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4th August, 2023

To
The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

To
The Manager,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, C-1, G Block, Bandra-Kurla
Complex, Bandra (East), Mumbai - 400 051

Scrip Code: 519552

Scrip Code: HERITGFOOD

Dear Sir/Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

Dear Sir / Madam,

In Continuation of our letter dated July 19, 2023 the Company had organized a conference call with the Investors/Analysts on Wednesday, August 02, 2023 at 16.00 AM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been available on the Company's Website at www.heritagefoods.in.

Kindly take the same on record and display the same on the website of your exchange.

Thanks & Regards,

For HERITAGE FOODS LIMITED

UMAKANTA BARIK

Company Secretary & Compliance Officer
M.No: FCS-6317

Encl: a/a

About the Company:

Heritage Foods founded in the year 1992 is one of the fastest growing Private Sector Enterprises in India, with two business divisions viz., Dairy and Renewable Energy under its flagship company Heritage Foods Limited and Cattle feed business through its subsidiary, Heritage Nutrivet Limited (HNL). Presently Heritage's milk and milk products have market presence in Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Maharashtra, Odisha, NCR Delhi, Haryana, Uttar Pradesh and Uttarakhand. It has total renewable energy generation capacity of 10.50 MW from both Solar and Wind for captive consumption of its dairy factories.



HERITAGE FOODS LIMITED

CIN : L15209TG1992PLC014332

AN ISO: 22000 CERTIFIED COMPANY

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HERITAGE FOODS LIMITED

Q1 FY24 Earnings Conference Call

August 02, 2023



MANAGEMENT:

Mrs. N Brahmani – Executive Director

Dr. M Sambasiva Rao – President

Mr. A Prabhakar Naidu – Chief Financial Officer

Mr. Srideep N Kesavan – Chief Executive Officer

Mr. J Samba Murthy – Chief Operating Officer

Mr. Umakanta Barik – Company Secretary & Compliance Officer

Mr. Upendra Pandey – Chief Executive Officer, Heritage Nutrivet Limited

MODERATOR:

Mr. Anuj Sonpal – Valorem Advisors



Moderator: Ladies and gentlemen, good day, and welcome to the Heritage Foods Q1 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand over the conference to Mr. Anuj Sonpal from Valorem Advisors. Thank you, and over to you, Mr. Anuj.

Anuj Sonpal: Thank you. Good evening, everyone, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Heritage Foods Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the first quarter of financial year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We firstly have with us Mrs. Brahmani Nara, Executive Director; Dr. Sambasiva Rao, President; Mr. Srideep Kesavan, Chief Executive Officer; Mr. A. Prabhakara Naidu, Chief Financial Officer; Mr. J. Samba Murthy, Chief Operating Officer; Mr. Upendra Pandey, CEO of Heritage Nutrivet; and Mr. Umakanta Barik, Company Secretary and Compliance Officer.

Without any further delay, I request Mr. Rao to start with his opening remarks. Thank you, and over to you, sir.

M. Sambasiva Rao: Thank you, Anuj. Good evening to everyone joining us today on this call. We are pleased to welcome you all to this earnings call for the first quarter of the financial year 2024. The financial results and earnings presentation have been uploaded on the exchanges, and I hope you must have got the chance to look at them by now.

Let me take you through the financial performance for the quarter under review first. Heritage Foods achieved its highest-ever quarterly revenue during this quarter, which on a consolidated basis stood at INR924 crores, growing by 12.5% year-on-year. This was driven mainly by the continued strong momentum in value-added products, but registered a growth of 13.5% year-on-

year to reach INR322 crores and contributed to around 39% of overall sales, including fat products.

EBITDA stood at INR40 crores, which grew by around 68% year-on-year with EBITDA margins at 4.36%. The improvement in EBITDA on a year-on-year basis was driven by sale price increases in line with the raw milk cost increase, continued shift towards more profitable value-added products and scale-up of value creation and margin expansion initiatives. The net profit grew substantially by 129% year-on-year to INR17 crores.

Now moving on to the operational performance for the quarter. The average milk procurement during the quarter under review was 1.52 million litres per day as compared to 1.39 million litres per day during the Q1 of last year, registering a growth of 9% year-on-year. The average procurement price during the quarter stood at INR44.55 per litre, which increased by INR3.78 per litre over Q1 of last year.

And average milk sale price stood at INR54.59 per litre, which increased by INR5.43 per litre over last year's first quarter. The revenues from sale of liquid milk grew at 9.8% year-on-year despite volumes coming down marginally by 1% to 1.08 million litres per day with the average selling price increasing by 11% year-on-year. A good part of the quarter was adversely affected by unseasonal rains in our markets. Despite this, we were able to deliver growth in volumes and significant growth in transactions across most value-added products.

Curd sales during this quarter was at 435.6 tons per day compared to 424 tons per day during the last year same quarter. Strong volume growth in value-added products was seen across drinkables like buttermilk, milkshakes, etcetera, and ice creams too. Revenues of consumer fat products grew by 19.6%, primarily driven by price increase of around 25% plus, though we registered a small degrowth in volumes due to slowing consumer offtakes. We continued on our path to add innovative and unique value-added products. During the quarter, the company launched 10 new products like Cafe Latte, Cafe Mocha, Strawberry Lassi, Mango Lassi, Sweet Lassi, Paan Kulfi, Gulkand Kulfi, Roasted Cashew Ice Cream, Sitaphal Ice Cream.

On our distribution front, we continued our efforts in enhancing reach and distribution, added 20,000 new outlets in general trade, with the addition of over 1,000 retail outlets for ice creams and value-added products. We also added 71,500 litres of chilling capacity and deepened our relationship with farmers, with a digital enrolment program for farmers on the VET+ APP.

With this we open the session for interaction. Thank you.

Moderator:

Our first question is from the line of Sameer Gupta from India Infoline.

Sameer Gupta:

Firstly, a clarification more than a question. So, we have seen a 9% growth in milk procurement this quarter. However, I looked at the base quarter presentation and there I checked, it was 1.46



million litres per day versus 1.39 million litres per day that you mentioned on the call just now. So just wanted to understand, is there a discrepancy, have we rebased it, have we discontinued some procurement operations somewhere, just wanted to clarify this aspect?

Nara Brahmani: So, this is the correct number that we just shared with you. We will look into the numbers in the base quarter presentation again. But for accuracy sake, you can note the number that we had just shared with you.

Sameer Gupta: And there is no like discontinuation of some procurement operations anywhere, right?

M. Sambasiva Rao: No, we haven't had any discontinuation.

Sameer Gupta: Cool. Secondly, on the gross margin front, now on a Y-o-Y basis, you have seen a 160-basis points expansion, but sequentially, gross margins have contracted. Any read-through here? Because we were told that cow flush has been quite normal and there was a trend of milk prices procurement basis kind of stabilizing and expect it to go down and no real benefits visible this quarter or is it just because we have kind of procured more than what we have sold and that is kind of a mismatch leading to this gross margin contraction here?

Srideep Kesavan: Yes. So, you would observe that in our gross margin and this is reflecting in the EBITDA margins as well. So, if this is primarily because of a provision that we have made on account of notional loss correction based on market prices for the surplus fats that the company is sitting on. In fact, the value amounts to INR10.5 crores.

And if I were to remove that one-time provision that we have made, which is actually provision based on prudence and -- fiscal prudence. And if I remove that, the bottom line, whether it is at gross margin level or EBITDA level would have improved by 0.3% or 0.3 percentage to 0.4 percentage in this quarter. So, on a quarter-on-quarter, our EBITDA would improve from 5.12% to 5.44%, if I keep this one-time provision aside. I hope I've been able to clarify.

Sameer Gupta: Yes, sir, that is helpful. But even on a milk procurement basis sequentially, you have seen a firming up of prices. So INR44.55 versus I think INR43 was what we had last quarter. So, this cow milk flush that really hasn't played out or it -- I mean, these numbers are there after it playing out or how do I read this?

Srideep Kesavan: Yes. So, see this is -- the numbers you're talking about is actually an average, weighted average of 3 months. In fact, within the quarter, we saw movements. April month was higher than March, then it stabilized at May level, and from June onwards, it has started coming off. And on an average, you will see that the quarter price is similar to the previous quarter, roughly similar, right?

But that was not how it was intra-quarter; it has come off. So actually, from beginning of June or end of May, we have seen prices come off, which is continuing at this point in time. Nevertheless, in quarter 1 of this year, we had increased market prices or consumer prices compared to quarter 4, which -- and in addition to it, the value-added products also grew on top of Q4, this is what has expanded our margin for this quarter compared to previous quarter. And, of course, compared to previous year same period, I don't need to explain, this is a significant improvement.

Sameer Gupta: Yes, yes, sir. And just one last if I may squeeze in. So, 7% to 8% EBITDA margin guidance on a steady state basis. This quarter adjusted for that provision, 5.5%, are we still, I mean, guiding for 7% to 8% this year or you think that that's more of a medium term and this quarter -- this year might still be lower?

Srideep Kesavan: So, I don't think that we have ever given a guidance of 7 percentage to 8 percentage for this year. We have always mentioned that 7 percentage to 8 percentage is the EBITDA margin that we would like to be in. And that is what our north star is and that is what we work towards. And we can -- you have definitely seen -- if you've seen the last 5 quarters, you have seen that our margins have steadily improved on a quarter-on-quarter basis and that will continue going forward. We are aiming to be in that sweet spot or the preferred place of 7 percentage to 8 percentage EBITDA margin, but I don't think we have given any guidance that we will achieve that in this year.

Sameer Gupta: No, no, sir. I was saying that you have given any guidance. Yes, but that's helpful what you're saying.

Srideep Kesavan: Yes. But that is definitely the direction in which we're moving, you could say that.

Moderator: Our next question is from the line of Aniruddha Joshi from I-Sec.

Aniruddha Joshi: Yes. Sir, just wanted to understand if the prices have started correcting from June, so do we see possibility for margin expansion in September quarter? And the price correction that you indicated in June quarter, how sustainable is that or do you see that prices may remain stable or may not fall further from here on? Yes, that's it.

M. Sambasiva Rao: Mr. Sameer.

Nara Brahmani: Yes. Mr. Sameer, this is Brahmani here. Just wanted to clarify something on the previous question pertaining to milk procurement volumes. So Q1 FY '23 last year, milk procurement volumes were at 13.9 lakh litres without skim milk that we procure. With an additional volume of 0.76 lakh litres, it comes to that number of 14.66 lakh litres of milk procurement volume. So, the total milk procurement volume for Q1 of last financial year was 14.66 lakh litres in total. I hope that clarifies your question. Now moving on to the questions...

M. Sambasiva Rao: Aniruddha. Yes, Aniruddha.



- Srideep Kesavan:** Yes. The question that Aniruddha had asked, yes, so, first of all, I don't think that we would like to give any guidance or forward-looking -- make any forward-looking comments. But it is very safe to say that the prices started coming down from end of May or beginning of June, and that trend continued for about 4 weeks or 5 weeks and the prices have stabilized at this point in time, which means that the current prices that we are procuring at is at an advantage compared to last quarter 1.
- But that said, I should also tell you that the sales mix change in quarter 2 compared to quarter 1, quarter 1 has got a lot of summer products that sell, and quarter 2 has got a little bit of share shift towards fat products basically ghee and butter, which happens due to festive period and all of that. So, the mix changes also. So, it will not be a like-to-like comparison. But I can very much say that one, the prices have softened a little bit compared to quarter 1.
- Moderator:** Our next question is from the line of Pratik Kothari from Unique Portfolio Managers.
- Pratik Kothari:** Sir, just one clarification. One, we have mentioned in the press release that INR44.6 is the milk procurement price this quarter. What was it in quarter 4? Was it INR45.7? Basically, it has reduced, right, on a quarter-on-quarter basis?
- M. Sambasiva Rao:** This is basically the mix of cow milk and buffalo milk. The contribution of cow milk has increased, but if you take cow milk versus cow milk, there is a increase of price by 0.5% and buffalo milk rate per litre increased by 6.9%. But overall, it is shown it as minus 1.2% because of the change in the mix of milk procurement.
- Pratik Kothari:** Correct. So, the procurement price which we mentioned in our press release is blended, right?
- Srideep Kesavan:** 0.5%.
- Pratik Kothari:** Sorry?
- Srideep Kesavan:** The weighted average procurement price per litre came down from INR45.1 per litre to INR44.5 per litre in the quarter.
- Pratik Kothari:** So, sir, if we take out this INR10.5 crores of provision that we've made and in light of procurement price coming down, we took some price rise, our value-added products have gone up from roughly 30-odd percent to 37%, 38%. But still if you look at gross margin quarter-on-quarter, it's still flat, I mean, even if we take out this INR10.5 crores. Can you explain this?
- M. Sambasiva Rao:** Yes, but even otherwise.
- Srideep Kesavan:** Yes. So, see, actually it has -- this is -- the numbers that we are telling at this point in time, whether it is INR44.5 per litre or INR45.1 per litre and all, these are all weighted average at the company level. We are currently -- as you are aware that we are procuring across 9 states in the country and we sell our products across 11 states in the country, right? So -- and this is just a

buffalo to cow milk difference itself can create this kind of mix change despite individually buffalo milk prices going up and individually cow milk prices going up, the mix change has made the weighted average come down by 1.2%.

So, these things don't directly translate to margins on a straight-line method, because we procure in each region and we sell it in each region, and each regions, realization is different from one another. For example, one of the fastest-growing regions that we have, Karnataka has got a lower realization compared to Hyderabad, right? So, there is a lot of mix effect which happens.

But directionally what I'll advise you to look at is the improving scenario. The improvement that we have been registering on a quarter-on-quarter is something that I want to draw your attention to, which even on a -- even at the gross level basis, we have actually improved by 0.4% if I remove the one-time provision.

Pratik Kothari: Correct. Because, sir, our value-added products went from 28% of sales to 35-odd percent. Our procurement is lower average, higher -- I mean 0.4% seems lower and hence the question. And then sir, just...

Srideep Kesavan: I would also like to clarify one thing. In the previous quarters, whenever we declared value-added products, we were only talking about value-added products without fats. And as is the industry practice from this quarter onwards, we are giving both numbers. So, the value-added products when we said is close to 39 percentage includes fats. Without fats, our value-added product contribution currently stands at 35.3%. I just wanted to clarify that. But I take your point that this is higher than the value-added product contribution in the quarter 4 of last financial year for sure.

Pratik Kothari: Correct. Correct. Sir, last quarter we had stocked up a lot on inventory, SMP, what we converted our milk into. I mean any liquidation of that in this quarter? I mean, how much of that older inventories still left?

Srideep Kesavan: Yes. So, see, the quantity that we had kept it was for our internal consumption. There are 2 routes of consumption. One is for consumption for our products, because quarter 2 usually is the leanest month and the raw milk volumes drop and the uses for our products. And secondly is for our consumer products, whether it is in butter form or in ghee format. And usually, quarter 2 and quarter 3 are when the fat products peak due to festive effects and all of that.

So, we are estimating that in the next 3 months to 4 months, the entire inventory that is sitting -- they're sitting on will get liquidated. We actually need it for our own purpose. The valuation correction we have done it only in line with how the raw milk prices have dropped. And today, if we were to procure these fat from outside, we would have procured at a lower cost than what we had generated a few months back. I hope that clarifies.

- Pratik Kothari:** Correct. Absolutely. And sir, last question is on the broader side, in terms of procurement and also in terms of demand, if you can just lay out how does the scenario look like from a demand and also supply perspective?
- Srideep Kesavan:** So, see, the procurement -- on the procurement side, milk production, we have definitely seen an improvement. And this improvement we have seen across all regions of the country, especially the biggest improvement in terms of production, we have seen in Maharashtra. But that said, it was not limited just to Maharashtra, across all parts of the country, we have seen production improvement, which is actually a welcome signal -- yes.
- Strange day, we're having continuous problems with this device. Apologies for that. Answering the question raised by Mr. Kothari on the procurement side or on the milk supply side, we are seeing very good progress, the sense of production across all regions of the country is on an upswing. And this is primarily driven -- primarily based on -- primary cycling a lower production year which we saw in the last financial year, calendar year. So that's good news on the production side.
- On the demand side, we do not have any reasons to worry as of now, but for the quarter, we were slightly set back because of inclement weather in many of our markets and usually it was not as good as the summer that we had expected. Last summer, if we compare on a temperature like-to-like basis for each month, actually in several regions, the temperature was at least 2 degrees or 3 degrees lower than same period last year, even in terms of rainfall and number of rainy days also was much more, which negatively impacted some of the summer products, like whether it is curd, buttermilk, ice cream, etcetera. So, on demand side, there is nothing that causes any worry except that the weather was not so great.
- Pratik Kothari:** Correct. Sure. Sir, just really appreciate this, the INR10.5 crores provision that we made, if you could have mentioned that in the notes to account, I think that could have been better, otherwise, thank you, and all the best, sir.
- Moderator:** Our next question is from the line of Viraj Mehta from Equirus PMS.
- Viraj Mehta:** Yes. Sir, my first question is regarding the lost sale. I mean because you talked about procurement being slightly challenging, is there any amount that present in your press release, what would be the quantum that you think you would have lost due to lost sales due to that?
- Srideep Kesavan:** No. I don't think that we -- I don't think that we've ever mentioned that we have challenges to -- answering the specific question and it might be a misunderstanding or misrepresentation of what we said. So, I'll just clarify that as a company, we operate in more than 11,000 villages across 9 states. We have -- we operate 204 chilling centres, which are spread across these states.



And we have been consistently expanding the procurement side investments also on every quarter -- in every quarter. And this quarter also, we have declared that we have expanded our procurement capacity by 71,500 litres per day. And today, cumulatively, we have a capacity to procure upwards of 22.3 lakh litres of milk every single day.

So -- and on top of it, we are expanding and engaging our farmers in a more meaningful manner, which goes just beyond the transaction relationship of buying milk and paying money as in we are engaging with them in terms of the inputs that we provide to the farmers, in terms of high-quality feed that we provide from our company, in terms of the veterinarian services that we provide.

We have 17 veterinarian doctors and many assistants who provide service to our farmers in terms of veterinary care. We have got an internal app called as VET+ APP, which has 120,000 or 1.2 lakh monthly active users. These are farmers who use our VET+ APP for improving their productivity at the farm level. So, in terms of procurement, I don't think that we have ever mentioned that we have any challenges, and we absolutely have not lost even 1 litre of volume because of difficulties we may have had at procurement.

Viraj Mehta:

Okay.

Srideep Kesavan:

And it's probably the misunderstanding that may have happened is with some statements which meant that the last financial year saw milk volumes are not growing as expected across -- the milk production not growing as expected across the country, and that is an industry-wide phenomenon, which was felt by all players in the industry.

Viraj Mehta:

Sure. Sure, sir. And sir, just last one question. Is it fair to assume that from this quarter onwards, in terms of margin accretion, you're looking at INR10.5 crores one-time loss that you -- or revaluation year-to-date, plus there will be lower procurement prices compared to average of last month, and plus, you took a pricing increase of milk in last quarter. And the only negative factor to offset some bit of those will be the worse of mix that you talked about because summer is obviously higher buttermilk and curd and all of that. And there is more fat in the second quarter and third quarter probably. So, is that a fair way to understand our margin profile going forward?

Srideep Kesavan:

Yes, that is in a very fair way. But to put numbers on any of this would be unfair. That's the only thing because we are a company that operate across 11 states, and each state behave in different fashion. There are different parameters at play, some states might have excess rain, some states might have dry season. Our margin profile in each of the states would be different. So, it's -- there's a lot of things at play. That's the only address I'll give. In addition, we're also...

Viraj Mehta:

No, no, on an average I'm talking sir.

Srideep Kesavan:

Yes. In addition, we are also taking several value creation initiatives, which will keep increasing the profitability going forward.



Moderator: Our next question is from the line of Digant Haria from GreenEdge Wealth.

Digant Haria: My question is, let's say, in last 5 quarters, we have seen very good growth on the revenue. And even before this good growth started for us, there were some procurement mismatches in states that somewhere we procured more, somewhere less than what we sold. So just wanted an update on how those mismatches being corrected?

And for the future growth, we'll still need more milk. So, the approach that we are following is first, let's build up sales and then do procurement or we build procurement first and then think of sale, because I think our high inventory buildup could also be because we want to compensate for these mismatches. Any comments here would be very helpful?

Srideep Kesavan: Yes. So first, let me address some mismatches. So, there are 2, 3 questions in your one single question. Mismatches, see, is our endeavour to procure, process and sell in one region in the most efficient manner. That's our business model. That is why Heritage -- that's what Heritage is most famous for. That's what makes our products fresh and most delicious. But that said, it's a -- this is a natural product, which has certain cyclicity, intra-year cyclicity as you understand. And then north of India has flush season, that could very well be a lean season in Tamil Nadu, right?

And these kind of things happen. And when we operate in like millions of litres per day kind of volume, you will see that certain regions in certain times might be producing more than it can consume and certain other regions might be producing less than what it needs. Because of which as a company operating across 11 states, we have -- we manage this internally through plant-to-plant movements.

But this is a very small percentage you can say that plus or minus 10 percentage we are forced to manage it in this fashion. And it's not just Heritage, I'm sure that there are all the other dairy companies operate in a similar fashion, right?

Now that said, currently, I do not think that it is -- it's of any concern to us, and that is not -- definitely not the reason why we ended up with excess inventory that we carried or rather this particular situation that you are talking about, it is just a function of our increased volumes. For example, if we are looking at the period from July to October of this financial year, we expect our sales to be much higher than what it was last year same period, which requires certain quantities of fats and skim milk powder that we need to carry as an inventory. It is just so that we procured them at a time, or we procured or converted them at a time when the milk prices were at the highest.

And the milk prices have come off the cliff since then. And we have just corrected the value to current prices as far as the inventory is concerned, that's all. I don't think that this would have been any different if there was a perfect match between procurement and sales. And that does not even happen because there is always a mismatch between procurement, peak and sales peak.



- Digant Haria:** Perfect. Thanks, Srideep. That was very, very detailed and helpful. And second question is on our 3 focused value-added products, the paneer, curd and ice cream, if you could just give a little bit of the initiatives and how has those things panned out for us in the last 3 months to 6 months?
- Srideep Kesavan:** So, curd, I think is doing very well for us. It's our first most important value-added product. And in this summer, we have had -- we launched an above-the-line marketing campaign as well. We were on television. We also used multiple other mediums like out-of-home advertisement, we use digital to the maximum possible. So, we created a lot of excitement around as far as our curd is concerned. And this has also resulted in like when we look at same-store growth, we have been able to deliver much higher same-store growth than in the previous period because of -- thanks to all of this.
- As far as paneer is concerned, we are continuing to expand our distribution. I can safely say that we have expanded our distribution at least by 50% compared to same period last year. So, quarter 1 to year-on-year basis, we must have expanded our distribution by 50% as far as paneer is concerned. So that is also growing for us. And ice creams, we have shared with you that so many innovations we have done in the ice cream space. And in terms of ice creams, we have also added 700-plus freezers during this quarter, and that has also helped us expand the footprint for our ice cream business.
- Moderator:** Our next question is from the line of Rajat Setiya from ithought PMS.
- Rajat Setiya:** Sir, with regards to direct online payments to the farmers, where do we stand today and what is our thought process?
- M. Sambasiva Rao:** So almost we are doing at about 28% now to -- directly to the farmer. And through our representatives also, where remaining it is going. And our farmer payments are increasing quarter-to-quarter, month-on-month.
- Rajat Setiya:** 78%, did you say?
- M. Sambasiva Rao:** 28%. So, 28 percentage is directly credited in the farmers' account and the rest is paid through the agents.
- Nara Brahmani:** Through bank transaction.
- Rajat Setiya:** Okay. And...
- Srideep Kesavan:** 100 percentage is bank transaction, there's no cash involved.
- Rajat Setiya:** Okay. And when you say agents, since we procured 100% very directly, so what do you mean by agents?



- M. Sambasiva Rao:** In every village, we have a group of farmers who supply milk to Heritage. One among them, a progressive farmer is called representative of Heritage, mostly called agents. So, he collects milk from all the farmers every day, both the shift, along with his own milk and they aggregate into cans and from there company vehicles collect the milk to village.
- If it is direct procurement only in all senses except there is a payment system that happens into his account, and he transfers the money to others. In case of others, milk procurement mechanism is same, one of them is representative, and he or she collects milk from all the individual farmers in the village and company vehicle will pick up. But in those cases, the farmers offer their account, bank account and money gets company -- from company account directly to the farmer account.
- Rajat Setiya:** Okay. Any particular reason why we do it through somebody and not directly to the farmers? And do we want to change it?
- M. Sambasiva Rao:** That is based on the historical issues of villages not having the branches of banks in those days, and they have no digital applications for collection for picking up money, etcetera. This is becoming more and more popular as the digital infrastructure has increased in the recent years.
- Rajat Setiya:** Okay. So, what about the new farmers, which probably we would have onboarded in the last 2 years, 3 years? Are they 100% direct or they are also...
- M. Sambasiva Rao:** Post COVID, the digital infrastructure has set up -- was established very well in almost all the areas, use of smartphone, use of UPI has increased. So now 99% of the farmers adopt the digital mode. So, we don't have any conventional mode of payments now, 100% new farmers go on to digital right, right from enrolment of farmers is also done digitally, all the transactions are done in digital mode. It was...
- Rajat Setiya:** Okay. Okay. Even for the new farmers, payments may happen through agents, but in a digital mode, correct?
- M. Sambasiva Rao:** No, no, no. new farmers are offering their bank accounts and payments are directly done to the bank account of the individual farmers, whoever is joining, let's say, last 1 year. Prior to that, we had a mix. Now we are ensuring that they are on digital platform.
- Rajat Setiya:** Okay, understood. And how many of our villages will have milk analyser? Is it 100% or lower number?
- M. Sambasiva Rao:** Close to 90% have in different modes. Some are company-owned, some are company finance, some are owned by them, etcetera, but 90% will have analysers in all their collection centres. The remaining also, we are going to complete soon.

- Rajat Setiya:** Any particular reason why we have taken so much time to implement that? Is there a practical challenge to doing that or...
- M. Sambasiva Rao:** It's on the volume part, still there is some reasonable volume, it is not viable for them or for us.
- Rajat Setiya:** Okay. Okay. Understood. Understood. Sir, one request just like the previous participant that whenever we are taking any provisions or something which is really material, it will be really helpful to disclose that in the presentations or the quarterly results that we upload. Besides updating our presentation will also be helpful because if you see the number of parlours that we are talking about that we have, the number is quite a odd number, and it is stagnant from the last 5 years, 6 years, I mean few years, at least. So, it will be really helpful if you can update those numbers in the presentation. That number is 859. It remains intact.
- M. Sambasiva Rao:** It is actually same.
- Rajat Setiya:** We haven't added or...
- M. Sambasiva Rao:** Wherever there are...
- Rajat Setiya:** Any particular reason we have not added?
- M. Sambasiva Rao:** Yes, just I'll address. First of all, thank you for the suggestion about the notification of those materialistic issues in the results. Second, about the parlours number is actually same. We also feel that one can -- one may tend to believe that number is not updated. But there are certain dropouts during the year.
- We just refilled them with the new franchisees or some -- a few of them have gone in the road widening or traffic issues, we'll replace in somewhere else. We are focusing on expanding our distribution centres, where there are 2 advantages. One is retailing happens across the counter. Second, distribution also happens within the neighbourhood. So, we are focusing on expanding our distribution centres, which are akin to parlours in most of the states. The parlour number as mentioned at static level, we are neither adding or removing except replacing wherever there are certain dropouts.
- Rajat Setiya:** Okay. Understood, sir. My apologies for misinterpreting this number.
- M. Sambasiva Rao:** They are called Happiness Points, which are a improved version of parlour. So, in the distribution channel, both look alike, and both serve the same purpose, but we have frozen that number of parlours there and expansion is through the Happiness Points, which are also called distribution centres.
- Rajat Setiya:** All right. Understood, sir. Wish you all the best.

- M. Sambasiva Rao:** Glad you brought it up. It might be bothering a few more.
- Rajat Setiya:** Sure, sir.
- Moderator:** Our next question is from the line of Mr. Aditya from Securities Investment Management Co.
- Aditya:** Yes. Sir, if you could help us understand when does the flush season start for us? And how do the procurement prices behave in a period where there is a flush season versus a period where there is no flush?
- M. Sambasiva Rao:** \$1 million or \$1 billion loss. When the flush season starts, we used to have a very standard answer in the past, October is the beginning of flush season. But things have changed with these climate issues, COVID issues, last 3 years, the start date of flush season, we are able to recognize in hindsight, not able to see it when it happens, because it's not happening. Last 2 years, actually, the flush season did not even happen. And this year, suddenly milk procurement started improving in the month of June, which is actually a difficult quarter otherwise summer quarter.
- So, the traditional identifiable period is October to March, where the production of milk from animals is high and availability of milk is high. That's why it's called flush, but that got blurred now, the base and months are blurred with the climate change issues and COVID -- post COVID and lumpy skin diseases etcetera. We do hope this year onwards, the flush begins again in October in a predictable and certain way. And the prices do behave exactly the same. Typically, in the flush season that is October to March, the weather also will be cold. So, the demand side, there will be drop, production side, there will be surplus and heavy inflows. So, the prices also at farm gate goes down a bit during this period.
- And as we enter summer in the month of -- towards the end of March, April in certain months, certain geographies, maybe May, June in certain geographies, prices at farm gate start rising as demand increases and production fall begins. That is the pricing cycle. What I'm explaining is the traditional conventional in the past, but this has changed. This has become a bit uncertain, unpredictable with the kind of weather you are seeing nowadays.
- Aditya:** Got it, sir. So, assuming that is a normal flush starting from October and the procurement prices, as you say, is generally soft. So, do we pass on the lower procurement price to the customer, or we take the benefit?
- Srideep Kesavan:** No. So, if I could just summarize what you just heard now, this is a hypothetical question, right? So, we don't expect -- we think that the prices would marginally come down from now until end of December. And that benefit will actually accrue to us as far as the procurement pricing is concerned. Because usually, we have never done market price correction in the past in terms of like a downward revision. I don't think they have ever done this in the past. I don't see any reason

why we'll do that in the future also. But I don't think anyone in the industry also ever does a downward price revision. So that's fair.

But at the same time, I'd also request you to please be -- like in the earlier section also I mentioned this that it cannot be considered as a very linear thing, because the market mix changes, the product mix changes, a lot of things change. So, it doesn't mean that, let's say, procurement prices come down by 5 percentage that will accrue to bottom line on a straightforward manner. But any which ways we expect the procurement price to be lower than what we are paying today.

Aditya: Got it, sir. And sir, what is the percentage of procurement we have from different states, if you could just tell us the percentage?

Srideep Kesavan: See, as I mentioned, we procure from 9 states. We actually have never given percentage procurement from various states. But I can safely say that the largest state as far as procurement is concerned are AP, Tamil Nadu, Maharashtra, Telangana. Apart from that, we also procure a little bit of volumes from Karnataka. We procure from Odisha. We procure from Haryana -- sorry, procure from Rajasthan, Punjab, UP. So, it's pretty spread out for us.

Aditya: Got it, sir. And any trends which you can say regarding the procurement prices for the different states we take from. So, any particular state which has seen a larger fall?

Srideep Kesavan: Larger fall, no. Procurement volumes have actually -- you're talking about volumes or prices?

Aditya: Sir, prices.

Srideep Kesavan: Yes. Prices -- see, prices have come off the peak in a similar fashion across, but you could say that it is mostly, let's say, Maharashtra, which has led the -- as in, in terms of procurement price improvement has been significant in Maharashtra. And I think it's followed similarly across all markets. So, a little bit here or there.

Aditya: Got it, sir. And so, when the procurement prices come down, we get the advantage of the higher selling price in the milk, but for a value-added product, do we keep the prices same, or we pass on some benefit to the customer?

Srideep Kesavan: So, see, listen, we should think of it as a maximum retail price as far as consumers are concerned, right? So maximum retail price usually is never corrected downwards, whether it is for milk or value-added product. But the net realization that the company benefits from is a function of the promotions that we run, is a function of the trade margins we share with our trade partners, etcetera, etcetera, right? And that might go up or down, which is what we report as the net revenue per litre or kg, that in, let's say, a tougher sales period, even though we may not revise the MRP or the consumer price, we might pass on the price and the net revenue could come down or go up as the case might be. But net-net, if you look at in long term, it's always an upward moving number.



- Moderator:** Our next question is from the line of Jagvir Singh from Shade Capital.
- Jagvir Fauzdar:** Yes. My first question is related to the procurement. So, can you tell us what percentage of procurement we took from the North India?
- M. Sambasiva Rao:** The procurement you're asking about?
- Jagvir Fauzdar:** From North India, North India. What percentage of procurement we took from the North India?
- Srideep Kesavan:** Yes. See, our business in North is roughly around 4 percentage to 5 percentage of our overall business. So, you could say that the procurement will be in line with that.
- Jagvir Fauzdar:** Okay. The next question is related to the competitors. So, we have same competitors in the same areas, both are listed. So, they have very higher margins. So, what is the difference between them and us, why we don't make these kind of margins?
- Srideep Kesavan:** Yes. See, if you compare the top 4 private dairy companies, all 4 have very different business models, right? Like somebody might have a higher contribution from ice creams, somebody might have a higher contribution from B2B business or from, let's say, cheese and fats, somebody else might have a higher contribution from certain states, where price advantage might play out in certain times. So different people have different business models. So -- and these business models play out differently at different times, right?
- There are times when there are certain states have an advantage on the procurement side because of suppressed prices maintained by the lead state cooperative in that state because of which the procurement prices in that particular state might be lower. They might have an advantage or certain products might work very, very well. There are also on the downside, there are signs when, let's say, for example, the B2B business goes down as we saw during COVID, there are certain companies that have to take a massive hit because of that because of provisions that they have to book. So, I think that it is very difficult for anyone to compare on a like-to-like basis and make predictions.
- My recommendation is that, see, our business model is very clear, and we have been actively, proactively communicating on what we intend to do. We are diversified across regions, and that derisks us because we are not -- we have not put all our eggs in one basket. And we are on a constant push to increasing our value-added products contribution. We have made -- we have openly stated that it's our ambition to take our value-added products to 40 percentage contribution as far as business is concerned. We have also mentioned that it's our stated ambition to grow our business consistently and consecutively quarter-on-quarter and take it to a INR6,000 crores revenue in the nearest possible time frame.



And we have also mentioned that the value creation initiatives or the initiatives that we have taken to expand our margins will allow us to take our business steadily towards the 7 percentage to 8 percentage EBITDA corridor over a period in time. So, if you're looking at Heritage on Heritage, you should be able to see improvement in the medium term as well as long term. That's what I can say at this point.

Moderator: Our next question is from the line of Sneha Jain from SKS Capital.

Sneha Jain: Hello?

Moderator: Yes, ma'am. Please go ahead with your question.

Sneha Jain: Yes. I just had a question regarding the shareholding pattern. You have been at 41% across for quite some time. I mean, why aren't we looking to increase it to 51%? I mean are we -- at least 51% or increasing it. Are we looking for stake sale or something of that sort?

M. Sambasiva Rao: Can you repeat what -- we didn't get you.

Moderator: Ma'am -- Sneha, ma'am, we request you to use your handset, please, as your audio is not...

Sneha Jain: I'm using it. Just a second. Am I audible? Better?

M. Sambasiva Rao: Yes. Go ahead.

Moderator: Yes. Please go ahead.

Sneha Jain: Yes. I just wanted to ask the shareholding pattern has been at 41% promoter holding basically for quite some time. So why aren't we like looking to increase it to at least 51%? Are we looking at a stake sale or any buyout or anything of that sort, I mean, or some institutional buying or something like that?

Nara Brahmani: Sneha, this is Brahmani here.

Sneha Jain: Yes.

Nara Brahmani: See, that is not the intention we have as a company. We are inspired by the vision of the company and the future growth prospects. And the idea is to stay committed in the growth journey of INR6,000 crores and beyond and to improve the image of the company, and make ourselves not just a large value-added product player, but the number 1 value-added product player in the dairy industry in India. So, there's absolutely no thought of stake sale or anything like that from the promoter family side that is under thought or that's being entertained.

Sneha Jain: So why aren't we looking at increasing our stake, the promoter stake?



- M. Sambasiva Rao:** That's a function of resource allocation to various portfolios, maybe that is private to them.
- Sneha Jain:** Okay.
- Nara Brahmani:** If you have any thoughts, we are happy to listen to your thoughts and ideas.
- Sneha Jain:** No, we have been investing, like we have been investing in the company for quite a few years, and I have been now like very faithful to the company actually. So, an increase of stake by the promoters in the same state would like even make us happy that is what the intention was of asking the question.
- M. Sambasiva Rao:** We are trying to make you happy with our performance first.
- Sneha Jain:** Yes, that is right. Of course, that's fair.
- Moderator:** Our next question is from the line of Yogesh Bathia from Sequent Investments.
- Yogesh Bathia:** Sir, I wanted to know what was our volumes in FY '23 and -- full year FY '23 and full year FY '22? That's it.
- Nara Brahmani:** Procurement volume -- volumes or sales volumes?
- Yogesh Bathia:** Volume, volumes, volumes, sales volumes, sales volumes not procurement volumes.
- M. Sambasiva Rao:** Sales volume.
- Nara Brahmani:** Are you looking at Q1 volumes?
- Yogesh Bathia:** No, no, ma'am, full year, FY '22 and FY '23.
- Nara Brahmani:** Please give us a moment while we pull up the exact numbers.
- Yogesh Bathia:** Yes.
- Nara Brahmani:** Perhaps in the meanwhile, we can take questions.
- M. Sambasiva Rao:** Yes. I will tell you the overall volume. Hello? Yes. So, the FY '22, it is 13.5 lakh litres, FY '23, it is 15.01 lakh litres.
- Yogesh Bathia:** FY '22 was how much, sir?
- M. Sambasiva Rao:** 13.5 lakh litres.
- Yogesh Bathia:** 13.5 lakh litres and FY '23 is 15 lakh litres?



- M. Sambasiva Rao:** Yes.
- Yogesh Bathia:** Okay. And sir, should we expect a reasonable 8% to 10% volume growth from the network that we are increasing and the -- yes, from the network that we have increased and organically also?
- M. Sambasiva Rao:** Yes, that's what we aim to achieve.
- Moderator:** Our next question is from the line of Aman Vij from Astute Investment Management.
- Aman Vij:** Yes. Sir, my question is on the -- if you can give the region-wide sales? And where are we seeing more stronger growth? Is it East region or -- sorry, is it West region or is it the South region where we are seeing stronger growth?
- Srideep Kesavan:** So, let me first talk about the regions where we sell like, of course, like we are headquartered in Hyderabad, so Telangana, AP, Tamil Nadu, Karnataka, Maharashtra, Odisha. We sell in Delhi NCR region. We sell in Haryana. We sell in Punjab, and we sell a little bit in UK, Uttarakhand as well. That said, let's say, you are aware that primarily large part of our volume comes from the South, the -- and the contribution from North and West are roughly similar.
- In terms of volume growth, we are seeing -- of course, we are seeing much faster growth in the smaller geographies for us, whether it is North, West or the other regions, which are, let's say, whether it is Karnataka, and all are all much faster-growing markets for us compared to our home ground, which is Telangana.
- Aman Vij:** Sorry, sir, what is the current contribution from North and West? You said they are equal, but in terms of overall sales, what is the current contribution on North and West region individually?
- Srideep Kesavan:** Roughly 7 percentage to 8 percentage will be the contribution, both combined.
- Aman Vij:** Okay. So, 90% plus is still these 4, 5 states in and around Telangana and UP, right?
- Srideep Kesavan:** The Southern 4 states, you could say.
- Aman Vij:** Southern 4 states. Yes. Sir, my next question is on the value-added product...
- Srideep Kesavan:** Also, where I missed Kerala. Yes.
- Aman Vij:** Sure, sure. And say, going forward, whenever we achieve that INR6,000 crores sales number with the aspiration, do you think the North and West can be, say, around 20%, 25% of our sales or do you think the mix will be broadly the same?
- Srideep Kesavan:** Okay. So, you don't want to put a number on it. But I can very safely say that the contribution of North and West would be much, much higher than what it is today, for sure.



Aman Vij:

Sure, sir. My next question is on the value-added side. So, we have 1 or 2 categories where we are -- where we get greater than INR100 crores sales. If you can talk about -- do you think some of these categories over the next 3 years, 5 years, is there a potential for them? I'm talking about non-curd value-added because obviously curd is a major contributor. But do you think some of these categories can become a INR300 crores to INR500 crores category over the next 3 years, 5 years for us in non-curd value-added I'm talking about?

Srideep Kesavan:

Yes, absolutely. So, we are -- see, let me reiterate that, see, curd is something that we are very proud of. In fact, Heritage is known for its curd. Our consumers really love our curd and can't have enough of it. So, we are trying our best to be the largest curd player in the country. Today, I -- we reckon that we might be the third largest in terms of volume or value. So that curd itself is going to be a large driver of growth for us, and it is as profitable as any of our other value-added products in our portfolio.

But that said, we have not -- our ambition is not limited to curd, primarily because consumers enjoy dairy products in multiple formats throughout the day in multiple occasions, where the needs are different. For example, if somebody wants to have an indulgence, the consumer might pick up an ice cream and not a curd.

The same way if the consumer is looking for a health drink, she or he might be picking up a flavoured milk or any other beverage compared to a curd. So, we are invested and in the previous calls also, we had mentioned that we have divided our value-added products portfolio into 5 category clusters as we call it, whether it is foods, drinkables, sweets, fats or ice creams.

And we have a very clear strategy in place for growing all these categories individually because the growth strategies of each one is very different. And when we think about the time when we would be at INR6,000 crores revenue in each of these categories, whether it is sweets or fats or each one of them will be a sizable contributor to our value-added product portfolio. Of course, curd will continue to be the largest contributor, but all these others will also be meaningful and significant contributors. Some of them would cross INR300 crores in revenue, and some of them might even cross INR500 crores in revenue.

Aman Vij:

That's very good to hear. On the marketing spend side, even we are trying to create and expand on the value-added portion in category. So, what is the marketing budget we have set for this year? And what was it, say, for last year, if you can talk about the same?

Srideep Kesavan:

Last year, we spent 0.5 percentage of our revenue in marketing. And we have been extremely prudent in the way we have spent our marketing money. So, we have made our every penny sweat and work the best for -- as far as delivery is concerned. So within -- when we compare our delivery metrics compared to the industry, we are much better off compared to anyone.

And this year, we have budgeted for 1 percentage of our revenue as marketing budget, but there is no -- obviously, these numbers can change over a period in time, this marketing happen when we need it. And currently, the investment that we have is going hand in hand with the distribution expansion and the innovations we are doing in the field.

Aman Vij: Sure, sir. Final question from my side. So, this quarter growth, were it as per your expectation, were it below your expectation, if you can talk about the same? Because last 4 quarters, 5 quarters, you were growing at a much faster rate than we did this quarter. So...

Srideep Kesavan: Definitely, it is -- I can very safely say it is below our expectation, right? And primarily, I should say that this was primarily on account of weather, especially in the markets where we operated, and this weather has become a little unpredictable as you all know. So, the 2 months, April and May were actually quite harsh as far as the weather is concerned, especially in our growth markets, we saw temperature dip as far -- as high as 5 degrees.

The average temperature dip by 5 degrees compared to previous months -- previous year, same month. But what is so encouraging for us is that in the month of June, where the weather and temperatures were comparable with the same period in the last year, our growth numbers are hitting on budget and our target. So, we are back on track from June onwards. So yes, the numbers could have been better if the weather was much better.

Aman Vij: And you are not seeing any weather impact, say, in July, August or have you seen any impact in this quarter as well?

Srideep Kesavan: No. See, at this point in time, July has gone up weather-wise, it was good. But what I should say is that you look at Q1, Q1, I think that this was the freakish quarter that we have had as far as weather is concerned. And we still delivered close to 13 percentage of growth. So, we are working on strategies that will weatherproof ourselves. We'll have to work hard on that one.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to Dr. Rao for closing comments.

M. Sambasiva Rao: Thank you, all. Thank you for your continued interest in Heritage. And thanks for all your suggestions and particularly the accounting reporting suggestions which we missed. Thank you once again, and look forward to continued interaction in the coming quarters as well. Bye.

Moderator: Thank you. On behalf of Heritage Foods Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

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