

Dodla Dairy

Operator: Good afternoon, everyone. This is your host for Bharat Connect Conference. I welcome you all to the call of Dodla Dairy Limited. Today, from the management side, we have Mr. B. V. K. Reddy, CEO, and Mr. Murali Mohan Raju, CFO. Before I hand over the call to management, I will explain the flow of the event. We will start with brief introductory remarks by management, followed by a Q&A session. Over to you, sir.

Murali Mohan Raju – CFO: Good afternoon, everyone. Due to some other preoccupied work, the MD could not join. On behalf of Dodla Dairy, our CEO, B. V. K. Reddy, and I have joined. I think we can start and go straight to the Q&A because the majority of the participants are already covering or following Dodla Dairy.

Operator: We can directly go to the Q&A section. Any participant who would like to ask questions may raise their hand. We will take the first question from Analyst1. Please go ahead.

Analyst1: Hi, good afternoon. Am I audible?

Murali Mohan Raju – CFO: Yes, you are audible, Analyst1.

Analyst1: My question is about milk pricing by cooperative peers. Has Dodla missed the protein opportunity, such as paneer? Many other dairy companies, such as Milky Mist and Parag, are capitalizing on value-added products. In a way, Dodla does not seem to be there. I am not sure whether we have been left behind. Any thoughts on that would be appreciated.

Murali Mohan Raju – CFO: We have already started paneer, and we are also planning to introduce high-fat, high-protein paneer. We have already started paneer, and we are vigorously expanding our paneer portfolio.

Analyst1: Are we a late entrant? I am trying to understand whether we are just catching up now, given that others had already started this journey.

Murali Mohan Raju – CFO: Yes, we are also catching up.

Analyst1: How have milk prices been lately? Milk prices have obviously been going up. Are we seeing price hikes by other players? Any thoughts on that?

Murali Mohan Raju – CFO: The purchase price has gone up a couple of times, and we have also made several corrections to the selling price.

Analyst1: Thank you.

Operator: Thank you. I request all participants to restrict their questions to two each. The next question is from Analyst2. Please go ahead.

Murali Mohan Raju – CFO: Please go ahead, Analyst2.

Analyst2: My first question is regarding milk procurement prices. In July, they were around {? 41.3 ?} rupees or so. What was the price in August and September? Recently, we heard that Karnataka Milk Union wanted to take a steep hike in milk prices as well as in the milk procurement prices paid

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to farmers. If this were to translate into actual increases, what would be the impact on our blended procurement cost, and would that give us some room to take a further price increase?

Murali Mohan Raju – CFO: In Karnataka, we have taken two price hikes. We took the first one in the first week of September, and on September 28 we took another price hike. Simultaneously, we are increasing the procurement price from October 1.

Analyst2: What was your procurement cost for August and September? Did it remain stable at around {? 41.5 ?} rupees, as it was in the first quarter?

Murali Mohan Raju – CFO: On September 10, we took one round of sales price increases, and from September 28 we took another round of sales price increases. In Karnataka, we have also taken a procurement price hike from October 1. We will implement it from October 1; we have already issued a circular.

Analyst2: In the first quarter, you had taken a 2% price hike, followed by a 2.5% increase. Are you saying that, beyond that, we have taken a price hike across the board?

Murali Mohan Raju – CFO: Yes. From October 1, we are taking another increase. In total, in Karnataka, we have taken approximately {? 4 rupees ?} of price increases on the sales side, while the procurement price has been increased by 2 rupees.

Analyst2: Coming to Maharashtra, I think we have indicated capex of approximately 280 crores. Could you indicate how much total capex is required in the ecosystem? We need to install chilling centers at the village level and so on. What is the total investment involved?

Murali Mohan Raju – CFO: We have taken a separate budget for the chilling centers. We have already been doing this every year. By the end of December this year, we will complete 25 chilling centers. We had planned 50 in total. Of those 50, 25 will be completed before December. We have already opened 23 or 24, and they are operational. We will take up the balance next year.

B. V. K. Reddy – CEO: You can consider approximately 40 crores for the entire procurement infrastructure over the next 2 years. That is the budget you can consider.

Analyst2: Understood. So 280 crores plus 40 crores will be the total investment. We are already procuring 3 lakh liters in Maharashtra, so we only need to add another 2–3 lakh liters. That infrastructure will be sufficient.

Murali Mohan Raju – CFO: Understood, sir.

Analyst2: The ramp-up we indicated for Maharashtra is approximately 500–600 crores of revenue in FY28 in the first year. Given that we will be tying up almost 50% of the procurement before commissioning, should we look at an exit run rate in FY28 of around 800–1,000 crores of revenue?

Murali Mohan Raju – CFO: You can consider 800 crores for now.

Analyst2: Understood, sir. And, sir—

Operator: Sorry to interrupt you. Could you please come back into the queue?

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Analyst2: Yes, I will come back into the queue.

Operator: The next question is from Analyst3. Please go ahead.

Murali Mohan Raju – CFO: Hello. Am I audible? Analyst3, please go ahead.

Analyst3: My question is regarding capacity expansion. You just said that we are doing well in paneer. I wanted to understand the capacities we have—

Operator: Analyst3, your voice is echoing, I think.

Analyst3: Am I audible now?

Murali Mohan Raju – CFO: It is not fully clear, but we can hear you.

Analyst3: My question relates to capacity expansion. What is our paneer capacity and the current utilization? My second question is related to the EBITDA margin. We had reached a double-digit EBITDA margin, but gradually we are seeing our EBITDA margin fall to 8% or 7%, even though we are doing very well in terms of the top line. Does our business have some fixed-cost leverage from which we should be benefiting?

Murali Mohan Raju – CFO: First, regarding paneer capacity, am I audible? Your voice is not audible. Analyst3, can you hear us?

Analyst3: Yes, I can hear you.

Murali Mohan Raju – CFO: Can you hear me now? Hello? Yes, I can hear you. It is audible. Okay. We have approximately {? 12 tons ?} of paneer capacity. We already have paneer capacity. We are currently producing around 4.5–5 tons here. Separately, at HR Foods, we are producing close to 2 tons of paneer. Recently, at HR Foods, we also enhanced the paneer capacity to 7–8 tons. Therefore, together, HR Foods and Dodla have approximately 17–18 tons of paneer capacity. We are currently selling close to 6.5 tons, or 6–7 tons, of paneer.

Regarding Maharashtra, you asked about capacity utilization. That plant has a capacity of 10 lakh liters. From March 1, or from March onward, we will start the B2C business, including pouch milk and curd. In May or June, we will also start operating the powder plant.

Regarding EBITDA levels, this year, because of El Niño, procurement prices increased abnormally. Because of the price corrections, it took some time. Procurement prices increased very quickly, and we were able to implement the corresponding changes only on the sales side. In the coming quarters, this should be corrected. We have already initiated significant corrections on the sales side over the last 2 months, including for curd and milk.

Management: We have also made corrections on the sales side. Gradually, in the third and fourth quarters, you will see better EBITDA levels compared with the first and second quarters.

Analyst1: Thank you for your answer. To conclude, can you provide some brief insight into the closure of FY27 and FY28 with respect to the top line, bottom line, and EBITDA?

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Management: We cannot commit to precise numbers, but we are on track with the projections we have already given.

Management: Revenue guidance will be around 18–20%. We cannot comment on the bottom line because we still have another 6 months to consider. However, our top-line revenue growth is currently 15–16%. We are on the same track. As I said, EBITDA was slightly lower in the first and second quarters, and we expect it to be corrected in the coming quarters.

Analyst1: Thank you.

Operator: Thank you. We have the next question from Keshav. Please go ahead.

Keshav: Hello, am I audible?

Management: Yes.

Keshav: I have three sets of questions. First, you provided some clarity on margins. You said that, with the recent price hikes taken in Maharashtra and Karnataka, some margin pressure is expected to subside in Q3 and Q4. Does that mean the pressure will continue on margins in Q2?

Management: Yes. The price corrections took place in August and September. There was margin pressure in July, which was recovered in the subsequent months.

Keshav: Understood. What is the turnaround timeline for Osum? How is it progressing?

Management: We have made many backend corrections at Osum, particularly in quality, processes, supply, and the brand. We have corrected everything. It is now gradually moving into a positive position, which is a good sign. We have made many backend corrections. We implemented SAP, made several corrections on the procurement side, and corrected the plant. We have brought the SOPs and everything else on par with Dodla.

Management: The cooperatives are currently unable to charge a significant additional premium because the quality and all other parameters have been streamlined. We are in the process of route optimization and other initiatives, which will take some more time. We may need another couple of quarters to get above 5% margins.

Management: In addition, we faced a similar El Niño situation this year. During the first year, and in the 1 year that has just been completed, we made many backend corrections, including SOP and SAP implementation, procurement corrections, and plant corrections. We also made many plant corrections. We have now brought the quality and everything else on par with Dodla. We will now focus on profitability.

Keshav: Should I understand that we are closing FY27 with 5% EBITDA margins, or is 5% the target for next year, FY28?

Management: It may or may not be 5% this year. It may be slightly lower than 5%, but next year we expect to achieve 5%, or more than 5%, with certainty.

Keshav: Can you give us some idea of the ramp-up at the Maharashtra plant? Is it on track?

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Management: The Maharashtra plant is on track. We will start the liquid milk plant in February or March, specifically in March. Normally, milk availability increases only in May and June. Therefore, in May and June, we will also operate our powder plant at full capacity.

Keshav: Understood. Thank you, and all the best.

Management: Thank you.

Operator: Thank you. We have the next question from Aditya Khandelwal. Please go ahead.

Aditya Khandelwal: Am I audible?

Management: Yes.

Aditya Khandelwal: Could you talk about the trend in procurement prices? How are they currently behaving, and in Q2 were they stable at 41, or did we see an increase in August and September?

Management: Normally, procurement prices come down in the second quarter every year. This is an unusual year because prices have also increased slightly in the second quarter. Accordingly, we have also made corrections on the sales side. We have made sales-side corrections almost twice. We have made sales corrections in the second quarter to offset procurement costs.

Aditya Khandelwal: In the previous conference call, we had mentioned that two things needed to happen for our margins to return to the 9–9.5% level. The first was an increase in realization prices, which we have implemented. The second was an expected decrease in procurement prices. If procurement prices have not decreased, would it be fair to say that margins will remain under pressure this year and—

Management: Margins are under pressure, but we have made sales corrections over the last 2 months. Those corrections will lead to improvement in the coming quarters.

Management: You will see better results in Q3 and Q4.

Aditya Khandelwal: To understand the under-recovery, if we look at gross margin per liter or EBITDA margin per liter, whichever way you want to specify it, what gross margin per liter would the company need to achieve 9% margins, and what are the current levels?

Management: Our current gross margin is approximately 22–23.5%. To achieve 9% margins, we require a gross margin of 26–27%. We expect our gross margin to reach approximately 26–27% in the coming quarters.

Aditya Khandelwal: Will this come purely from price increases?

Management: We have made several price corrections across all areas.

Aditya Khandelwal: Understood. Going forward, we generally see a flush beginning in October, but with El Niño taking effect, how do you see procurement prices behaving? Are they stable, decreasing, or increasing?

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Management: Over the last 15 days, procurement prices have been on a slight upward trend, but not to the extent expected. The impact was greater in July and August. In September, there was a slight upward trend in procurement prices. We hope the situation will improve somewhat because there has been rainfall in some areas.

Aditya Khandelwal: In your experience, when there is a rainfall shortage, crop yields are affected, and we are seeing raw material prices for cattle feed increase. In such a situation, how do farmers react? Are they still making money from milk sales despite the increase in cattle feed prices? Are the current prices remunerative for them when selling milk?

Management: We have also taken two rounds of cattle feed price increases because the cost of raw materials, particularly maize and other raw material ingredients for cattle feed, was high. Despite that, farmers are receiving remunerative prices because we have also made procurement price corrections a couple of times. Although feed and other costs have increased, the procurement price has compensated for them proportionately.

Aditya Khandelwal: Understood. In this inflationary scenario, how are you looking at volume growth? Could volume growth decline because of the price increases we have implemented? Will consumers shift more toward cooperative brands in this situation?

Management: Because of El Niño, smaller brands are unable to supply. Therefore, our revenue growth will be in line with the projections and will be 100% or higher than that. In the first and second quarters, we saw revenue growth on the higher side, not the lower side.

Aditya Khandelwal: Regarding Maharashtra, you said that you expect 500–600 crores in FY27 and FY28. You also mentioned that you are already procuring 3 lakh liters from Maharashtra and selling it in the southern markets. Will the 500–600 crores be additional revenue, or will it cannibalize our existing sales?

Management: The 3 lakh liters we are currently procuring from Maharashtra will be converted from April next year onward and processed at the Maharashtra plant itself. For the procurement we are currently bringing from Maharashtra to Hyderabad and the surrounding areas, we are creating an adequate procurement network here. Therefore, our dependence on Maharashtra will not continue in the coming years.

Management: To that extent, we are creating backend procurement infrastructure, including chilling centers and bulk coolers. We are expanding the procurement market.

Management: You can consider it additional incremental revenue, Aditya.

Aditya Khandelwal: Where will you sell this?

Management: It will be sold throughout the year, starting from April—

Aditya Khandelwal: I mean where will you sell it? Will you sell it only in Maharashtra, or in the South?

Management: It will be sold within Maharashtra, but not in Mumbai or Pune. It will be sold in the areas on the periphery of Telangana and North Karnataka.

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Aditya Khandelwal: Understood. Lastly, regarding Africa, could you clarify the revenue growth and margins? How is the Africa business performing?

Management: Africa is doing very well. We performed very well in the first quarter. In the second quarter, during July and August, there was a significant milk shortage because of El Niño. In September, the business picked up very well, beyond our expectations, both in terms of revenue growth and profitability. We are fully confident that Africa will perform in line with, or better than, our projections.

Aditya Khandelwal: What kind of margins are you expecting in Africa?

Management: Based on our projections, margins will be in the 10–12% range. The initial months were not very strong. However, we expect to achieve more than 10%, in line with our projections.

Aditya Khandelwal: Thank you for answering my questions.

Management: Thank you.

Operator: Thank you. I request every participant to restrict their questions to two each, as there are many participants. The next question is from Resha Mehta. Please go ahead.

Resha Mehta: I may have missed your opening remarks. Regarding milk procurement prices, how are they trending now? They used to be around 41 rupees up to July, particularly in June and July. What would be the overall procurement price for us currently? My second question is regarding the price gap in liquid milk versus cooperatives. Initially, in Tamil Nadu and Karnataka, the gap was 6–10 rupees. After the price hikes we have taken, what is the gap now?

Management: First, regarding the procurement price, as you said, it was around 41 rupees. It has increased by another 50 paise overall, so it is now 42 rupees. Regarding the sales price in Karnataka and Tamil Nadu, we have taken sales price increases in both states. The gap has widened. In Tamil Nadu, the cooperative dairy is unable to supply milk to consumers. Therefore, although we have increased the selling price, our sales have not declined because the cooperative has pressure on the procurement side and does not have enough procurement in Tamil Nadu. In Karnataka, over the last 2–3 days, they have already provided information that they will increase the sales price by approximately 4–5 rupees tonight or tomorrow.

Resha Mehta: Is that okay?

Resha Mehta: Okay.

Resha Mehta: What is the outlook for procurement prices? I understand that they are currently around 42 rupees. However, considering that the festive season is here and, more importantly, that the South has experienced a larger rainfall deficiency this season, what is the outlook for procurement prices over the next 6–8 months?

Management: Considering the corrections we have already made in procurement, I do not think prices will go beyond this level. Everyone now has sufficient milk, and there is no shortage.

Resha Mehta: Got it. That is all from me. Thank you.

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Management: Thank you.

Operator: Thank you. The next question is from Vandit. Please go ahead.

Vandit: Thank you for conducting the call. I have two questions. First, with the ongoing FDA corrections in Maharashtra, is there a meaningful shift happening in volumes in Maharashtra?

Management: Nothing significant is happening. Our system is entirely different. The FDA action indirectly helps us improve quality, but there is no substantial benefit to us because our model is directly connected to farmers, so we do not have many of those issues.

Vandit: Are we gaining volume because of the issues affecting many other players?

Management: Not much.

Vandit: Even in fact, you will not gain if someone is making adulterated milk or making paneer from analog paneer. Because of the FDA action, once that stops, actual milk consumption will be used to make these kinds of products. Understood.

Vandit: My second question is whether we have revised our guidance downward. Perhaps I did not understand the point correctly. Did you say a 5% margin for the year?

Management: We did not say a 5% margin for the year. We said that the margin level would move toward 5% in the coming quarters.

Management: The 5% margin was mentioned only for Osum.

Vandit: I had missed that part. Is it fair to assume that the guidance given in the previous call remains intact?

Management: Yes.

Vandit: Is there any update on the Maharashtra capex? Is it on stream, or are there delays?

Management: There are no delays. It is progressing according to plan.

Vandit: Thank you, and it was good to see B. V. K. Reddy join the call. I do not think I have seen him on the previous calls. Thank you.

Operator: Thank you. We have the next question from Yash Goenka. Please go ahead.

Yash Goenka: How do you see the incoming flush season in Q3, as well as the pressure on margins from logistics and packaging costs?

Management: Over the last 10 days, procurement has been slightly higher compared with June and July. We are yet to see how the situation develops because it has rained in Coastal Andhra Pradesh, and a few days ago there was also rain in the Vidarbha area of Maharashtra. We expect procurement to increase slightly.

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Regarding packaging material costs, they have already increased substantially, by 30–40%. This happened 2–3 months ago, so there is nothing new. Regarding transportation costs, we are monitoring them closely. There has not been much variation, although there has been some slight variation, which we will be able to overcome.

Yash Goenka: You mentioned that procurement is increasing. That will result in lower procurement prices, correct?

Management: The quantity of procurement is increasing. Prices may not come down. Prices may remain at the current level, but there is no shortage.

Yash Goenka: With the existing cash on the books and the cash the company is generating, how do you see the company deploying these large cash balances?

Management: Murli will answer this.

Murli: The majority of the money will go toward the capex we have planned, either for Maharashtra or Uganda. Approximately 200 crores will be required here after the net loan drawdown, another 100 crores in Uganda, and another 10–20 crores for expansion at Osum Dairy. In addition, we need another 50–60 crores for backend infrastructure, apart from our regular 60 crores.

We will evaluate whether there is a good opportunity, either brownfield or greenfield. That is what is under consideration. We will explore it once these initiatives are stabilized. We will also continue to maintain the dividend position we have maintained over the last 2 years.

Since we are commencing the powder plant in Maharashtra, we also need to maintain inventory for the coming months. We also need to maintain inventory for any B2B requirements or opportunities that may arise.

Yash Goenka: So, broadly, the cash will be used for growth, whether organic or inorganic?

Murli: Yes.

Yash Goenka: Thank you.

Operator: Thank you. We have the next question from Rishi Modi. Please go ahead.

Rishi Modi: Hello. Can you hear me?

Management: Yes.

Rishi Modi: I have a couple of quick questions. First, I wanted to understand the rationale behind the bulk fat storage inventory. Is it mainly from a price speculation perspective, where procurement prices are down and therefore you build inventory, or is it excess production or excess procurement? I am trying to understand why we have such wide fluctuations in bulk fat storage and why we have taken write-downs in the past.

Management: Currently, we do not have much bulk fat. We are broadly matching incoming and outgoing quantities. We generate some surplus fat only during the flush season. That is all. Until we

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commence the Maharashtra powder plant, surplus fat will be generated only from the powder plant.

At present, our incoming and outgoing quantities more or less match. There is not much surplus fat. Surplus fat is generated only during the season when there is surplus milk that is converted into powder. At that time, surplus fat is generated, and we sell it throughout the year for our consumer sales.

Murli: To add to what he said, 3 years ago we were always on the net buyer side. Our sales require approximately 10% more solids than our procurement. What we buy is 4.2 or 8.3 solids, comprising fat and SNF, while what we need is 4.6 and 10. That is why we always had a shortage of solids. That is what we used to buy 3 years ago.

When we planned Maharashtra, we also wanted to enter the B2B business and have a consistent supply throughout the year. We then started procuring more than 10% of our sales requirement. That is why we built inventory in FY25. Because rates were favorable, once our inventory reached {? 100 to 300 crores ?}, we started selling it because we wanted to understand that business.

After that, when prices started coming down, we started selling the inventory. Currently, we maintain only the stock we require. Generally, we procure more milk for the summer season when there is a flush. However, because of El Niño and other impacts, procurement did not increase significantly because rates remained at the same level. We are not buying and maintaining additional inventory at present.

Going forward, once the Maharashtra plant starts, we will act based on the situation and prices. We will manage the inventory accordingly. Regarding your point about an inventory write-off, we have never written off the inventory. It is only the accounting standard that compares the prevailing rate with the carrying value. That is a write-down value, not a write-off value. When prices increased again, that value also increased automatically. It is only the provision we pass through the books as part of the closing process.

Rishi Modi: If I understand correctly, initially we stocked inventory because we were planning to enter the B2B Maharashtra business. Now we do not want to do the B2B Maharashtra business, and therefore we will not see significant inventory build-up.

Murli: We will do it once the Maharashtra plant commences. Apart from that, the rates are currently not favorable enough to build additional inventory for the B2B business. I think the CEO will add to that.

B. V. K. Reddy – CEO: There is a slight variation here. Earlier, once in 3 years or once in 4 years, we used to get a significant flush. During that flush, we converted milk into powder. At that time, butter and SMP prices were very low. We used to keep the products as inventory and wait until prices improved, after which we would sell them.

However, over the last 1.5–2 years, there has not been much surplus. Our input and output are mostly matching, so there is not much inventory. Even after the Maharashtra plant commences, whatever surplus fat, powder, and other products we generate will be held as inventory. After the plant starts, there will be some continuity in that inventory because of the plant's scale. Is that clear?

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Rishi Modi: Understood. In your Q1 call, you mentioned a 6–7 rupee price gap in Karnataka versus competitors and a 10 rupee price gap in Tamil Nadu. I did not catch the latest comment clearly. Could you clarify where we stand today versus competitors?

Management: In all the states, we have taken an increase in selling prices. In Tamil Nadu and Karnataka, even before the price increases, there was a difference of 6–8 rupees between cooperatives and private dairies. Despite that, we have taken another round of price increases a couple of times over the last few months.

In Tamil Nadu, the cooperative dairy does not have sufficient procurement and is unable to meet demand or supply enough quantity. Therefore, although we have increased the selling price, our volumes have not declined.

Rishi Modi: That is because the cooperative does not have sufficient—

Management: The cooperative is unable to supply because it does not have sufficient procurement. It is unable to manage the situation and is running late by 2–3 months.

Rishi Modi: The procurement shortage is because they are unable to pay the prices that we are paying.

Management: They are unable to pay the price on time. They are running late by 2–3 months.

Rishi Modi: Is there any regulation or subsidy from the Tamil Nadu government, or any discussion about one, to ease the situation?

Management: The Tamil Nadu government has announced a subsidy, but it is still not clear. They made an announcement in the Assembly, but nothing has been issued as a government order or anything else.

Rishi Modi: My final question is a broader conceptual question about the branding strategy. Now that we are increasing the portfolio with double-premium products, will we continue with Dodla? What are we thinking about the branding strategy? Will we follow the Heritage–Hatsun model, with multiple brand names for different product categories, or the Amul model, with a mother brand and sub-brands?

Management: We have only Dodla. We do not have multiple brands. We follow an Amul-type approach, with Dodla as the only brand. We have Dodla Paneer, Dodla Milk, Dodla Full Cream Milk, Dodla Doodh Peda, and Dodla Ice Cream. That is our strategy.

Rishi Modi: Are there no plans to create a premium brand?

Murli: In South India, it is Dodla. In Bihar and Jharkhand, it is Osum. In Africa and Uganda, the brands are Dairy Top and Dairy Plus.

Management: Outside India, Africa has a different brand, and HR Foods also has the Osum brand. However, under Osum, we have also added Dodla.

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Rishi Modi: I was trying to understand, from a marketing perspective, how much spending would be allocated to a major brand or sub-brand. That clarifies it. Thank you. That is all from my side.

Management: Thank you.

Operator: Thank you. We have the next question from Hitendra. Please go ahead.

Hitendra: I hope I am audible. My question is regarding packaging and freight costs—

Management: We cannot hear you clearly, Hitendra.

Hitendra: Am I audible now? Hello? Yes.

Hitendra: My question is about packaging and freight costs. They are approximately 12–13% of overall sales, particularly milk sales, on the cost side, and there has been inflation in those costs. What kind of margin drag do you expect from this, and how are you trying to address it?

Management: Packaging material costs have increased by 30–40%, without a doubt. However, packaging material costs are not significant in our overall cost structure; they account for only 3–3.5%. In the 3–3.5% range—[inaudible]

Operator: You are not audible.

Management: There is a connection issue. We can continue. Packaging material costs account for only 3.5–4% of our overall cost structure. Although the cost has increased by 40%, it will not have a significant impact.

Regarding transportation costs, they are somewhat more substantial compared with packaging material costs. However, we are undertaking significant optimization there as well, including using higher-capacity vehicles and optimizing routes. There is still some cost pressure in transportation.

Hitendra: Should we expect approximately a 1% margin drag from both of these cost heads?

Management: The impact may be less than 1%, perhaps 0.2–0.5%.

Murli: This varies across different types of packaging materials. We have already passed on some of the cost.

Hitendra: We have discussed procurement, so I will not ask about that. I have a strategy-related question. Many of our peers are announcing Pan-India expansion into fat products, particularly paneer. I wanted to understand our aspirations. Are we planning to—

Hitendra: —expand our brand? If not, why not? In terms of distribution, are there challenges? What are your thoughts on expanding into paneer or other dairy products?

Management: We are already adding capacity for other value-added products. We have expanded capacity for curd and paneer at our southern plants. Last year, we acquired HR Foods in Jharkhand and Ranchi, as well as in Jharkhand and Patna, Bihar. There also, we have expanded curd and paneer capacity. We are enhancing our production capacity for paneer and curd according to

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market requirements.

Hitendra: You are not planning to enter e-commerce or quick-commerce channels, correct? Will you primarily leverage our existing general-trade distribution rather than modern trade?

Management: We are also actively pursuing modern trade and e-commerce. We are now actively involved in e-commerce and are placing our products across e-commerce platforms.

Hitendra: Thank you, and all the best.

Operator: Thank you. We have the next question from Ronak. Please go ahead.

Ronak: Is it fair to assume that Q2 will be the worst quarter for margins and that we will see gradual sequential improvement from Q3?

Management: There will be sequential improvement. As I said, there will be better improvement from the first quarter to the second quarter and from the second quarter to the third and fourth quarters, compared with the first and second quarters.

Ronak: Should we reach our optimal gross margins by Q4?

Management: Yes.

Ronak: Of 26–27%?

Management: We expect gross margins of approximately 26% in Q3 and Q4.

Ronak: Perfect. Thank you.

Operator: Thank you. We have the next question from Karthik. Please go ahead.

Karthik: Thank you for the opportunity. Am I audible?

Operator: Yes, you are audible.

Karthik: I wanted to understand whether we have any specific targets for the next couple of years regarding the contribution of the value-added portfolio to our business.

Management: Karthik, we cannot hear you clearly.

Karthik: Is it better now? Hello?

Operator: Murli, could you please close your video and then speak?

Karthik: Is my voice audible?

Operator: Yes, your voice is audible.

Karthik: Sorry, I think the internet connection was disconnected.

Management: There is a network connectivity issue. Please go ahead.

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Karthik: Is it better now?

Management: Yes, it is clear.

Karthik: Where do you want to take the share of value-added products over the next 2–3 years?

Management: We are already at 30–32%. Every year, it may increase by 1–1.5%, or at least 1–1.5%. That is our focus because the liquid business will also continue to grow. We want to maintain the proportion and increase it by at least 1% over the existing 32% VAP.

Karthik: Okay.

Operator: Thank you. We have the next question from Rajvin Koria. Please go ahead.

Rajvin Koria: Am I audible? The Maharashtra government recently declared a drought in Maharashtra. Do you expect an impact on milk procurement volumes? Will this also increase input costs, such as cattle feed costs, and affect EBITDA margins?

Management: Whatever impact resulted from the Maharashtra government's declaration has already occurred. Cattle feed costs have already increased. Over the last 2–3 months, there has been less rainfall in this part of Maharashtra, and we have already experienced those effects. Recently, there was some rainfall in this part of Maharashtra, including the areas around Solapur, during the last 2–3 days. There has been some improvement in procurement.

Rajvin Koria: What kind of growth are you seeing in value-added products 2 or 3 years from now, particularly in paneer?

Management: We expect very good growth in paneer. From last year to this year, paneer grew by more than 60–70%. We expect paneer to deliver significantly better growth because we are continuing to expand our production capacity. We also expect paneer and curd growth to be substantial in the coming years.

Rajvin Koria: My last question is regarding competition. We face competition from Heritage in the South and Parag Milk in Maharashtra. Do we have pricing power? If input costs increase, will we be able to pass them on as we enter Maharashtra?

Management: We have been competing with each other from the beginning, so there is nothing new. We compete with Heritage and Hatsun in every state, not only in Maharashtra. We compete in Andhra, Karnataka, Tamil Nadu, and everywhere else. Therefore, there is nothing new. I do not think we will have any issue. We have a strong procurement network, and I believe we will be able to manage it.

Rajvin Koria: Thank you.

Operator: Thank you. We have follow-up questions from Chintan Modi. Please go ahead.

Chintan Modi: Thank you for the follow-up. Global skimmed milk powder prices have increased recently. There has been a significant increase over the last 3–4 months. Is this putting pressure on Indian procurement because some dairy players may act opportunistically and capitalize on or

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leverage this price increase? I wanted to understand your thoughts.

Management: The impact of El Niño is being felt worldwide, and prices are increasing because of that. We have also seen the impact in Africa, where we have a presence. We are receiving information that Europe and other regions are also experiencing this impact.

However, in India, we do not currently have any overall shortage of either milk or milk powder. In North India, the flush season will begin only after Diwali, so we still have to see what happens during the coming flush season.

Chintan Modi: Will the cyclical nature we see continue to follow a 2–3-year cycle, repeatedly affecting our gross margins? Are we doing anything to reduce this volatility and create more stable margins over a longer period? Value-added products will help, but given that our objective is to increase VAP to approximately 34–35%, would that be sufficient to reduce the volatility, or will we continue to see volatility over the long term?

Management: To a certain extent, volatility will continue because we are not 100% VAP. Even if VAP reaches 35%, the remaining 65% will be liquid, and there will still be some impact. However, we are gradually overcoming it. Our size is becoming very large year-on-year, and our geographic spread is also increasing significantly.

We are present in Africa, Bihar, and Jharkhand, and we are now also in the feed business, which is growing. Because of this, the impact should be lower in the coming years.

Management: Earlier, there was not as much volatility. Perhaps farmers increased their artificial insemination practices, or they became more aware that they would receive higher prices in the summer and planned their production accordingly.

Management: Many things are also changing at the backend. Farmers have become more informed. On the procurement side, they are using better technology and better feed, and they are taking care of all these aspects.

Chintan Modi: In Dodla's history, do you think this period has been a one-off, with inflation stretched over a longer period, or has this happened in the past as well?

Management: This is a peculiar year. We faced two problems. One was the West Asia war, and the other was El Niño. Earlier, we faced only one problem related to weather patterns. For example, lower production could lead to higher procurement prices.

This year, because of the West Asia war, packaging material costs and transportation costs have also increased. All these factors have added to the pressure. This is a peculiar problem that we have seen so far. We have never seen a situation like this.

Management: In addition, manpower costs have also increased because of the new labor code.

Chintan Modi: Understood. That is very helpful. Thank you.

Operator: Thank you. Due to time constraints, we will have to close the call. On behalf of Arihant Capital, I would like to thank the management for taking the time to participate and share insights.

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about the company. If participants have any further questions, they can contact the Arihant Capital team. Do you have any closing comments or guidance for investors?

Management: Thank you. There is nothing much to add. I think the first 2 quarters will be somewhat difficult for us and, to some extent, for the dairy industry as well. Going forward, we expect better improvement in Q3 and Q4.

Operator: Thank you. That concludes the call from our end. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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