi, good evening and congrats on good set of numbers. One bookkeeping question. At the beginning of the call you gave the curd sales amount can you just repeat I missed it.

Sunil Reddy: For the quarter right.

Nikhil: Yes, for this quarter.

B.V.K. Reddy: During Q3 FY24, the curd sales value was at INR 152 Crores at a consolidated level and 20.9% percentage, and we told the standalone number of curd sales is INR 132 Crores.

Nikhil: Okay fine. Thanks for that. Secondly, now if we look at it, we have moved from the journey of 7%-8% to now probably 10%-11% and you have talked on the call that the focus would be on growth, but that is on the volume of the milk sales, but on the value-added side in the previous question you said the ad spend will not be more than 0.4% to 0.7%. So, if we have to understand on the brand creation on the non-milk part of the segment, how are you thinking about it and any areas over the last nine months or a year where you have seen better traction on the non-milk or the value-added side and which would be the product categories other than curd where you believe we are getting good traction?

Sunil Reddy: That 1% that we are saying earlier in your first question itself because normally the dairy industry our volume if you look at it even assuming a INR 3,000 Crores kind of a revenue, the ad spend even if I take it as 1% would be a 30 Crores kind of an ad spend. So it is not the money that we are spending, but also to learn how effectively to spend the money is why we will have to be careful and get the traction on the ad spend even when you come to see the value added proportion like as we were always saying earlier because considering the overall growth that we look at as the pie increases in terms of the milk sales and the value added part of it. We are still assuming that it will grow by that 1% to 2% in terms of the growth in terms of the value-added side. Value added, if I look at the fat and fat ad it might sometimes accelerate further because earlier, we were not concentrating much on the fat sales and the fat sales were coming down. As we go forward, we will look at fat as another category. So major driver will come from fat to start with in terms of the value-added expansion happening other than curd followed by the host of other products, although our base of ice cream is very small now, we looking at even the ice cream is adding to a little bit more of the base sale and that will also increase and that is where we look at it for the short term. So between ice cream and ghee other than curd we will see a push coming in from the value-added products. Other products will also increase, but in the same smaller because the overall contribution will be smaller we will get the sweets, flavored milk, lassie, butter milk, will also continue to add to that. So we will be confident that 1% to 2% increase in the value-added sales portion going forward on a yearly basis.

Nikhil: Just one question here. See when we move towards more fat related sales, will it not be more dilutive to the gross margin for the value-added product segment?

Sunil Reddy: I think whereas consumer sales no sir, because fat also has a significant margin when you are doing a consumer sale, but fat of course has the variability because unlike milk fat if the prices are low sometimes you bring down the consumer prices and increase the consumer prices, but it is still B2C, fat has a higher margin than milk. It might not be as high as curd, but it is better than milk.

Nikhil: Okay sure. Thanks a lot.

Moderator: Thank you. The next question is from the line of Piyush from Acquaint Bee Ventures. Please go ahead.

Piyush: Hi Sir. Wanted to understand, will we have to slow down our procurement. So right now, you are self-sufficient in terms of what you are procuring from outside, but in case your sales volume do not ramp up. Will you have to move into more wholesale sales or versus the consumer sales that you are doing now.

Sunil Reddy: We primarily will concentrate on accelerating the consumer sale, not looking at selling it in terms of commodity, because match it is very difficult, earlier we used to match on the lower side more on the side of not having enough volume and buying. Now because we are looking at the growth sales as going forward, we will look at it as more on the side of selling a small portion of the commodity rather than ending up being net buyers. So our focus will be to remain a B2C this bulk will be only maybe in the correction factor in case we go wrong.

Piyush: And what kind of margins generally do you make or is expected in a bulk sale compared to the consumer sale. So 10% is what you make right now.

Sunil Reddy: Bulk sales is always, see because the commodities also now in the year, when there is a lower price you might even lose a bit on a year when it is seasonal shortage will make it higher, but when we look at it as a composite of the milk and the commodity it will not hurt as much because the commodity prices are going up, which means that there is no milk in the system, the commodity that we hold will give us our improvement and helping the milk margin. If the commodity prices are not going up, it means that the milk prices are remaining lower, then the milk business itself will make the margin which is higher which can afford to take even if there is a slight drop in the commodity price. So net, net we will not face much of an impact because I think this whole commodity surplus might end up to be 3% or 4% of the overall, it would not even be higher than that in terms of the revenue.

Piyush: We will stop at that right; we would not shift in case the consumer sales do not ramp up we would not shift a bulk of the sales towards wholesale right.

Sunil Reddy: The wholesale will only be the 3%-4% at the most because the core is still B2C we are not adding just of sake of adding commodity.

Piyush: Yes, so that DNA remains, that DNA will remain going forward as well.

Sunil Reddy: Yes.

Piyush: Okay thank you so much.

Moderator: Thank you. The next question is from the line of Vivek from New Mark Capital. Please go ahead.

Vivek Tulshyan: Thank you for the opportunity. I missed the numbers on realization and purchase price per liter. Could you provide that for standalone and consol?

Sunil Reddy: For the quarter or for nine months ended.

Vivek Tulshyan: For the quarter.

Murali Mohan Raju: Quarter sales realization consolidate level INR 57.49, standalone of India is INR 57.8.

Vivek Tulshyan: And procurement.

Sunil Reddy: Sales realization in terms of rupees INR 57.49 for sales realization consolidated and INR 57.87 standalone.

Vivek Tulshyan: And procurement price for standalone and consolidated results.

Murali Mohan Raju: Consolidated INR 37.67, standalone 38.71.

Vivek Tulshyan: Okay, thank you.

Moderator: Thank you. The next question is from the line of Shreyans J from Svan Investment. Please go ahead.

Shreyans J: Sir you spoke about advertisement some time back. So, just wanted to understand what has been our ad spends for the last 9 months and what do you envisage it will be for the whole year.

Sunil Reddy: I think the ad spend for the last 9 months has been very small it is only being I think around INR 7 Crores which is there. Going forward also maybe it will be another couple of Crores this year, but for the next year it will also be a little more than this maybe we will go at around INR 15 Crores is what we are looking at.

B.V.K. Reddy: Yes, the INR 7 Crores also mostly it is a POP wall painting and POP and just we started only this month only TV ad. So maybe this INR 3 Crores it will add totally it will come to around 10 to 12 Crores maybe next year will be every month we are adding to little more.

Shreyans J: In the presentation, somewhere we are saying that there has been an increase about 173 bps in other expenses due to rise in marketing and advertising costs, so INR 7 Crores we did 9 months. So is this the correct understanding that all of this other expense increase has been due to advertising marketing.

Sunil Reddy: So, what happened sir, advertisement will give this, but we have other things that we do for marketing like our freezer that we give and provide in the market. So all those like I was explaining earlier that we are looking at expanding our marketing depth and presence is that we are spending on more of those.

B.V.K. Reddy: Yes, other than that the third quarter so we spend some money in some schemes. In Bangalore and Chennai, we operated some schemes during Q3 FY24, thus the marketing spend is slightly higher, but in overall pie it is not much.

Murali Mohan Raju: So advertisement what is likely a separate line item, the sales promotion, the credit note whatever we give those things will be netted off in the revenue.

Shreyans J: Sorry I did not get the last point.

Murali Mohan Raju: The promotions and all those things is a separate line item; advertisement is a separate line item.

Sunil Reddy: So what we were talking about earlier is only the advertisement cost.

Murali Mohan Raju: Whatever the other promotions are there in part of the other expenses apart from that based on the volume increase and the other normal expenditure…

Sunil Reddy: That is what we had said in terms of this 175-bps expansion.

Shreyans J: So what would the number be combined marketing and advertising and including both.

Sunil Reddy: I think we will get back to you sir or we will get back to you later, we will have a look at the other line item and get back to you sir.

Shreyans J: Sir, my second question is you said that we want to focus on volume that is building up inventory and also somewhere I think I heard that you are saying 100 to 150 odd basis points of improvement in your value-added product. So just wanted to understand how comfortable are you with these kind of margins or this is a one off this quarter because of high VAP and you think 8.5%, 9%, 10%. So what is the number that ideally you are targeting internally over a two, three-year period?

Sunil Reddy: Sir, number on the VAP is what we are targeting is what you ask for. The number in terms of the VAP is what you are looking at is correct.

Shreyans J: No, what I am trying to understand is you mentioned earlier that you want to focus on volumes and growth obviously. So this kind of EBITDA margin that we have done this quarter I just wanted to understand the sustainability of this and what are you looking at in terms of a two, three-year horizon for the company.

Sunil Reddy: The two, three-year horizon normally we look at higher single digit to the double-digit margin. It is being in terms of whatever the cyclicality of the season happens like I was explaining earlier normally whenever there is a milk procurement price increase by the time we transfer it to the customer takes a lag one or two months of lag in terms of by the time we stabilize and those type of years we see a slight drop, but whenever the procurement corrects that impacts immediately. So we will be looking that 8% to the 10% kind of range is a standard price range what we look at it.

Shreyans J: And the last question what is the average shelf life of SMP that we hold in our inventory.

Sunil Reddy: SMP will be 18 months if you are able to hold it at a good condition and the butter under refrigerated can also be 18 months.

Shreyans J: Okay, all right. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Ramesh, an Individual Investor. Please go ahead.

Ramesh Thota: Thanks for the opportunity and congratulations for the great numbers. I just have two questions. One is I saw your procurement volume increased by almost 36% quarter-on-quarter. So are we converting everything into butter SMP or are we selling in bulk.

Sunil Reddy: We are converting into SMP and keeping, we are not selling any bulk milk.

Ramesh Thota: So what is the quantity we are holding butter inventory because since it is a flush season currently. Is it not risky to hold butter?

Sunil Reddy: No, butter is much easier to hold, butter only the holding cost is higher because you hold butter on a minus 20° centigrade it has a shelf life of almost 18 months. There is no risk other than the risk of the price, the material spoilage is not a risk at all.

Ramesh Thota: The main point is since we are getting the fat at a cheaper prices in north market and all will it not affect our prices of fat and all. Since you are holding it.

Sunil Reddy: No, like BVK was explaining earlier normally in the month of November, December, January when you look at it as the northern butter prices, the people are not able to hold the stock will come down, but if you look at the larger players like Amul or Nandini their prices will never change they will be the same price. So the larger players will hold the prices, will hold the stocks, and then sell it when the demand is higher. So we are not in a necessity to sell now because we are not under any kind of pressure to sell. We are able to hold the material, we have money to hold it, so we hold on this, and as BVK was explaining earlier, I mean, in another couple of months we will know exactly where because we used to be net buyers of butter and powder for our own requirement, which this year onward we would not do that.

Ramesh Thota: So currently how much we are holding our butter inventory, what is the level of our butter inventory?

Sunil Reddy: I think fact the butter inventory we holding in terms of tonnage, exact number BVK will give you.

B.V.K. Reddy: No, see butter is roughly about 4,500 tons and SMP also 5,000 plus. Normally for SMP, one consumption itself 3500 to 4000 tons our captive consumption and butter also we have a captive consumption not for the fat sales, captive consumption for milk. See because during summer months when you have shortage of milk because of our full cream milk is going day-by-day high and high. So we consume butter itself in the milk 1000 tons. So hardly we become a surplus SMP only 1000-1500 tons and whatever fat we have circulation of 3000-3500 tons that we will sell only when we get a right price because being a flush season now everybody will be offering lesser price in the market, we do not want to sell it for the distress price.

Ramesh Thota: Understood sir. Thank you that is all from me.

Moderator: Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Sir, my question is on the procurement prices have reduced quarter-on-quarter by almost Rs.1 per liter while your realizations have remained flat. So is it fair to assume that now there would be further benefit would be passed on to the consumer in the coming quarter which leads to the gross margin expansion which you have seen in this quarter-on-quarter would again normalizes.

Sunil Reddy: The procurement price if you see the first quarter INR 39.62 and second quarter is INR 39.07 so hardly it is only a 0.55 paisa less than 0.50 paisa of the variation between first quarter to second quarter and between second quarter to third quarter, third quarter is INR 38.71 so in the procurement first quarter, second quarter, third quarter is not much of much variation so INR 39.07 to INR 38.71 and therefore we would coming to your question of the next quarter, I think we will maintain steady state even if the prices unless the procurement prices come down further then we will think of looking at volume expansion, but if the prices do not come down we will maintain the status quo.

Priyank Chheda: So, if there is not much difference in the procurement prices coming down what explains the 300 bps of gross margin expansion quarter-on-quarter while I do reckon that value added sales have broadly remained flat. So what leads to this very sharp jump in the gross margin quarter-on-quarter.

Sunil Reddy: So the difference in the jump in the quarter-on-quarter is only 2%. So if you look at the cost I think we will see that there will be a 2% difference.

Murali Mohan Raju: Yes, that 0.30 paisa whatever is that that will results to into gross profit. What happens is basically there are two things is there, based on the product also our selling price also increases, so INR 57.58 there is a 0.30 paisa increase is there in the selling price and then there is a decrease of 0.30 paisa in procurement, which has result to 0.60 paisa.

Sunil Reddy: So the difference if you look at broadly, you are looking at a Re.1 difference, 0.60 paisa comes only in the price difference that you are seeing on a per liter basis, but if I look at it as what we call as the definition of the liter because what happens is the liter that you purchase and the liter that you sell will not necessarily be the same meaning that if I buy a liter of 4.5% fat or 9% SNF and if I am selling a liter it will not be the same. So the remaining difference comes because of that liter difference that is why you find that Re.1 the 0.60 paisa to Re.1 difference that you see.

Priyank Chheda: Understood. So, this means that in the lower cost of inventory which was procured earlier has been sold at a higher price in the current quarter this gets a kind of a timing difference right.

Sunil Reddy: The timing difference and also that what we are talking in terms of the product which of the liter is sell will also add a little more. So broadly on the price-to-price you will see a difference of almost 0.60 paisa and the Re.1 that you are looking at as a gross margin difference and the remaining 0.40 paisa comes due to the other factors.

Murali Mohan Raju: Like toned milk have a different fat, full cream have a different fat. So based on that mass balancing the margins will vary.

Priyank Chheda: When we say the guidance on the EBITDA margins is high single digit to double digit. Is it fair to assume that we are not building up any gains on the gross margins whatever gain should come on the operating expenses.

Sunil Reddy: Yes, we should again assume that, because the gross margin will continue to maintain the same status quo and the operational efficiencies will enhance the margin because at this gross margin level what we are looking at is a higher double digit. So further expansion of the margin will come only from operational efficiency not from the gross margin.

Priyank Chheda: When we say maintaining the same gross margin will you mean 9-month average gross margins or the current quarter gross margins are the fair representation.

Sunil Reddy: I think we will look at the average gross margin not considering the current quarter because I think the fourth quarter we will be able to see the same kind of gross margin. I think coming forward for the year we will have to make a call in the mid of this quarter to see if the other sales are increasing because if the sales volume tend to start increasing like we were saying earlier we might even see a slight expansion.

Priyank Chheda: Just a last question on the in-house consumption of fat and SMP, so you did mentioned that you are consuming around 4000 tons of SMP right this was completely for in-house.

Sunil Reddy: No sir, basically earlier whatever we are purchasing what for only in-house consumption. Now what we have built up because simultaneously we are also increasing procurement to go aggressively on growth. So we will maybe using a bit of this for own, but whatever surplus is there and for that much pressure is there be a small quantity to sell in the market.

Priyank Chheda: And this complete SMP and fat was consumed to manage to make curd right.

Sunil Reddy: Right, there would be a balance incoming milk and what we are selling, because we sell a lot more of high fat product to the market in terms of full cream milk, curd, whatever it is what we are buying.

B.V.K. Reddy: See normally because we sell lot of curd. Normally we give a high SNF to curd. So even though we are get in a surplus milk there will be SMP consumption every day on an average we consume 10 tons, so out of my 5000 tons stock so I will consume roughly about 3500 tons SMP for my internal consumption. So I will have a surplus of SMP, saleable to the market will be only 1,000 tons or 1,500 tons max. Butter also similarly so 1,000 tons will be for my internal consumption and balance only will be sold in the market and if you push a little bit of factors as ghee that will also start to be consumed.

Priyank Chheda: Got it. Thanks a lot for answering all the questions.

Moderator: Thank you. The last question is from the line of Shreyans J. Svan Investments. Please go ahead.

Shreyans J: Yes, I am saying three months last year versus three months this year. So our other expenses have gone up about 26% and even if I look at it on a 9-month basis it has gone up by 15% and now when I look at your annual report the large three, four costs that sits there in your P&L, freight, advertisement is also a very small amount. So there is freight and there is power and fuel and consumption of stores and spares right. So when you are doing higher value-added product so we understand that there should be some kind of leverage that you should get in your other expenses and even if I look at your ad spend you did last year of INR 9 Crores so even if I were to think of this as increase, this does not answer the question of the significant increase in your other expenses.

Murali Mohan Raju: So, basically other expenses includes the carriage outward as well as power charges and fuel and all that stuff, where basically what happen this INR 300 Crores of whatever the cost we have built up that cost also is part of the other expenses as other line item. So that is one of the reason, apart from that our internal volume also increases that is also reason the primary transport, freight expenses has increased and diesel, fuel and all these are expenditures. Majorly these are the items are for the reason for that.

Sunil Reddy: So as a percentage increase and the actual number will be a little higher because of the inventory buildup that we have it is as a percentage of the revenue.

Murali Mohan Raju: Because revenue we are multiplying with the 13 lakh.

B.V.K. Reddy: Also you see last year third quarter to this year third quarter the volume handling is roughly about more than 2 lakh is more volume driven. So we have handled more volume of that. Because of that it looks all your expenditure high.

Sunil Reddy: And the percentage is higher because they not get considered it in terms of the inventory consumption.

Murali Mohan Raju: Because value in the sales 3.8% increase, but procurement 36% which is a substantial increase when you divide the expenses divided by the sales quantity it looks higher as a percentage as well as, as a per liter.

Shreyans J: Okay. Thank you so much. I will take this offline.

Moderator: Thank you. As that was the last question. I would now like to hand the conference over to the management for closing comments.

Sunil Reddy: Thank you everyone for coming on to our conference call and being with us for so long. If any of you need any further information you can contact us on our mail ID which is already provided in our deck which has been uploaded. We will be more than happy to provide any further information that you all need and once again thank you so much for coming on the call and being with us. Thank you.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.