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

PARAG
Ideas for a new day

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Gowardhan

GO

PRIDE OF COWS
MILK FULL OF LOVE

TOPP UP

PARAG MILK FOODS LIMITED

Q1 FY17 INVESTOR PRESENTATION

AUGUST 2016

SAFE HARBOR STATEMENT

This presentation and the following discussion may contain "forward looking statements" by Parag Milk Foods Limited ("Parag Milk") that are not historical in nature. These forward looking statements, which may include statements relating to future results of operations, financial condition, business prospects, plans and objectives, are based on the current beliefs, assumptions, expectations, estimates, and projections of the management of Parag Milk Foods about the business, industry and markets in which it operates.

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DISCUSSION SUMMARY

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COMPANY OVERVIEW	STRATEGIC INITIATIVES & OUTLOOK	Q1 FY17 RESULT HIGHLIGHTS	ANNEXURE

DISCUSSION SUMMARY

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COMPANY OVERVIEW	STRATEGIC INITIATIVES & OUTLOOK	Q1 FY17 RESULT HIGHLIGHTS	ANNEXURE

COMPANY OVERVIEW
ABOUT US: BRIEF PROFILE

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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 ModelEncompassing 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 15 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 helpedimprove 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

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PIONEERING PRODUCT INNOVATION WITH STRONG R&D THRUST

PRIDE OF COWS
MILK FULL OF LOVE

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

- 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

- Curd 10kg Bucket
- Badam Milk Instant Mix
- Cheese Wedges – Herbs and spices

COMPANY OVERVIEW
DIFFERENTIATED BRAND & PRODUCT PORTFOLIO

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Brands	Products	Target Customer Group
Gowardhan	■ Fresh Milk ■ Curd ■ Ghee ■ Paneer ■ Butter ■ Milk powder ■ Whey proteins	■ Targeted at house-hold consumption for traditional Indian recopies and to be used as cooking ingredients
GO	■ Cheese Products ■ UHT milk ■ Curd ■ Fruit yoghurts ■ Fresh cream ■ Lassi, Buttermilk, Badam milk	■ Targeted at children and the youth generation, primarily for direct consumption
PRIDE OF COWS MILK FULL OF LOVE	■ Premium cow milk	■ Targeted at household consumers seeking premium quality cow's milk.
TOPP UP	■ Flavoured milk	■ Targeted at youth generation & travellers as source of instant nourishment

COMPANY OVERVIEW

INTEGRATED BUSINESS MODEL - STRONG RELATIONSHIPS ACROSS THE VALUE CHAIN

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Dairy Farming[1]

- Fully automated dairy farm and houses over2,000 Holstein cows
- Integrated dairy farming operation: Breeding, Feeding and Animal Management
- Equipped with fully automated rotary milking parlour
- **Customer base of approximately 15,000 buying farm-to-home premium fresh milk[2]**

Milk Procurement

- 100% cow milk
- Milk procurement in 29 districts across Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu
  - Tie-up with- 3,400 village level collection centres
    - Average daily procurement of 1.05 million litres.[2]

Processing

- 2 dairy plants at Manchar (West), Palamaner (South)
- Installed milk processing capacity of 2 million litres per day
- Largest raw cheese producing capacity in India – 40 MT per day

Distribution

- Pan-India presence through both traditional & modern trade channels
- A network comprising of
  - 16 depots, 104 Super Stockist , 3,000+ distributors[2]
- Exports of products to 36 countries[2] across the world
- Marketing team of 560 people[2]

Branding

- Robust brand portfolio with 4 well established brands targeted towards distinct consumer groups
  - Gowardhan
  - Go
  - Topp Up
  - Pride of Cows
- Well diversified product range catering to diverse & evolving consumer needs

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 Bhagyalaxmi Dairy Farm which is owned and operated by Bhagyalaxmi Dairy Farm Private Limited
(2) As of 30th June, 2016

COMPANY OVERVIEW
EXTENSIVE SALES, MARKETING & DISTRIBUTION NETWORK

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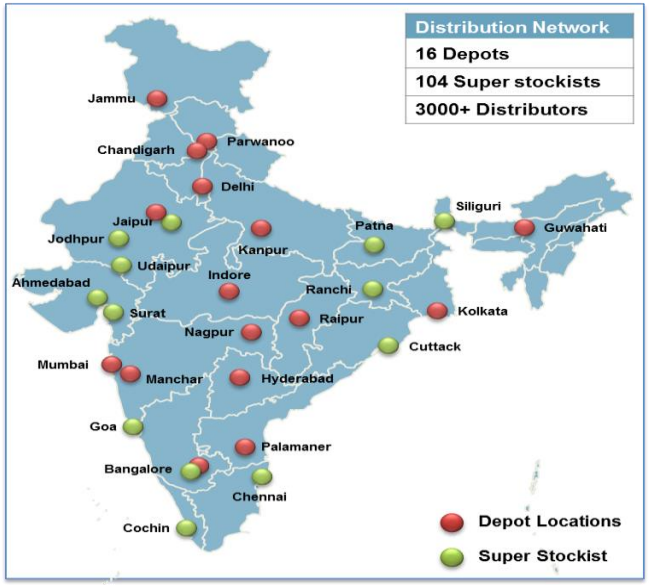
Well entrenched Pan-India distribution Network → **Enormous Potential to grow in India**

- ✓ Pan-India Distribution network 19 depots, 104 super stockists, 3000+ distributors
- ✓ Dedicated sales and Marketing team comprising of 560 personnel[1] to serve our retail as well as institutional customers
- ✓ Deploys product specific marketing & distribution strategy



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 June, 2016

COMPANY OVERVIEW
WORLD CLASS MANUFACTURING FACILITIES

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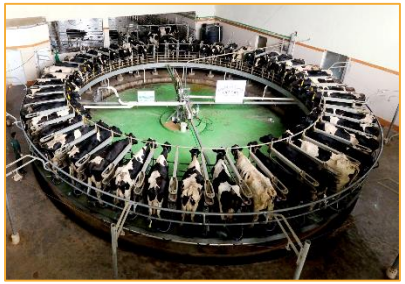
Dairy Farming



Processing Facilities

Manchar Plant, Pune

Bhagyalakshi Dairy, Pune

Palamner Plant, Andra Pradesh

DISCUSSION SUMMARY

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COMPANY OVERVIEW	STRATEGIC INITIATIVES & OUTLOOK	Q1 FY17 RESULT HIGHLIGHTS	ANNEXURE

DEPLOYMENT & UTILIZATION OF IPO PROCEEDS

Sr. No	Objects of Issue	FY 17	FY 18	FY 19	Total	Current Status
1	Expansion and Modernisation of existing capacities at Manchar & Palamner and improving marketing and distribution Infrastructure	832	626	19	1,477	93
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**	**1,377**

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

KEY AREAS OF STRATEGIC FOCUS

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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

Increase Operational Efficiencies

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

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 focus sales efforts and increase sales volumes

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 – BUILDING BRAND EQUITY
BRAND ASSOCIATION WITH CELEBRITYCHEF "RANVEER BRAR"

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

Signed Celebrity Chef Raveer Brar for Go products

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

Raveer 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

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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

- **CAGR growth for last five years in the revenue is ~17%, Focus to continue the growth momentum driven by –**
  - 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 ofRs. 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.**
  - Overall, this may lead to improvement in Return Ratios.

DISCUSSION SUMMARY

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COMPANY OVERVIEW	STRATEGIC INITIATIVES & OUTLOOK	Q1 FY17 RESULTS HIGHLIGHTS	ANNEXURE

Q1 FY17 RESULTS ANALYSIS
NEW PRODUCTS LAUNCHED DURING THE QUARTER

Go Cheese Wedges – Herbs and Spices

- Launchedat Pan India Level
- Premium Packaging targeting youth
- New cheese flavours to spice up taste
- Available in 4 exotic flavours – Jalepeno, Four Pepper, Roasted Jeera, Chilli and herbs.
- Available for Rs.125/-, net weight 140 gms

Go Badam Milk Instant Mix

- Launched at Pan India Level
- Already available in tin packaging, launched Instant mix for home made use
- Foraying into healthy ready mix market
- Instantly usedas Indian Desert
- Available for Rs.10/-, net weight 20gms

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

Q1 FY17 RESULTS ANALYSIS
KEY HIGHLIGHTS

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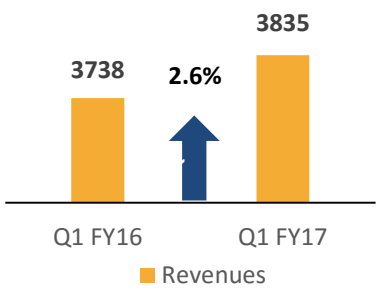
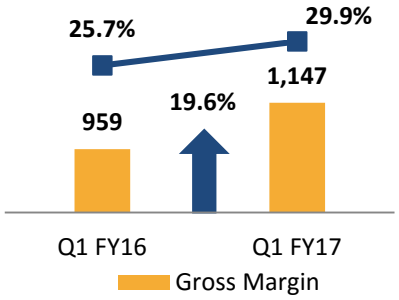
CONSOLIDATED FINANCIAL ANALYSIS

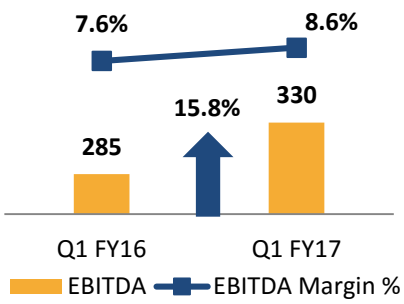
REVENUES



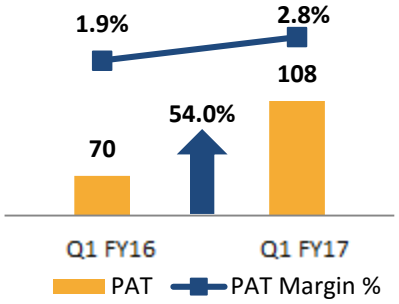
GROSS MARGINS



EBITDA & EBITDA MARGIN

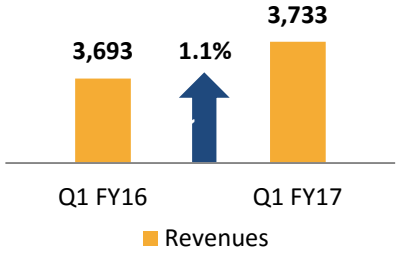


PAT & PAT MARGIN

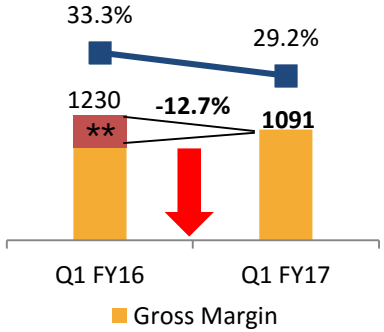


STANDALONE FINANCIAL ANALYSIS

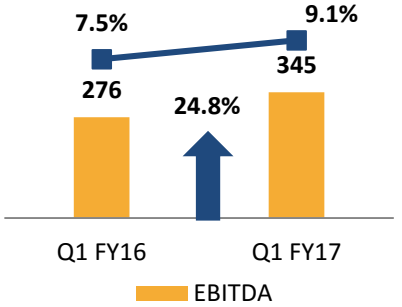
REVENUES



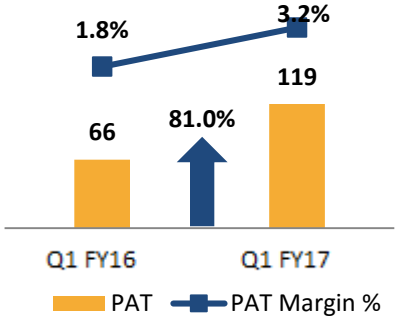
GROSS MARGINS



EBITDA & EBITDA MARGIN



PAT & PAT MARGIN



**** In Quarter 1 of FY 15-16 transactions between subsidiary and parent were recorded in other expenses in Parag Standalone. Highlighted to reflect right comparison in Gross Margin.**

Q1 FY17 RESULTS ANALYSIS
PRODUCT WISE REVENUE BREAK-UP

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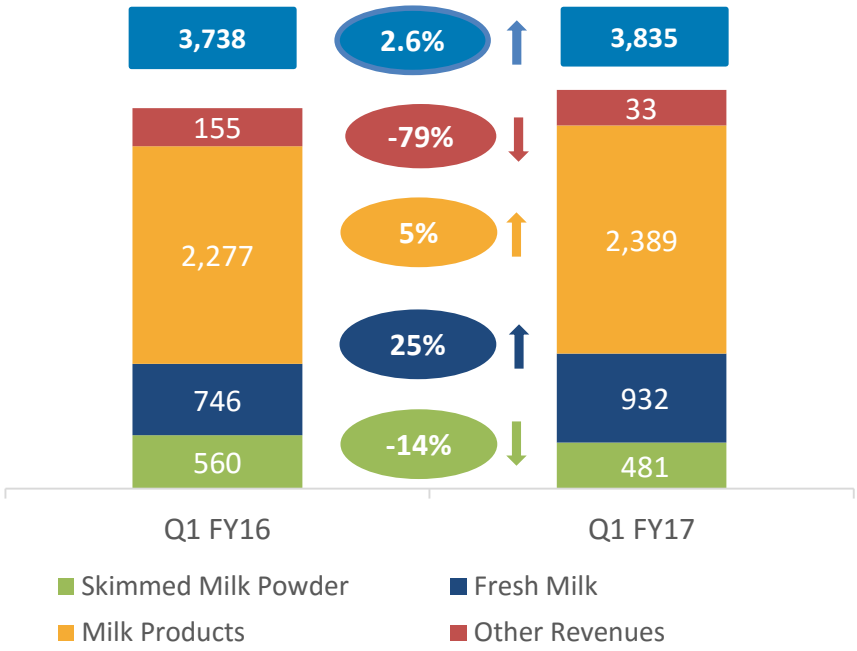
Q1 FY17 YoY ANALYSIS – REVENUE BREAKUP



% Share	Q1 FY16	Q1 FY17
Skimmed Milk Powder	15%	13%
Fresh Milk	20%	24%
Milk Products	61%	62%
Other Revenues	4%	1%

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

Q1 FY17 RESULTS ANALYSIS
CONSOLIDATED PROFIT & LOSS STATEMENT

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Particulars (In Rs Mn)	Q1 FY17	Q1 FY16	*YoY %*	FY16
Revenue from Operations	3,835	3,738	*2.6%*	16,451
Raw Material Costs	2,688	2,779	*-3.3%*	11,776
Gross Margins	***29.9%***	***25.7%***	***425 bps***	***28.4%***
Employee Expenses	178	139	*27.9%*	701
Other Expenses	639	535	*19.4%*	2,499
EBITDA	**330**	**285**	***15.8%***	**1,475**
EBITDA Margin %	***8.6%***	***7.6%***	***98 bps***	***9.0%***
Depreciation	98	90	*8.4%*	334
Finance Cost	92	112	*-17.5%*	490
Other Income	8	5	*64.3%*	16
PBT	147	87	*69.0%*	668
Tax Expense	39	17	*131.7%*	195
PAT	**108**	**70**	***54.0%***	**473**
PAT Margin %	***2.8%***	***1.9%***	***94 bps***	***2.9%***

Q1 FY 16 numbers are unaudited

Seasonality Index:

Particulars	Q1 FY 16	FY 16	Q1 as a % of FY 16
Revenue	3,738	16,451	22.7%
EBITDA	290	1,492	19.4%
PAT	70	473	14.8%

Q1 FY17 RESULTS ANALYSIS
KEY HIGHLIGHTS & ANALYSIS

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Revenues

Revenues grew by 2.6% YoY from Rs 3,738 mn in Q1 FY16 to Rs 3,835 mn in Q1 FY17

- Growth was largely driven by increase in revenue from Fresh milk which witnessed ~ 25% growth in volumes.
- Export business witnessed good traction during the quarter with export turnover nearly doubling from Rs 80 mn in Q1 FY16 to Rs 152 mn in Q1 FY17

Gross Margins

- Healthy improvement in Gross Margins of 425 bps from 25.7% in Q1 FY16 to 29.9% in Q1 FY17 primarily due to utilization of lower priced Raw Material of previous quarter during Q1 FY17.
- Continued increased in Raw Milk prices have increased the valuation of the inventory.

EBITDA

Q1 FY17 EBITDA grew by 38% YoY to Rs 399 mn from Rs 289 mn in Q1 FY16

- Growth in EBITDA was primarily driven by higher Gross Margins coupled with better product mix.
- Share of Skimmed Milk Powder in total revenues declined from 15.0% to 12.5% YoY.

PAT

Robust growth in PAT from Rs. 70 mn in Q1 FY16 to Rs.108 mn in Q1 FY17

- PAT increased substantially on account of savings in Finance cost of 17.5% due to repayment of working capital debt of Rs. 100 crore in Q1 FY17.
- Increase in Tax was in line with FY16.

FINANCIAL OVERVIEW
HITORICAL FINANCIAL SUMMARY

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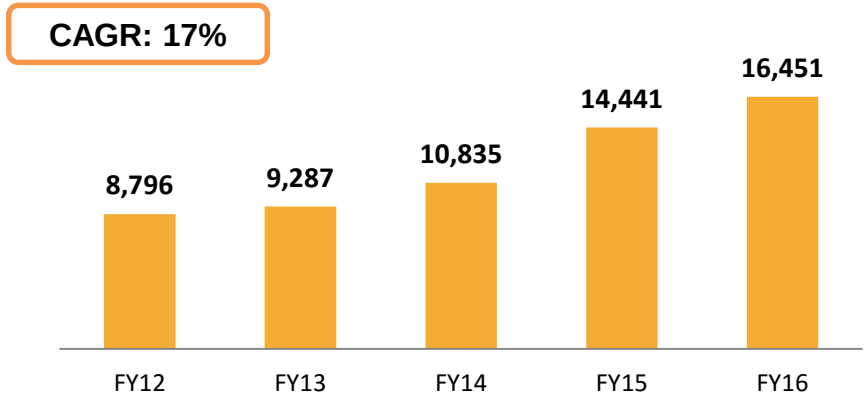
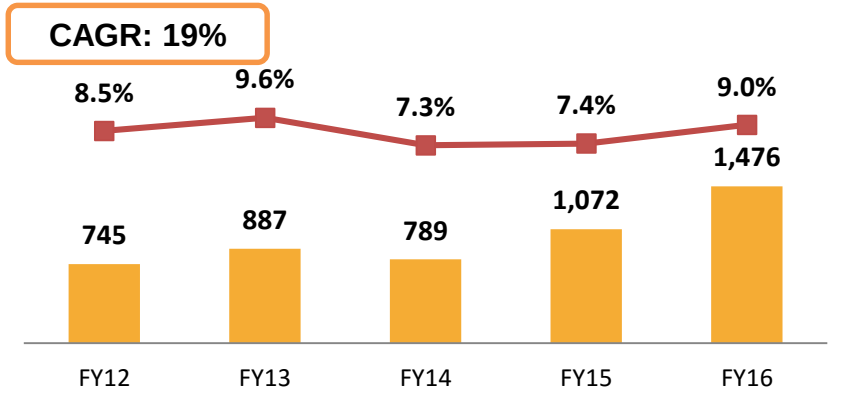
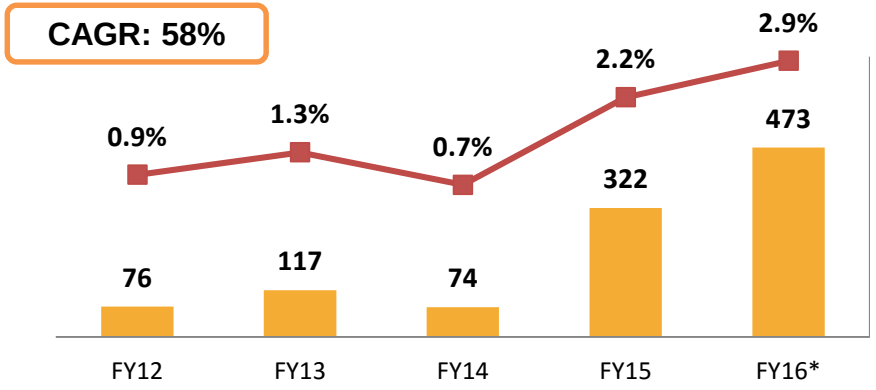
Net Sales (Rs mn)



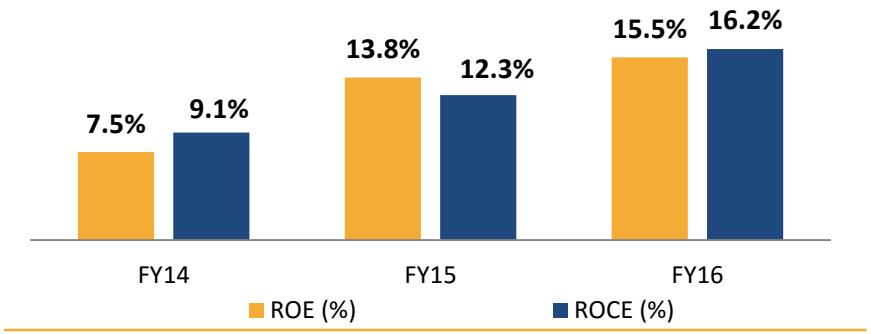
EBITDA (Rs mn) & EBITDA margins (%)



PAT (Rs mn) & PAT Margins (%)



Return Ratios (%)



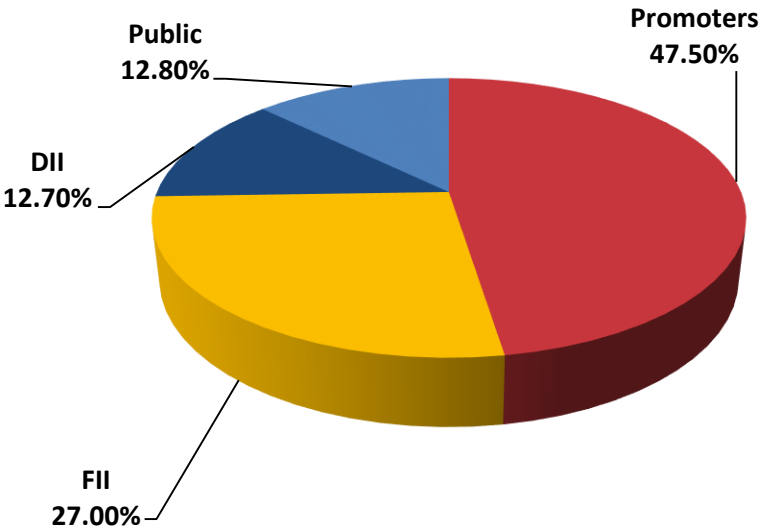
ROE: PAT/Avg. Equity, ROCE: EBIT/Avg. Capital Employed [(Capital Employed = Equity + Total Debt)

FINANCIAL OVERVIEW
SHAREHOLDING SUMMARY

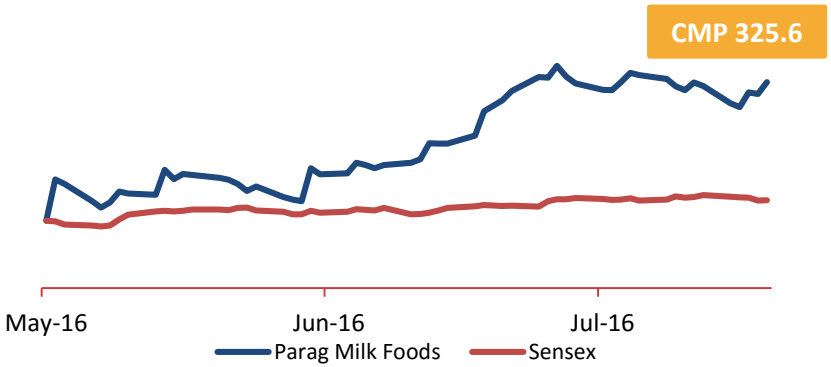
Key Institutional Investors at 30th June 2016	% Holding
IDFC Trust	7.00%
Nomura India Investment	2.98%
Macquarie Emerging Markets	2.95%
IDFC Spice Fund	2.87%
Pinewood Str	2.21%
Government Pension Fund Global	2.19%
Abu Dhabi Investment Authority	2.10%
Tata Balanced Fund	2.05%
Quantum (M) Limited	1.79%
Ashish Kacholia	1.70%
Copthall Mauritius Investment Limited	1.68%
Morgan Stanley Mauritius Company Limited	1.67%

Source – Company

Shareholding as on 30th June 2016



Share Price Performance as on 5th August 2016



Market Data	As on 5th August 2016
Market Capitalization (Rs mn)	27,383.5
Price (Rs)	325.6
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

DISCUSSION SUMMARY

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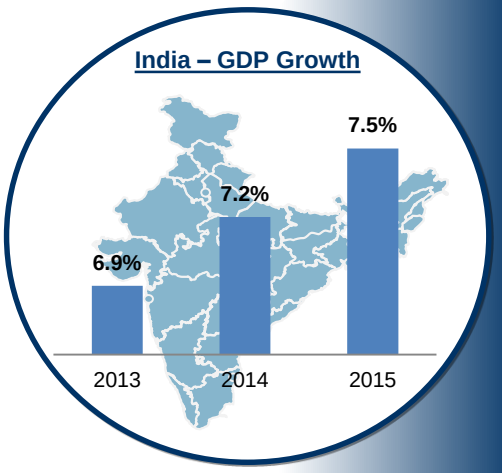
COMPANY OVERVIEW	STRATEGIC INITIATIVES & OUTLOOK	Q1 FY17 RESULTS HIGHLIGHTS	ANNEXURE

ANNEXURE
INDIA'S FAVOURABLE DYNAMICS OFFER HUGE OPPORTUNITIES



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

Source:IMARC Report dated July 30, 2015

FOR ANY FURTHER QUERIES CONTACT -

THANK YOU

Mr. Bharat Kedia
Chief Financial Officer
Email: bharat.kedia@paragmilkfoods.com
Contact Number: 022 4300 5555

Mr. Mandar Kapse - IR Consultant
Email: mandar.kapse@dickensonir.com
Contact No: +91 9867550004

Mr. Yashesh Parekh - IR Consultant
Email: yashesh.parekh@dickensonir.com
Contact No: +91 8108321555