



25  
YEARS  
OF HERITAGE

Ref: SECT: STOC: 64 – 19

4<sup>th</sup> November, 2019

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**

In Continuation of our letter dated October 19, 2019 the Company had organized a conference call with the Investors/Analysts on Friday, November 1, 2019 at 16.00 PM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been put up on the Company's Website at [www.heritagefoods.in](http://www.heritagefoods.in).

Kindly take note of the same on record.

Thanking you,

Yours Faithfully,

**For HERITAGE FOODS LIMITED**

**UMAKANTA BARIK**  
Company Secretary  
M. No: FCS-6317

Encl: a/a

**HERITAGE FOODS LIMITED**  
(Formerly known as M/s. Heritage Foods (India) Limited)  
CIN : L15209TG1992PLC014332  
**AN ISO: 22000 CERTIFIED COMPANY**





“Heritage Foods Limited Q2 FY ‘20 Earnings  
Conference Call”

**November 1, 2019**



**MANAGEMENT:**

**DR. M. SAMBASIVA RAO – PRESIDENT**

**MR. A PRABHAKARA NAIDU – CHIEF FINANCIAL OFFICER**

**MS. BRAHMANI NARA – EXECUTIVE DIRECTOR**

**MR. J. SAMBA MURTHY – HEAD (DAIRY DIVISION)**

**MR. UMAKANTA BARIK - COMPANY SECRETARY**



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*November 1, 2019*

**Moderator:**

Ladies and Gentlemen, Good Day and Welcome to Heritage Foods Limited Q2 FY '20 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 '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Sambasiva Rao – President of Heritage Foods Limited. Thank you and over to you, Sir.

**Dr. Sambasiva Rao:**

Thank you. Good Afternoon, I Welcome you all for the earnings call of Heritage Foods and thank you for showing continued interest in Heritage. I would first explain the standalone results of the Quarter-2 of the current financial year, which were already uploaded on our website and exchange sites also. We achieved a net turnover of 666 crores against 612 crores of previous year Quarter-2, that is, 9% growth. EBITDA 27.41 crores during the current year Quarter-2 versus 48.92 crores during the previous year. PBT 10.36 crores versus 33.48 crores of the last financial year. PAT 14 crores versus 19.96 crores of the previous financial year. Margins were down during this quarter compared to the last financial year mainly because of the increase of the raw material prices that is milk and the milk powder which significantly impacted the margins of the quarter. If you take six months of this financial year versus last year's financial year, we have achieved 1376 crores versus last year's 1247 crores with a 10% growth. EBITDA of the current year's first half year is 78 crores versus 95 crores of the last financial year. PBT, current first half year 44 crores versus 64 crores of the previous year's first half. PAT, 35.75 crores versus 40 crores of the first half year of last year.

Now, I will move onto consolidated results of the Quarter-2. The turnover achieved is 680 crores versus 619 crores of the previous year's second quarter at 10% growth. EBITDA 25 crores versus 50 crores of the previous half year. PBT, previous quarter of 6.83 versus 35 crores of the second quarter last year. PAT, 10.6 crores versus 21 crores of the last year same quarter. First half year of current financial year with the last half year, current half year, first half year we have achieved 1401 crores turnover versus 1261 crores last year with 11% growth. EBITDA, 74 crores first half year this year versus 98 crores of the last year first half. PBT 37.4 crores of first half year of this year compared to 66 crores of the first half year of last year. PAT, 29.5 crores for the first half year versus 42 crores last year. Coming to volumetric data, milk procurement during this quarter is 13.86 lakh liters per day versus 13.37 lakh liters per day last year. Milk sales volume 12,09,000 liters per day during this quarter versus 11,44,000 liters per day in the second quarter of last year.



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Value-added products, growth in the current year second quarter is 14.5%. Contribution is 24.5% to the revenue versus 23% last year. I will now explain the capacities of the company as on second quarter end. We have 20.71 lakh liters per day chilling capacity, 25.7 lakh liters per day processing capacity and 17 lakh per day milk packing capacity. We also have 1408 franchisee partners in the front end. We have incurred 28.69 crores of CAPEX during the first half year. Coming to debt, we have 186 crores long-term debt and 27 crores working capital, total of 213 crores both long-term and working capital together. Now, I open the session for discussion, interaction, feedback, suggestions, and queries. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy Panthaki from India Infoline. Please go ahead.

**Percy Panthaki:** Sir, my first question is on the milk price inflation, for the quarter we have seen about 11% inflation in milk price, one of the Maharashtra-based players mentioned on their call that they have witnessed a 23% milk price inflation, so just wanted to understand is the milk price inflation so different in different parts of the country and are we at the lower end or I mean what is your take, just some flavor on what you think about this, and secondly, as we stand today are the milk prices lower than the Q2 average and if so by what amount?

**Dr. Sambasiva Rao:** You are right, milk price inflation is different in different geographies in India. It is highest in the northern states of Punjab, Haryana, Rajasthan, UP side during this quarter, and Maharashtra is next in line where the prices have gone up high. Karnataka would be low on the side even 5% to 6% because there is no competition there, it is almost one federation procuring all the milk, so some areas of Andhra Pradesh also prices have not gone up particularly in the buffalo milk areas price increase is only 4% to 5% during this quarter, so differential price scenario existed this year because of the seasonal condition, certain states have prolonged summer and high-heat summer. This year heat was very high in the summer and extended to mid-July in certain states, so there was a production issue in certain parts of the country. Maharashtra you may recall the numbers, last year it was around Rs. 20-22 per litre, this year it has gone to Rs. 31-32 a litre of cow milk, that is the kind of increase they have seen in that area. Similarly, in Punjab, Haryana, and Rajasthan also it was Rs. 36-37 a litre of buffalo milk has gone to Rs. 46-47 in this year's second quarter, so the price hike was very different in different states depending on the availability, competition for the milk which is different again in different states.

The second part, the price reduction as far as this year is concerned is yet to happen, it is just now beginning, there were two reasons normally in October middle of the month price drop begins, this year there were certain states where elections were happening and also Diwali came in the last week of October, so everyone is waiting for Diwali to go and then because Diwali time demand for milk increases significantly, so no one would like to lose that



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opportunity so milk prices are almost same level of Quarter-2 for the month of October, but now we see the change happening first starting with the milk powder Rs. 20 drop has happened in the last one week per KG. The buffalo milk powder was Rs. 310 in the last week and this week it has come to Rs. 290. Similarly, cow milk powder was at Rs. 290, now it is quoted at Rs. 270, so the beginning of price drop starts with milk powder and it started in the first week of November, so we do anticipate the season to pickup. Now the rains are almost over in all the states, the entire month of October was having rains, which is again very unlike in the past that also impacted availability and the prices, so we are anticipating price drop to happen from this week itself.

**Percy Panthaki:** Sir, that is the normal seasonal price drop so if it just happens at the same quantum that we saw last year between Q2 and Q3, then on a YOY basis in Q3 we might still have a double digit inflation, is that more or less likely or what is your thoughts on that?

**Dr. Sambasiva Rao:** Most unlikely because availability will suddenly increase any day, so it is expected that we go back to normal pricing. This aberration of Quarter-2 will not continue from now.

**Percy Panthaki:** So Q3 this year versus Q3 last year, we might go back to a single digit kind of inflation?

**Dr. Sambasiva Rao:** Most probably, yes.

**Percy Panthaki:** Sir, in light of this kind of scenario you might have taken some amount of price hikes already in Q2, are you planning anything or have you taken anything in Q3?

**Dr. Sambasiva Rao:** Q2 we have almost completed the price hikes in a phased manner. We also did not pass on the entire increase in one shot, different markets, different timings, and some markets twice, some markets once we have done. We have passed on 50% of the price hike to consumers and we have absorbed 50% into margins, which gets released with the drop in the prices. We do not intend to hike prices further in Q3.

**Percy Panthaki:** Sir, for Q2 for the quarter on an average I think there is a 5% price increase, but the exit price increase might be higher because you might have taken it in a phased manner, right?

**Dr. Sambasiva Rao:** The full effect will come in Quarter-3, you are right.

**Percy Panthaki:** That will be enough to restore margins at the 6% to 7% kind of levels that you are targeting?

**Dr. Sambasiva Rao:** Coupled with the procurement price drop, it should be feasible, both have to be there. The price hike, as you said 11% to 12% increase happened on the procurement, we passed on half during the quarter, other half will be absorbed by the procurement price drop and some quarter



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impact will be there. The September price hike benefit will come in the entire quarter for this in Quarter-2.

**Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus Portfolio Management Services. Please go ahead.

**Viraj Mehta:** Sir, if I look at the spread between your procurement of milk and selling price of milk, it is almost at a 12-13 quarter low at Rs. 5.9 and our average has been between 6.5 and 7 in the same timeframe, so if I look at over a slightly longer period, would it be fair to say that we will at least be able to mean revert to between 6.5 and 7 with the price increase coupled with the decrease in the RM prices?

**Dr. Sambasiva Rao:** Certainly, a combination of both, we have passed on certain increased cost to consumer. We have absorbed some amount, that gets released as the procurement prices go down and it will equate with the past, that is the strategy. We did not pass on entire increase because this year increase was very abnormal and they are likely to anyway come down in the month of October and November, so with that assumption we have absorbed a part in the Quarter-2 and that should get released from now.

**Viraj Mehta:** Sir, if I look at our curd sales and curd sales as a percentage of our procurement, it is at one of the lowest in last 12 quarters, can you just throw some light why that happened?

**Dr. Sambasiva Rao:** This year weather is a very, very different weather compared to past years Quarter-2 or any quarter, starting middle of July till now there was no let up. In our markets, it is like a daily visitor evening 4 o'clock or 5 o'clock rain starts. Temperature during the day is around 23-25, the entire city is looking like air-conditioned, the lower the ambient temperature the consumption of products like curd, lassi, buttermilk, flavored milk, ice cream all would come down that also has resulted in the lower sale in this quarter, absolutely attributed to weather scenario, and the second also, the curd is one item the sale of curd will increase with the auspicious days in the quarter. The Quarter-2 number of auspicious days where the weddings are celebrated are lower and now they are beginning, so this quarter also had disadvantage of less number of auspicious days where the congregation happen and celebrations happen, that is a smaller issue, but bigger issue and real issue is the weather, non-stop continuous rains.

**Viraj Mehta:** Sir, our milk procurement growth is also below what we had actually guided at the start of the year, would it be possible still this year to do around 10% growth in procurement or that will be a stretch now considering that we have done low single digit growth in the first two quarters.

**Dr. Sambasiva Rao:** Yeah, this season will begin, now procurement volumes will jump.



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- Viraj Mehta:** Sir, just last question on the future shares that we have, I understand that lock-in will get over early next year by March, now there is only four months to go for that, has the Board decided what to do with that money, how will you return it to shareholders including the majority and the minority, because that is a big capital of 400 crores that is stuck there for us?
- Brahmani Nara:** This is Brahmani Nara here. Around mid of next year is when the lock-in is expected to be over and Board is yet to take a decision and now that they are getting closer to the lock-in period getting done, I think now is the time that we will have to approach the Board at think of a strategy.
- Moderator:** Thank you. The next question is from the line of Shiv Kumar from Unifi Capital Pvt. Ltd. Please go ahead.
- Shiv Kumar:** Sir, what is the share of curd in the value-added products?
- Dr. Sambasiva Rao:** It is 80% for Quarter-2.
- Shiv Kumar:** Higher than what we registered in Quarter-1 of 77%?
- Dr. Sambasiva Rao:** It is actually because others have gone down like lassi, buttermilk, ice cream because of the rainy season. This share has moved up, rather it is more on other items, other value-added products.
- Shiv Kumar:** Have you taken price hikes in the value-added products also, Sir?
- Dr. Sambasiva Rao:** Yes.
- Shiv Kumar:** Sir, coming back to the margin on a standalone basis, the margin of 2% slightly on the lower side in a sense that I think we need to go back eight quarters back to actually see a margin similar to 2% and when I compare you with the other listed peers who also operates in the southern Indian market, we do not see that kind of margin erosion in case of that player, so is there anything specific to any particular market where you are facing challenges?
- Dr. Sambasiva Rao:** As I explained earlier in the first question came on the procurement prices, the procurement price hike is different in different states, some players who procure more in Karnataka and Tamil Nadu had an advantage because of the lower level of increase, whereas we have higher increase in certain states like Maharashtra, Punjab, Rajasthan, even Telangana, these states had a higher increase because of the local weather conditions and competition scenario, so you may not have similar impact on all. Second, some of them have SMP produced in their own companies during the peak season last year. They would have availability of SMP which helped them higher realizations when they sell, so whoever had SMP stocks before December,



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the cost price was low and post February, the realizations are very high, so there will be certain advantage in the sale of SMP if they had stocks of the previous season, so we did not have stocks of the previous season, we are actually consuming by buying also apart from our own production, we buy from market and consume for certain products, so this could be procurement price arbitrage opportunity and sale price of milk powder. These two would influence the margins of the companies operating in this geography.

**Shiv Kumar:** Like you mentioned earlier, you are saying now things have kind of come back to normalcy and you expect to come back to 5% or 6% margins in Q3, right Sir?

**Dr. Sambasiva Rao:** Yes.

**Shiv Kumar:** One last question, the price inflation in your procurement was 11%-12% which you mentioned earlier, but the price hike in your selling price was just 5.6%, I believe you are the leader in the markets where you operate, so why are we playing so defensive in taking price hikes on the selling price also immediately because as things stand everyone would be incurring the same price on the procurement side, so why are we actually holding back the price hikes immediately?

**Dr. Sambasiva Rao:** Because it is a very short-term aberration, this happened only for two months in the summer, two months in this quarter not even three months, so if you pass on entire cost then when farmer prices go down you have to rollback some, there are two components in the price hike; one is a natural price hike of procurement milk which we passed. This is unnatural, abnormal, once in a lifetime kind of thing happened in this quarter so much of price hike and we will not be able to pass on entire thing and it happened only in certain geographies, so the price drop expected from this season would nullify that, so for the sake of two months we would not like to go back and become so expensive in the market compared to competition.

**Moderator:** Thank you. The next question is from the line of Nitin Ghosal from Invesco Mutual Fund. Please go ahead.

**Nitin Ghosal:** Sir, two questions, one is on the procurement part during the quarter, did we witness any kind of challenges in terms of volume procurement?

**Dr. Sambasiva Rao:** There is nothing in terms of procurement, we have got anyway our requirement of 13.96 lakhs around 14 lakhs we have procured compared to 13.3 lakhs in the last year same quarter. In terms of volume, there was no challenge, in terms of price there were issues, too much of price hike in certain select markets, certain select states. There we did not encourage more volumes to come, but the rest of the areas, main price challenge markets are Punjab, Haryana, Rajasthan, Maharashtra, and Telangana, these are the markets where we had a higher price pressure. Coming to Tamil Nadu, Andhra, and Karnataka, there was not much of issue in terms





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of price, so there actually we procured more and these areas we procured reasonably, so we had no issues. Whatever milk is required to meet the market demand, we could get it.

**Nitin Ghosal:** Second question is with regard to the availability going forward keeping in mind this time we had a very good monsoon, typically in past whenever this kind of monsoon happens, how does the availability of milk, A, and how does the price behave for a period of 12 to 24 months?

**Dr. Sambasiva Rao:** Actually, this kind of monsoon or rainfall we have never seen in the last 10 years, in these areas there were two reservoirs on Krishna river, they were open, every month they want to release water into sea, Srisailem and Nagarjuna Sagar reservoir even Tungabhadra, in three months more than once they have released water into sea, so much of rainfall even today in the month of November water is going into sea from these reservoirs, so this is a very exceptionally high rainy season, but when there are good rains with three days-four days gap, there is drying up and cattle will go out to graze and just move around. This year there was no space to move, all over wet, slushy and muddy and everywhere water, so this has resulted in delayed arrival of the flush season, by now milk should have been overflowing everywhere but it got delayed. Generally speaking good monsoon, availability of plenty of water leads to high production of volume and low prices at the farm gate, which we anticipate to happen in November, it should have happened in October but now it is likely to happen in November.

**Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

**Shailesh Kumar:** Sir, you have answered this question previously, but I would request you to put more light on this. On the listed players who have declared results, we have seen margin contraction during the quarter. We believe everybody has faced some sort of price pressure in terms of procurement, but industry has not passed that increased price fully, has there been some concern on demand front because anyway other FMCG companies are facing the heat, so is dairy industry also facing the heat?

**Dr. Sambasiva Rao:** Not from the consumption side, there are different players in different markets. The dominant players belong to cooperative brands in most of the markets, they would not like to pass on the price fully to the consumers, there are certain different requirements for those organizations unlike us, so we cannot unilaterally pass on entire hike which is abnormal. A normal price hike we passed on, the abnormal element which occurred this year is not passed on with an assumption the procurement price will anyway cool off from the flush season and this gets nullified, so for two-three months sake, no brand would like to pass on the entire 10% increase. It is like a Rs. 40 per litre of milk, Rs. 2 consumer accepts without much resistance, make it Rs. 5, the consumer also starts thinking and there will be shift to cooperatives or low cast unbranded milk, loose milk, or the lower end of the spectrum, so we do not want to disappoint



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our customers, consumers, and lose them because of two months' margin pressure, so you absorb couple of months and bring normalcy in the margin as the procurement prices go down, this is the thought process which has influenced us to take that line.

**Shailesh Kumar:** Now, we are expecting lower profitability at least looking at the first half, are we expecting some reduction in our planned CAPEX in H2?

**Dr. Sambasiva Rao:** CAPEX is related to growth and future requirements so that will not be influenced significantly with one month-two month issue. Our mission we want to achieve and the profitability issues gets addressed, every year you will face some kind of pressure in one month or two month and that we will absorb.

**Shailesh Kumar:** Sir, my third question is this RCEP negotiations which are currently in the final phases and it will be final on November 4<sup>th</sup>, so as a significant player in dairy industry what do you think, dairy will be a part of this treaty or it will be excluded?

**Dr. Sambasiva Rao:** I do not know how to answer this question Shailesh, should I go back to my old Government days and get some information because public stand you have seen, Amul has made a public stand and all cooperatives, all private companies have openly requested Government to keep dairy out of it because it impacts lives of millions of farmers in India. Any low-cost dumping of imported goods not only in this sector, any sector here the dairy is the livelihood of very small marginal farmers who are keeping two cows or three cows, four cows and supplying milk to companies, their price will go down, any low-cost product available in the market would adversely impact the farmers income, farmers price, so everyone suggested to Government and requested and appealed to Government not to keep dairy in RCEP, but we have to see next four days we understand the meeting is starting today and even Prime Minister of India is participating in this meeting, I am sure they heard us.

**Shailesh Kumar:** Sir, just final question to this particular thing just a hypothetical scenario, assuming this thing is allowed so entire cost will be borne by the farmer itself or the industry will also suffer because your fodder cost is not going to go down in the same proportion?

**Dr. Sambasiva Rao:** This is a bit speculative not supported by any data or any volumes, like the initial proposal was what came in the media. The Commerce Ministry delegation was entertaining the New Zealand proposal of not more than 5% of New Zealand's exports will be sent to Indian market and that should be at a lower customs duty, so what would be that 5% volume, if you convert New Zealand's exports and what constitutes 5% and whether they maintain the same price because 5% is measured in terms of export value not quantity because multiple products will be there, they cannot fix the price, so they may send cheese, they may send butter, they may send milk powder, they may send whey powder, whatever they want to send they can send. If they underplay the price they can push more volume, so how much volume will be allowed



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under that 5% proposal and how much of it will eat into our local domestic sales of different products and what happens that product and the related milk and which state will consume what, so if New Zealand sends only cheese, it will not impact anybody except the four metros where there are four to five cheese companies and the cheese consumption is 80% is in five metros in India, so the cheese and cheese producers and cheese consumers are concerned with this. New Zealand sends only cheese, nothing else, it has a different impact. If New Zealand sends milk powder at a lower price to India, powder making companies will not be able to compete with them if their price is allowed, it is Rs. 200 international price per KG, in India it is Rs. 270.

If there is no duty or lower duty, the Rs. 200 powder is sent to India by New Zealand, what happens to the powder making plants, the companies who have got huge capacities whether they can sell at Rs. 270 or they have to sell at Rs. 210, Rs. 190, Rs. 200, so this Rs. 70 who will bear, whether Government will subsidies like Maharashtra and Gujarat have done last year, Rs. 50 per KG they have given in the last financial year in both states. Government of India has given 20% export incentive to move the stocks out of India, so on one side Government has incurred 20% of the exported value as incentive last year, would they like to allow imports and again extend export incentive, it is kind of a peculiar scenario. What New Zealand want to send to India, what quantities, at what price, what duty unless those details are exposed, you will not be able to comment on the impact, who gets impacted at how much. As I explained, the cheese it impacts cheese companies, if it is milk powder it impacts milk powder companies, they cannot send fresh milk anyway, it is not feasible to send fresh milk, so fresh milk companies, what happens to their sales, so it depends on the fine print, detailed numbers and then we can calculate and assess and tell, this is going to happen if imports are allowed at reduced duties or no duties.

- Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.
- Resham Jain:** I just wanted to understand on the volume growth side, now we are operating in three different geographies, if you can just give some color on that, how the volume growth been in three geographies?
- Dr. Sambasiva Rao:** You are looking for sales volume or procurement volume?
- Resham Jain:** Yeah, whatever you can give, just to understand how is the growth different in Maharashtra, versus Punjab and Haryana versus AP and Telangana?
- J Samba Murthy:** Particularly in June for zone four, North it is at about 24% volume growth is there in which value-added products is almost doubled 107% and turnover wise also around 18%. When you



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say North, we operate in Punjab, Rajasthan, NCR Delhi, Haryana, Uttarakhand, and Himachal Pradesh and part of UP also, these are the ones.

- Resham Jain:** Maharashtra?
- J Samba Murthy:** Maharashtra, volume growth, has a continuous rainy season, there is no much of growth actually but whereas in South there is a growth of almost 9% growth is there in volume and the Value-added products almost 14% to 15% in this quarter.
- Resham Jain:** What is the mix now, Sir, the Andhra and Telangana as a percentage of the overall sales now or South?
- Dr. Sambasiva Rao:** Approximately 30, 30 both the states and around 24% in Tamil Nadu and Karnataka together.
- Resham Jain:** Sir, just to understand your strategy going forward next three to four years, as we look at the targets which we have set for, how are we looking at growth coming from all these regions, if you can just give a broader thought on the same?
- Dr. Sambasiva Rao:** We expect higher rate of growth in northern states, because we have established ourselves now, infrastructure is almost ready. We are expanding our distribution network, distributors, retail outlets, marketing activities are on, so the rate of growth will be higher on a lower base in northern states and similarly Maharashtra also except this quarter we had abnormal rainfall and all that. Our second plant is also getting ready near Mumbai, which will be able to offer value-added products. Currently one plant is there near Pune, this does not have capacity to give value-added products, so we are not able to grow on a single product milk unless we add the range of products, so the new plant coming up maybe by summer will help us in adding range of products in Maharashtra and additional capacity for milk also, so coupled with new plant and value-added products, Maharashtra rate also will be higher in the coming years, these are the two areas, Maharashtra and Delhi zone where we increase our presence more in terms of volume numbers, but the rate of growth will be high in these two states. In AP, Telangana, Tamil Nadu, and Karnataka, these four states will perhaps continue at 10% to 15% rate of growth depending on the seasonality etc.
- Resham Jain:** Sir, just a question related to this, in North are the margin similar to the company average or is it still significantly lower than?
- Dr. Sambasiva Rao:** Not yet, they are lower only because of particularly this year is a different year, the price increase is very high in those states compared to the rest of India, that being an abnormal feature of this quarter, we do restore the margins in the quarter three and four, but they will be lower for the next one year to one-and-a-half year till the utilization of capacities, manpower and vehicles is improved, that is the function of volume.



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- Moderator:** Thank you. The next question is from the line of Anirudh Doshi from ICICI Securities Ltd. Please go ahead.
- Anirudh Doshi:** Sir, just one question how do you see the margins panning out for full-year, I guess in last quarter you had indicated around 6% to 6.5% kind of margin for full-year, do we still consider that we would be achieving that number or you see any downside to that number for full-year, I guess Q3 considering October was also monsoon continued, so probably prices are still at elevated level and probably same thing may continue in first two weeks of November also, so probably the Q3 margins will also be lower, so where should we look at margins for full-year now?
- Dr. Sambasiva Rao:** It will be definitely lower than expected because of this Quarter-2 impact and we shall wait for another one week to know the outcome of this Bangkok meeting also whether the processed products will be allowed and it will come down, that will change the scenario in terms of prices once again, but it will be lower by 1% we can estimate lower than last year, 1% to 1.5% impact would be there, but it will be more clear at the end of the Quarter-3.
- Anirudh Doshi:** 100 to 150 BPS lower than what we achieved in FY '19 kind of?
- Dr. Sambasiva Rao:** Yes, and we will be able to give more clarity after Quarter-3 where the price fall will be clearly visible in the next one month and this RCEP outcome also will be clear.
- Anirudh Doshi:** Even if the outcome like the New Zealand imports are allowed, but do you see that it will commence immediately or it may take time, so it may not probably impact FY '20 at all and may impact only H2 of FY '21, right?
- Dr. Sambasiva Rao:** Yeah, if the country is behaving on the PAT yes, but perception is what is driving us.
- Anirudh Doshi:** Are we also looking at any opportunity that we straightaway import SMP itself from New Zealand, is there any thought given by the company to that?
- Dr. Sambasiva Rao:** Definitely, why not. We have exported till now small quantities and we will start importing if the window is open and the price is advantageous to us, we have no problem with that.
- Moderator:** Thank you. The next question is from the line of Himanshu Nayyar from Systematix Group. Please go ahead.
- Himanshu Nayyar:** Sir, could you explain the working capital movement because I see tables increasing by seven days, which seems like a significant improvement, so what drove that?



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- J Samba Murthy:** As on September 30, 2019, inventory days are 14 days, trade receivable four days and trade payable eight days, around 10 days is the working capital cycle.
- Himanshu Nayyar:** So this seems like an improvement from where we were last year, so any specific reason you can...?
- J Samba Murthy:** Last year was 16 days, now it has come to 10 days.
- Himanshu Nayyar:** Given that we were facing procurement challenges in terms of high prices, how do we claim this improvement in payables, are the farmers giving us more time to pay them and that to a six day change there?
- J Samba Murthy:** As on March 31, 2019, there were some exports trade receivable around 25 crores that in the month of April we have realized that 25 crores, otherwise, trade receivable days are two days only on an average, then stocks we have liquidated in the first half of actually what are the stocks as inventory on March 31<sup>st</sup> we have liquidated, this is a fast movement of this thing and fat products are not there, it has been liquidated. There is no surplus fat in the company as of now. These are the reasons actually to improve the working capital cycle.
- Himanshu Nayyar:** Second and final question on our JV with Novandie so just wanted to understand what is the date of plant commissioning that you are expecting now and any outlook you can share on any marketing initiatives we are planning on those products?
- Brahmani Nara:** Sure, basically works are on in full swing right now, but however, we see some delays in the construction of our factory which is happening very close to Mumbai again because of rains. There have been many months of rains and literally no work could be done, no cranes could move etc., but now we are back to action and the progress has been done on the marketing side concerning what kind of flavors, what kinds of products, what consumer is needed we want to offer, etc., and some work has also been done on the team building side, so we have a GM in place now to head the project for the JV and that is progressing quite well too. At this stage, we are looking at launching the product anytime in the first quarter of the next financial year, just in time for the summer season.
- Moderator:** Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities Pvt. Ltd. Please go ahead.
- Vikrant Kashyap:** Does competitive intensity in the states you are impact the prices of procurement for you, if a new player comes into South, where you have large volumes, does it impact the prices?
- Dr. Sambasiva Rao:** All companies pay more or less similar price of the similar quality of the milk and let us say one state is Karnataka state is procuring 80 lakh liters a day. On 80 lakh liters more or less



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everyone pays the same prices, may be 10 paisa -15 paisa plus or minus or 20 paisa plus or minus. If a new player comes into that state and he starts paying Rs. 1 more, he will definitely get more milk, but he cannot take 80 lakh liters.

**Brahmani Nara:** Also I would like to stress upon the fact that for a new player to come to procurement, it is not just the function of price, but a function of several other things such as infrastructure and what other benefits the company is extending to the farmer which we do on a very big way as part of normal course of business, not even CSR activities, so it is really a function of several other different things also especially for a newer player that is entering the market.

**Dr. Sambasiva Rao:** Establishing the trust and ability to extend the supports and payments on punctual basis, certain value addition through the veterinary care, nutrition, financial tie-ups, there are so many other activities which all companies do at a different level, some companies do 100%, some companies 20% to 30%, so this price alone does not drive the milk immediately even if it drives assuming, the new player cannot absorb the 60 lakh liters of milk in Tamil Nadu or 80 lakh liters of Karnataka, there will be certain impact but definitely the new player cannot influence the whole market.

**Vikrant Kashyap:** Another question Sir, to the earlier participant you said the new plant nearby Mumbai and growth in Northern states will help volume growth, but do you think these steps will help in heading 3500 crores of revenue in 4.5 years that we have stated till now?

**Brahmani Nara:** I just want to correct that the target is to grow about 20% year-on-year going forward on any normal year where procurement prices are more normal and seasonality is more normal, so in fact revenue target would be higher than that and again to increase Value-added products to 40% contribution at overall revenue which stands at about 25% of our revenues across the year.

**Vikrant Kashyap:** We standby 6000 crores of revenue by 2024?

**Brahmani Nara:** Yes, that has to be our target.

**Moderator:** Thank you. Ladies and Gentlemen, due to time constraints that was the last question for today. I will now hand the conference over to Dr. Sambasiva Rao for closing comments.

**Dr. Sambasiva Rao:** Thank you very much all the participants for your suggestions, queries, clarifications, and actively engaging with us on a continuous basis and we wish to extend Diwali greetings to all of you. Thank you very much.

**Moderator:** Thank you very much. On behalf of Heritage Foods Limited, that concludes this conference. Thank you for joining and you may now disconnect your lines.