

Conference Call Transcript with Mr. Sidhant Gupta - Director, Kwaliti Dairy India on 27th August 2012

Presentation Session

- Moderator:** Ladies and gentleman good day and welcome to the Kwaliti Dairy Q1FY13 earnings conference call hosted by Almondz Global Securities Limited. As a remainder for the duration of this conference, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * followed by 0 on your touchtone phone. I would now like to handover the conference to Mr. Harjeet Singh Sethi from Almondz Global Securities. Thank you and over to you sir.
- Harjeet Singh Sethi:** Thank you Shyma. Good afternoon everyone. On behalf of Almondz Global Securities, it is indeed a great pleasure to welcome you all to the Q1FY13 earnings conference call of Kwaliti Dairy Limited. We welcome Mr. Sidhant Gupta – Director, and other team members on the call. I would like to handover the proceeding to Mr. Gupta to take up through this quarter's performance and provide insight into the business. Sir over to you.
- Sidhant Gupta:** Thank you Harjeet. Good afternoon ladies and gentlemen. Let me first thank you for joining us today to discuss the quarterly result of Kwaliti Dairy India Limited, for the quarter ended 30th June 2012. Let me first take you through the key-developments of the company during the last few quarters. The launch of Dairy Best Nutrified Milk in the month of December 2011, has already shown the excellent response and growth and we have already achieved the volume of approximately 2.5 lakhs liters per day. We are expecting to grow this business by 100% and achieve the volumes by almost around 5 lakhs liters per day in the next 3-4 quarters. The same would result in improving the gross margins of the company. The USP of this product is that we have nutrified it with calcium, vitamin A, D and that has been the differentiator in our products. The packaged curd and cheese which was launched in Q3 of FY11-12, we have already achieved very good volume for the bulk pack of curd and also cottage cheese in consumer packs. The company is consistently working to build a strong distribution network in the NCR region to push the branded value-added product and that has already been be visioned to move from an institutional product to the branded consumer product company. Now we have also started marketing retail products in parts of Uttaranchal, Haryana, Rajasthan besides NCR and we strengthen the system in these areas.
- We are also in the process of doing some CAPEX at our facility which is at Palwal to augment the processing capacities. We require two acres of land adjacent for our facility for same and the work is going on in full swing. The company is also implementing SAP through IBM India to drive efficiency and speed in general and specifically in the accounting operations. The company's international operations are also increasing at a rapid pace. The company's Dubai subsidiary had achieved the top line of 23 crores and bottom line of 1.5 crores in this first month of its incorporation ended 31st March, 2012. The same will increase many fold in the current financial year and the year after, after the initial setup. Further, with the upliftment of ban on export of milk powder, the parent company Kwaliti Dairy (India) Limited has started export of products to various international markets. Kwaliti Dairy (India) Limited has also opened its office, representative office in Rotterdam to strength its foot in the international market.
- Now, I will quickly run you through the quarterly results; in the quarter ended June 2012, the company's net sales increased by 69% to 8.15 billion from 4.84 billion in the corresponding period last year. The EBITDA increased by 73% to Rs. 545 million as compared to 316 million in Q1FY12. PAT for the quarter under review stood at 290 million as compared to 146 million in Q1FY12, thereby registering an increase of

98%. That should be all from my side. I will like to address any queries that you might have, thank you.

- Moderator:** Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. We have the first question from Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Sir I had couple of queries, wanted to know what is your working capital days currently and what is the expansion plan, you just said that we have 2 plots of land next our current existing plant. So what are we looking at in the future for this?
- Sidhant Gupta:** See basically as of now I think today it stands at almost anywhere around 79 to 80 days and then in terms of our CAPEX plan we are getting into some consumer product and we are augmenting the facilities of various Ghee's that we make and also the Livlite and then the consumer products like butter in consumer packs which we were not doing till now and going forward we might also go in for the Ultra Heat Treated Tetra Pack Milk. So, for various products in the consumer segments we are doing CAPEX. That should be I think the first quarter of next year we should be able to start the production from the new facility.
- Mayur Gathani:** And sir Livlite would be giving us an average of approximately how much a month now?
- Sidhant Gupta:** I think it stands at around anywhere between around 15 crores or something. So, we also started exporting that to Middle East.
- Moderator:** Thank you. We will take the next question from the line of Mr. Mangesh Kulkarni from Almondz Global.
- Mangesh Kulkarni:** I just wanted to know our details about our MCCs, how many MCCs we have opened in the current quarter and what is the total number of MCCs today.
- Sidhant Gupta:** See in the current quarter what we have done is strengthening the existing MCCs, because as I explained the last time that it is a process. So what we have done, we have added on the village pooling points in those MCCs and we have actually strengthen the system and a lot of new farmers have joined us into the direct procurement system. In fact, a good trend though the monsoon has not been very good but then the trend always is that if a farmers gets a hit from other crops then there is a natural tendency of increasing the milk production and also selling the milk as marketable surplus and last year we have seen the best flush . So in terms of milk availability, it has been good. So that is what we have done; we have actually strengthened those systems. So I think in terms of the number of MCCs, they would remain at the same level around 22, those are operational, but in terms of our strength, we have really strengthened those by increasing more villages and adding more farmers into it.
- Mangesh Kulkarni:** How many more will be operationalized during the current full year, FY13?
- Sidhant Gupta:** See, as I explained last time we have identified around 90 such centers. So, it is a process that we have started and we have placed the order for the equipment. So, I think next quarter around 10-15 should be operational.
- Moderator:** Thank you. We have the next follow-up question from the line of Mayur Gathani from OHM Group. Please go ahead.

- Mayur Gathani:** Sir with this retail distribution going up to 5 lakhs in the next 3-5 quarters as you said, so what are we looking at working capital days, we can see a good amount of reduction from the 80 days figure that you gave us?
- Sidhant Gupta:** Yes, once we change the product mix and we have explained in the previous con-call also that is all the function of the product mix that we have. So, going forward as and when we are able to convert that into fresh dairy products that is going to substantially decrease.
- Mayur Gathani:** And sir there was a debt or equity board resolution to raise 1000 crores, so any update from this sir?
- Sidhant Gupta:** We are still working on that; part of it has already been utilized and because that was all for next 3-5 years and the plans are going on and that is all to strengthen the milk chilling centers and also doing the various CAPEX at our facilities. So that is right on the track.
- Moderator:** Thank you. We will take the next question again from the line of Mr. Mangesh Kulkarni from Almondz Global. Please go ahead.
- Mangesh Kulkarni:** Sir I just wanted to know about our breakup between wholesale and retail currently out of the total turnover.
- Sidhant Gupta:** You mean wholesale and the retail as an institution and the branded.
- Mangesh Kulkarni:** Yes.
- Sidhant Gupta:** I think as of now the institution sales should be at the same level which was around 70% and the retail sales should be at around 30%, but going forward definitely there is a shift that we are intending to make and then going forward next 2-3 quarters we want to reduce down to this year to almost 60% and 40%.
- Mangesh Kulkarni:** And sir update on our Dubai operations international overall, how it is improving?
- Sidhant Gupta:** That is doing fantastically well and in fact we had also entered into distribution tie-up with the large company who are kind of biggest distributor of FMCG products in UAE and we have just entered into a tie-up with them and they are the one who will be marketing and distributing our various Ghee's and Milk powders to begin with and then subsequently we will be putting on new products on that. And going forward we are also exploring the possibilities of setting up manufacturing facilities in UAE.
- Mangesh Kulkarni:** And in terms our Palwal, we are expanding the capacity. So once this processing capacity expansion is over, what will be our handling capacity?
- Sidhant Gupta:** See, there are two things; one is we will be increasing the handling capacity also to almost around 1.5 million liters but also we will be going in for the value-added products, like we are not doing butter in consumer segment right now. So, we will be doing that in the coming quarters.
- Mangesh Kulkarni:** And in terms of this new government liberty given for the export of the milk powder and all these things, so it was only in the last quarter we have got this approval. So going ahead do you expect any improvement in the exports because of this?
- Sidhant Gupta:** Definitely yes and in fact we have already exported a few consignments to some of the neighboring countries and we see great potential in that. Because in terms of

the milk prices and in terms of the commodity prices now, there is wide amount of difference between powders in Europe, Australia and Indian powders; so we see a good potential.

Moderator: We have the next question from the line of Sanath Sudharsan from Morgan Stanley. Please go ahead.

Sanath Sudharsan: Just wanted to ask about the milk prices as you see it going forward for this year and following up on the last query, you said that there is a huge difference in the milk powder prices amongst international players and versus what we are seeing but we have seen a huge inflation in milk prices over the last two years. Does that still imply that we are still competitive in this international market?

Sidhant Gupta: See, till almost a month back we were not as competitive, because European powders were selling at almost at the same levels. But now going forward European Union powder because of the weather, so they will be shutting down the facilities at some of the areas. So now you can see some difference in the Milk powders. So this is the right time and in fact if you see the Indian context, the Milk prices, this is again we are entering in the flush season. So, right after Janmashtami is the flush season. So, we hope that the milk, in fact there was an article that the milk production in Haryana has gone up by almost around 27%. So, we see huge potential of export.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to Mr. Harjeet Singh Sethi for closing comments. Over to you sir.

Harjeet Singh Sethi: On behalf of Almondz Global Securities I thank Mr. Sidhant Gupta for his valuable time and providing insight about the company and I also thank participants for joining the call. Thank you and have a very nice day.

Moderator: On behalf of Almondz Global Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect the line.

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