

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



PARAG MILK FOODS LIMITED
INVESTOR PRESENTATION
AUGUST 2016

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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DAIRY INDUSTRY

COMPANY
OVERVIEW

STRATEGIC
INITIATIVES &
OUTLOOK

Financial Overview
&
Q1 FY17 RESULT
HIGHLIGHTS



DAIRY INDUSTRY

COMPANY OVERVIEW

STRATEGIC INITIATIVES & OUTLOOK

Financial Overview & Q1 FY17 RESULT HIGHLIGHTS



Indian Dairy Market

Organised dairy market

Unorganised Dairy Market

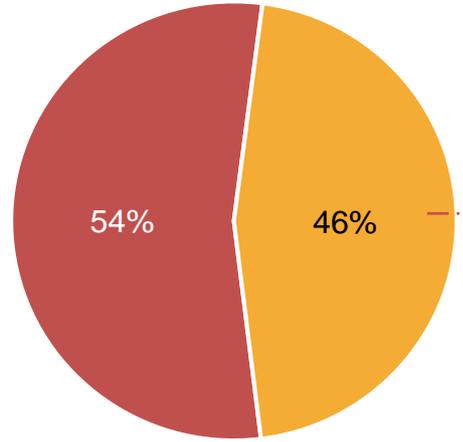
Cooperatives

Private Dairies

Traditional Milkmen / Vendors

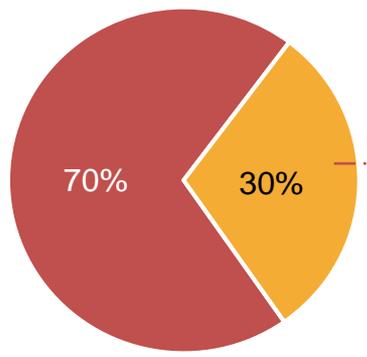
Self Consumption at Home

Milk production volume break-up by Marketability



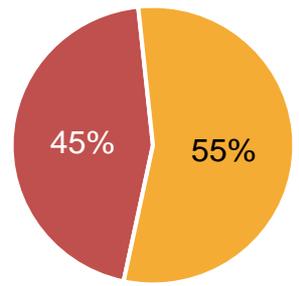
■ Self Consumption ■ Marketable Milk

Marketable Milk volume break-up by Segment



■ Unorganised ■ Organised

Organized Marketable Milk volume break-up by Segment



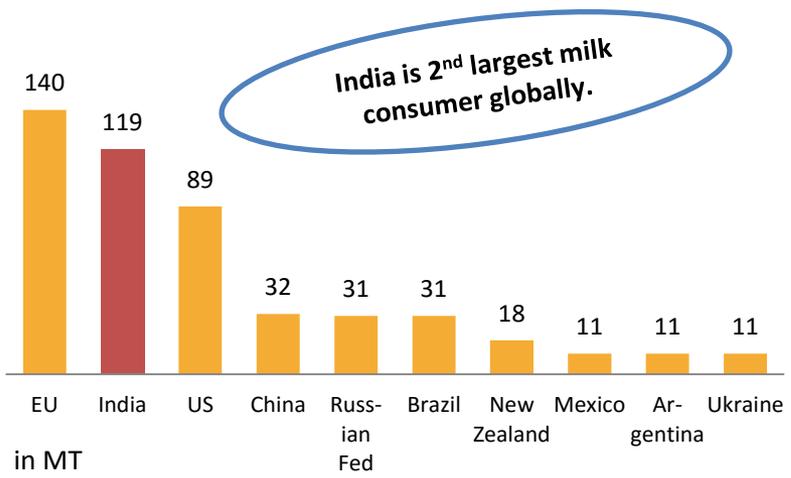
■ Cooperatives ■ Private Players

DAIRY INDUSTRY

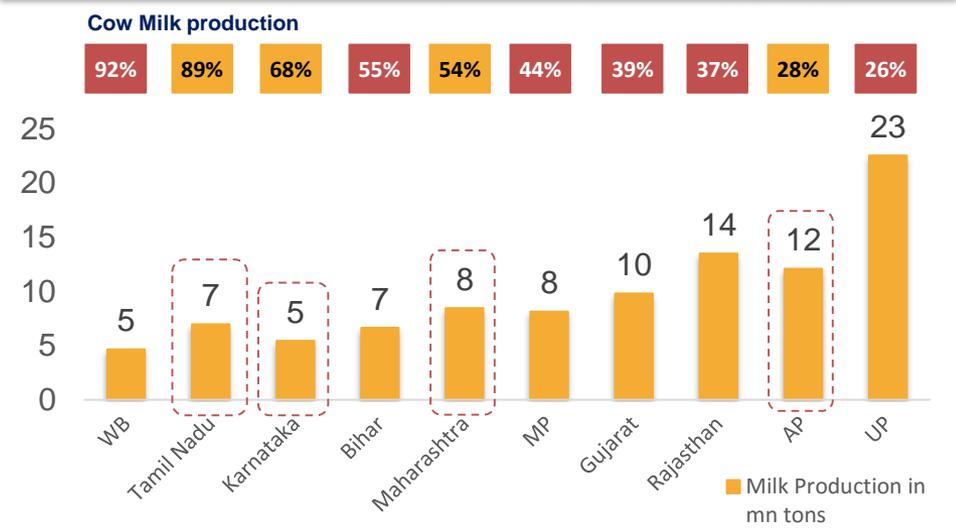
INDIAN DAIRY MARKET



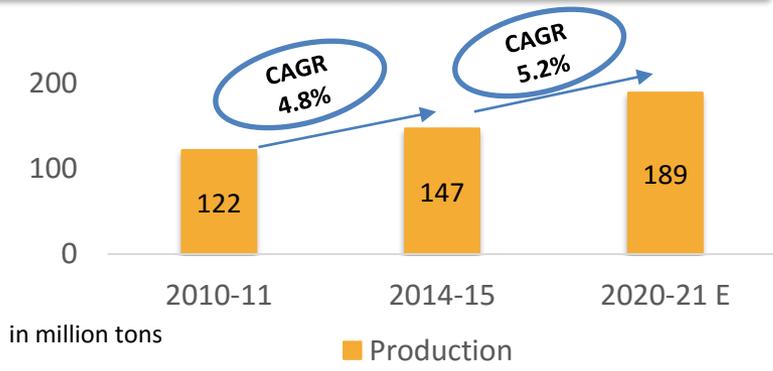
Milk Consumption in Major Countries – FY11



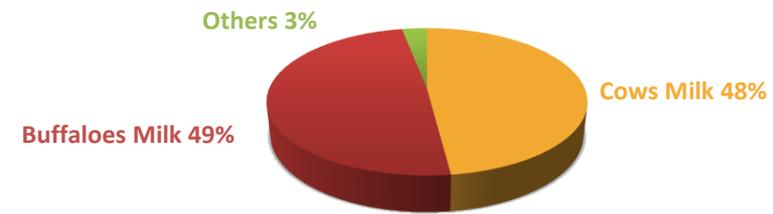
Parag's presence in key Cow belts in India – FY12



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

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

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

COMPANY OVERVIEW

PRODUCT INNOVATION – KEY TO OUR SUCCESS STORY



PIONEERING PRODUCT INNOVATION WITH STRONG R&D THRUST



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



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



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



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



Leading producer of Whey
protein powder in India

2013

2014

2015

2016

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

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

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

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

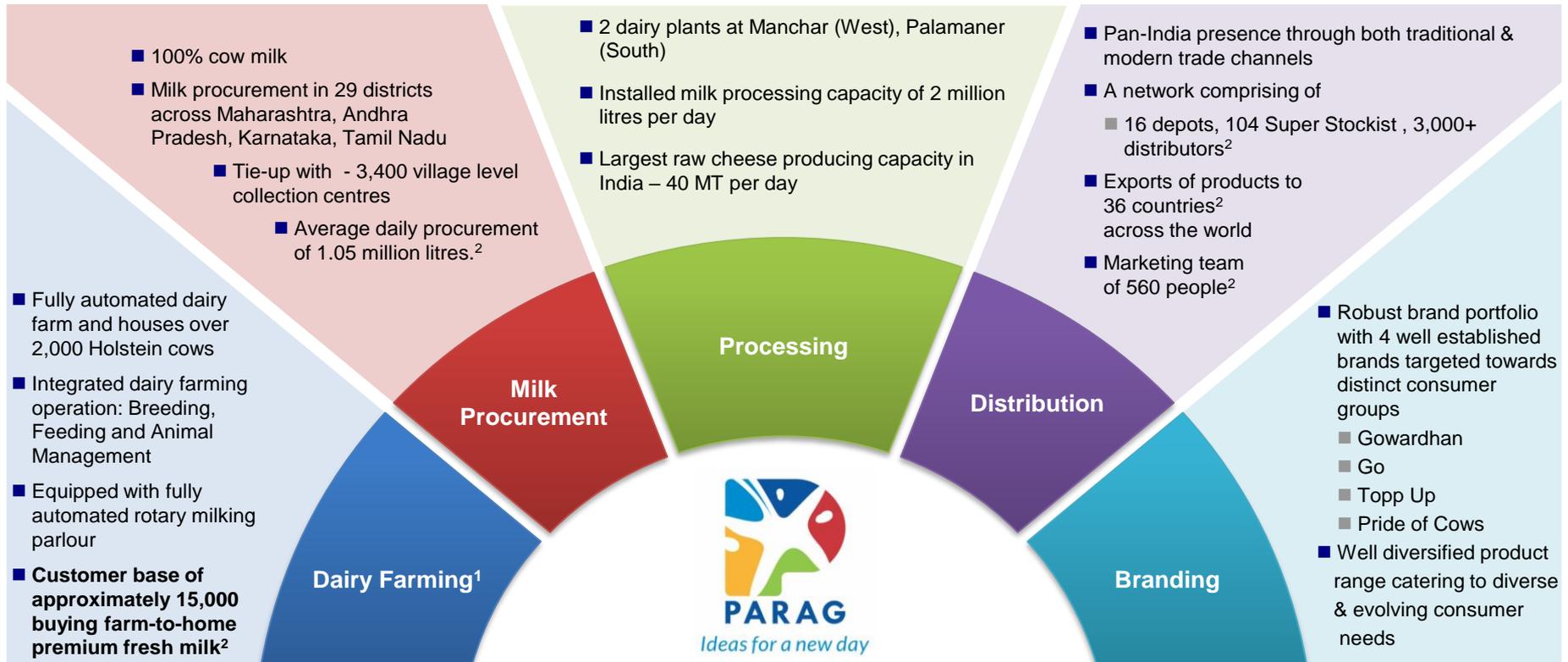
COMPANY OVERVIEW

DIFFERENTIATED BRAND & PRODUCT PORTFOLIO

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

COMPANY OVERVIEW

INTEGRATED BUSINESS MODEL - STRONG RELATIONSHIPS ACROSS THE VALUE CHAIN



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

Notes:

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

(2) As of 30th June, 2016

COMPANY OVERVIEW

EXTENSIVE SALES, MARKETING & DISTRIBUTION NETWORK



Well entrenched Pan-India distribution Network



Enormous Potential to grow in India



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

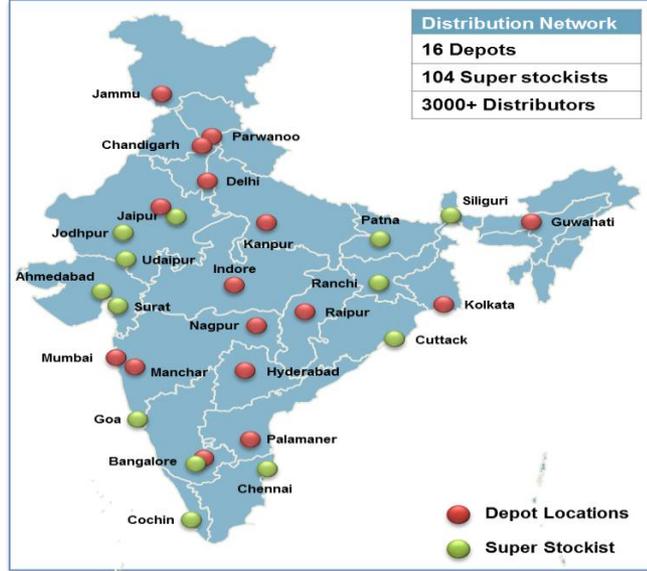


Dedicated sales and Marketing team comprising of 560 personnel¹ to serve our retail as well as institutional customers



Deploys product specific marketing & distribution strategy

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



REGION WISE DISTRIBUTION NETWORK IN INDIA

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

COMPANY OVERVIEW

WORLD CLASS MANUFACTURING FACILITIES

Dairy Farming



Processing Facilities



Manchar Plant, Pune



Bhagyalakshi Dairy, Pune



Palamner Plant, Andra Pradesh

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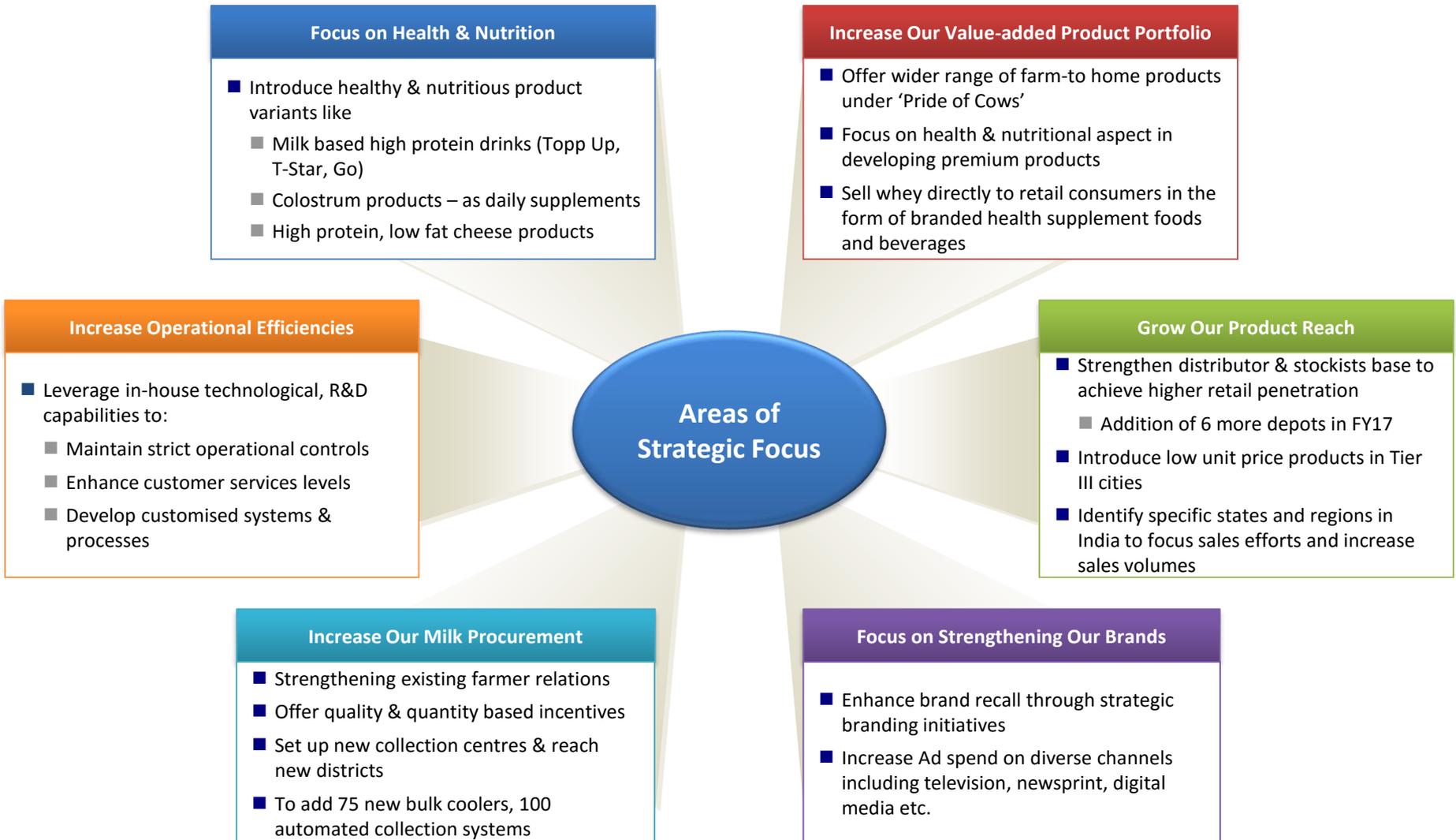


DEPLOYMENT & UTILIZATION OF IPO PROCEEDS

Sr. No	Objects of Issue	FY 17	FY 18	FY 19	Total	Current Status
1	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



STRATEGIC INITIATIVES – BUILDING BRAND EQUITY

BRAND ASSOCIATION WITH CELEBRITY CHEF “RANVEER BRAR”



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



Signed Celebrity Chef 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

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

- **Revenue growth for FY16 was 14%, Focus to continue this 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 of Rs. 100cr through the IPO Proceeds.**
 - Credit Re-rating to "BBB+" may lead in reduction to cost of debt
- **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.

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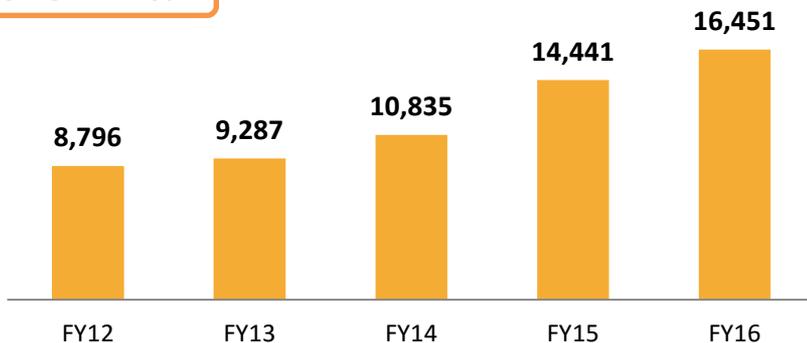
FINANCIAL OVERVIEW

HISTORICAL FINANCIAL SUMMARY



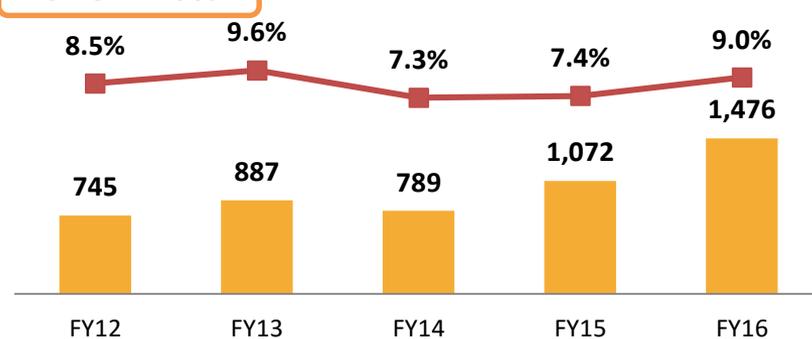
Net Sales (Rs mn)

CAGR: 17%



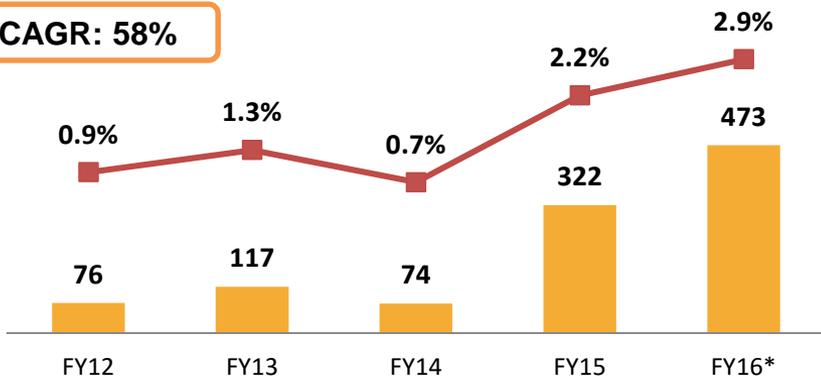
EBITDA (Rs mn) & EBITDA margins (%)

CAGR: 19%

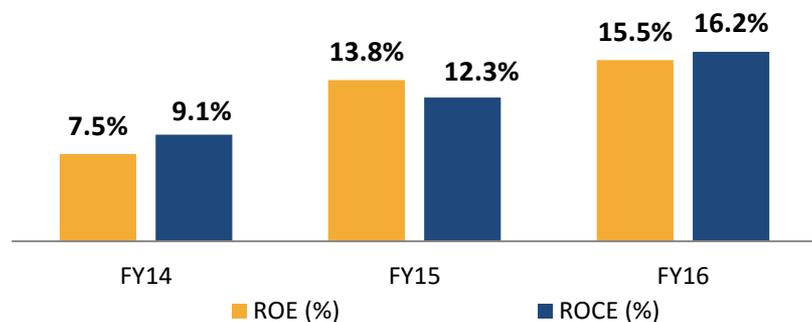


PAT (Rs mn) & PAT Margins (%)

CAGR: 58%



Return Ratios (%)



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

FINANCIAL OVERVIEW

SHAREHOLDING SUMMARY

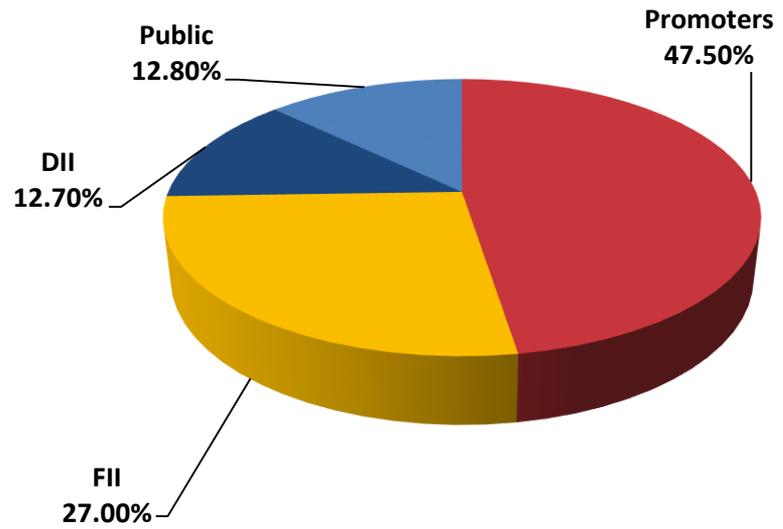


Key Institutional Investors at 30th June 2016 % Holding

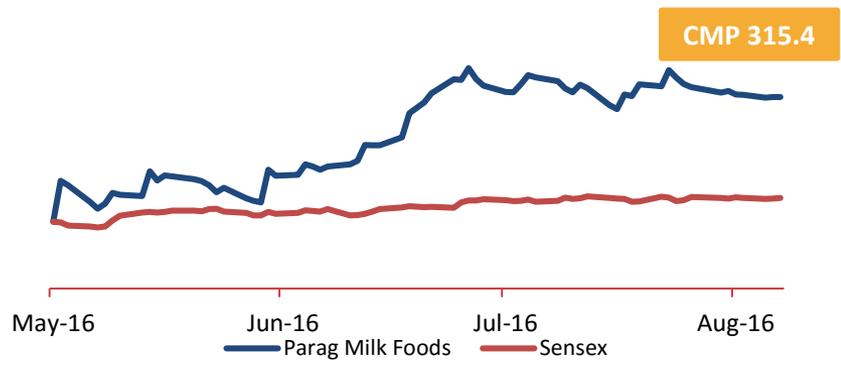
IDFC Trust	7.00%
Nomura India Investment	2.98%
Macquarie Emerging Markets	2.95%
IDFC Spice Fund	2.87%
Pinewood Str	2.21%
Government Pension Fund Global	2.19%
Abu Dhabi Investment Authority	2.10%
Tata Balanced Fund	2.05%
Quantum (M) Limited	1.79%
Ashish Kacholia	1.70%
Copthall Mauritius Investment Limited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

Source – Company

Shareholding as on 30th June 2016



Share Price Performance (Normalized) as on 24th August 2016



Market Data As on 24th August 2016

Market Capitalization (Rs mn)	26,412.0
Price (Rs)	315.4
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

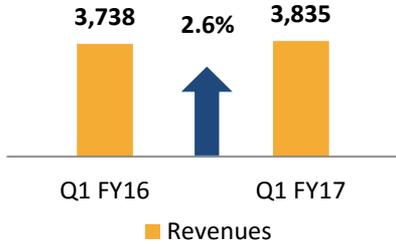
Q1 FY17 and FY16 RESULTS ANALYSIS

KEY HIGHLIGHTS

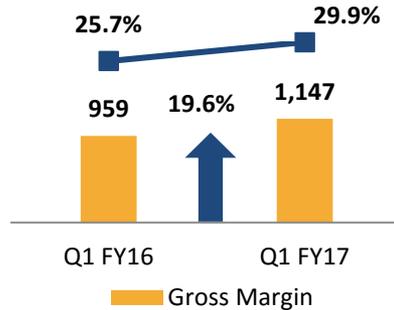


Q1FY17 - CONSOLIDATED FINANCIAL ANALYSIS

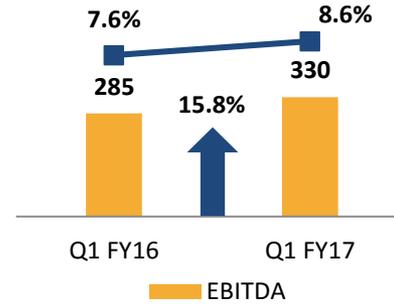
REVENUES



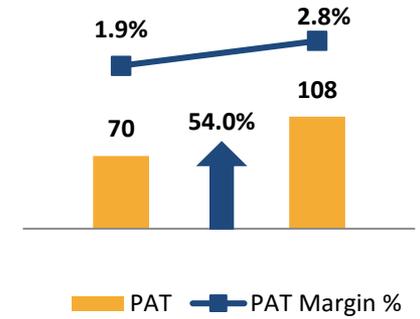
GROSS PROFIT & GROSS MARGINS



EBITDA & EBITDA MARGIN

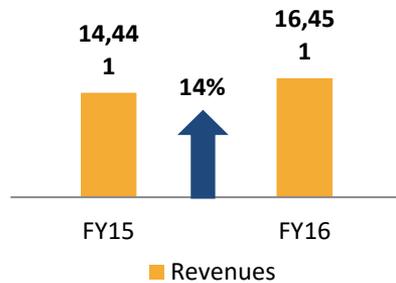


PAT & PAT MARGIN

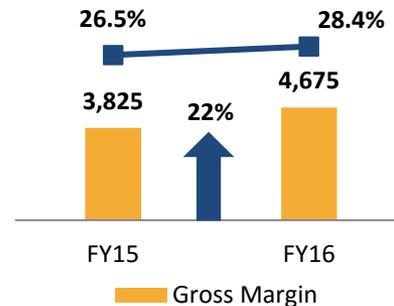


FY16 - CONSOLIDATED FINANCIAL ANALYSIS

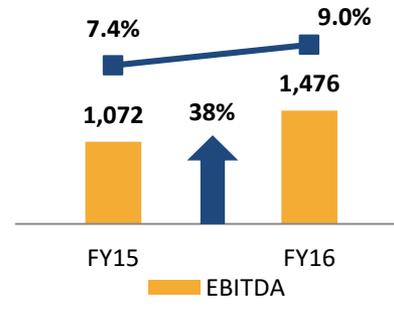
REVENUES



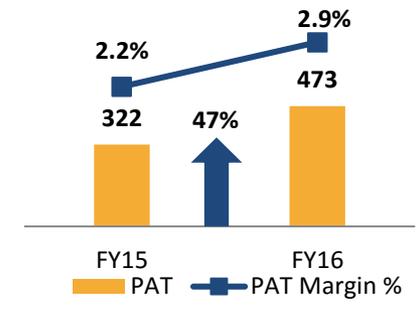
GROSS PROFIT & GROSS MARGINS



EBITDA & EBITDA MARGIN



PAT & PAT MARGIN



Q1 FY17 RESULTS ANALYSIS

CONSOLIDATED PROFIT & LOSS STATEMENT

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	22.70%
EBITDA	290	1,492	19.40%
PAT	70	473	14.80%



CONSOLIDATED BALANCE SHEET

as on 31st March 2016



Particulars (In Rs Mn)	FY16	FY15
Equities & Liabilities		
Share Capital	704	160
Reserves & Surplus	2,915	1,079
Shareholder's Funds	3,619	1,239
Non-Current Liabilities		
Long-Term Borrowings	1,529	2,974
Deferred Tax Liability	110	60
Long-term Provisions	176	166
Total Non-Current Liabilities	1,814	3,200
Current Liabilities		
Short-term Borrowings	2369	2,525
Trade Payables	1,678	1,931
Other Current Liabilities	388	340
Short-term Provisions	42	5
Total Current Liabilities	4,477	4,801
Total Equity & Liabilities	9,910	9,239

Particulars (In Rs Mn)	FY16	FY15
Assets		
Non-Current Assets		
Fixed Assets	3,726	3,194
Tangible assets	3,444	2,907
Intangible assets	3	4
CWIP	233	236
Intangible assets under development	46	47
Non-Current Investments	0	3
Other Non-Current Assets	168	684
Total Non-Current Assets	3,894	3,881
Current Assets		
Inventories	2,724	2,119
Trade Receivables	2,360	1,709
Cash & Bank Balance	77	53
Short-term Loans & Advances	455	974
Other Current Assets	400	504
Total Current Assets	6,016	5,359
Total Assets	9,910	9,239

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 increase 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.

THANK YOU



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