



Ref: SECT: STOC: 70-22

4th August, 2022

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

Sub: Transcript of Conference Call with the Investors/Analyst

Dear Sir / Madam,

In Continuation of our letter dated July 19, 2022 the Company had organized a conference call with the Investors/Analysts on Monday, August 01, 2022 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 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

Enc: 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 FY2023 Earnings Conference Call

August 01, 2022



MANAGEMENT:

DR. M SAMBASIVA RAO – PRESIDENT, HERITAGE FOODS LIMITED

MR. A. PRABHAKAR NAIDU – CHIEF FINANCIAL OFFICER, HERITAGE FOODS LIMITED

MR. SRIDEEP N KESAVAN – CHIEF EXECUTIVE OFFICER, HERITAGE FOODS LIMITED

MR. J SAMBA MURTHY – CHIEF OPERATING OFFICER, HERITAGE FOODS LIMITED

MR. UPENDRA PANDEY – CHIEF EXECUTIVE OFFICER, HERITAGE NUTRIVET LIMITED

MR. UMAKANTA BARIK – COMPANY SECRETARY & COMPLIANCE OFFICER,
HERITAGE FOODS LIMITED

MODERATOR:

MS. SONAM RAGHUVANSHI – DICKENSON WORLD



Moderator: Ladies and gentlemen, good day and welcome to the Heritage Foods Q1 FY2023 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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sonam Raghuvanshi. Thank you and over to you Sonam!

Sonam Raghuvanshi: Thank you. Good evening everyone. I welcome you all to the earning call of Heritage Foods Limited for Q1 FY2023. Today we have with us the management represented by 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 and Mr. Umakanta Bakri – Company Secretary and Compliance Officer.

Before we start, I would like to remind you that the remark today might include a forward-looking statement and actual results may differ materially from those contemplated by the forward-looking statement. Any statement we make on this call today is based on our assumptions as on date and we have no obligation to update these statements as a result of new information or future event. I would now like to invite Dr. M. Sambasiva Rao from Heritage Foods to make the opening remark. Over to you Sir.

Sambasiva Rao: Thank you Sonam. A very good afternoon to everyone joining us today on this call we welcome you all to this Q1 FY2023 earnings call of Heritage Foods.

Let me start by giving you an overview of the financial and operational highlights for the Q1. Consistent with our performance over the last many quarters, our consolidated revenue for Q1 registered robust growth of 27% year-on-year at Rs.8209 million with EBITDA during this period stood at Rs.220 million compared to 299 million in Q4 FY2022. During the quarter the PAT stood at Rs.73 million in spite of our solid revenue growth unprecedented increases in raw milk procurement costs and overall operational cost suppressed the quarter’s net profits.

Now let us look at the operational aspects of our business in detail, in the dairy business our average milk volume procured during Q1 stood at 14,66,000 liters per day compared to 12,14,000 liters during the corresponding quarter previous year registering a growth of 20.76% year-on-year while on the sales side our average milk sales during Q1 recorded an increase of 15% year-on-year whereas curd which is our most important value-added product in our portfolio registered a massive growth of 45.4% during this quarter. Revenue



from the value-added products portfolio grew solidly by 62.5% year-on-year to 2,838 million in Q1 compared to 10746 million in Q1 of last year.

I am pleased to inform you all that this helped our VAP business contribution to increase by an impressive 750 BPS year-on-year to reach 34.9% of overall dairy revenue in the cost one, Despite this quarter's suppressed profitability our sustained volume growth, especially in the value-added portfolio gives us the confidence in recovering profitability in the coming quarters of the flush season when raw milk procurement prices are expected to cool off. The company's primary mission as you know is to delight every home with quality products in line with our plan during the quarter under review we have launched new value-added products like Gulab Jamun and Rasgulla in time for the festive season, buttermilk in cups addressing the new consumer segment and Ghe in differentiated and convenient spout backs, these launches further strengthen our value-added product portfolio and will strengthen our push towards becoming a more diversified value-added foods company. The company is also constantly taking strategic initiatives to connect with our consumers better our marketing strategies are being redesigned to a better our understanding of changing consumer preferences and behavior patterns this helps us design winning differentiated high-quality products as we demonstrate sequential solid demand growth around products we are making concerted efforts to improve our profitability procuring milk at reasonable costs amid generally lower reels from cattle would also be a near term focus on the company in the coming quarters. We are also taking many long and short-term cost efficiency initiatives to reduce our cost of conversion and cost to serve.

We are happy to inform you that we are already seeing significant progress on both discounts and are confident of delivering better value to our shareholders in the coming quarters now we open the floor for the question and answer session. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria:

Firstly congratulations on finishing 30 years and you started the 31st year with probably all-time high quarterly growth so I analyzed like last 24-25 quarters we have been struggling in the 600 to 700 Crores per quarter range and now we have straight away broken out to cross 800 Crores a quarter so my first question was is this run rate sustainable like was there any one-off in this quarter that may not continue for the next 3-4 five quarters and then if you can give some more elaborate details on what call did we do to reach such high levels of value-added product sales and milk sale and milk procurement as well so that is my first question and I will take the second question later?



Srideep Kesavan: Thank you for your good wishes for our 30th anniversary the growth that we have seen in this particular quarter it is actually consistent with the trend that we have been seeing in the last three or four quarters from any fundamental things that have fallen in place as far as our strategy is concerned which gives us confidence in terms of ongoing performance in similar lines so there are two or three things here, one is more predictability as far as our growth and volume numbers are concerned. Number 2 is a shift towards value-added products which is more engineered rather than accidental and number three is growth in the geographic segments where we want our growth to happen so we are very happy to say that we are progressing well on the strategic priorities that we spoke in the previous quarterly updates and those efforts which has resulted in the outcome that we are seeing.

Digant Haria: Right Sir Srideep safe to assume that this should not be a one-off quarter like there were no extra sales of any special order from a bulk customer we do not do that but you have never done anything apart but just because of the huge revenue I wanted to be sure that this looks more like a sustainable run rate.

Srideep Kesavan: Absolutely because first of all in this particular quarter we have not made even a one rupee of any bulk or institutional sales, there is absolutely none in fact the base revenues we might have some bulk sales despite having the base bulk sales or bulk revenue sitting in the base quarter without that just through consumer product sales we have achieved these numbers like I mentioned before we have the strategy is on four steps actually, as far as market growth is concerned of course I am speaking only the market trading strategies that we have put in place, first is to have segment our portfolio into six consumer-centric product last as we said that now we are looking at liquid milk separately dairy foods, dairy drinkables, dairy sweet, dairy fast and ice creams and frozen versus separately because we are looking at product clusters differently we are able to also decide on what is the fit for purpose row market that makes these products available in the hands of the consumer in the most efficient manner. The third thing that they have looked at is innovations that our consumer-centric and these last many quarters we have made several corrections not just in terms of launching new products but we have recalibrated our tax price channel architecture to make our products perform much better on the shelf and the fourth thing is a new format or a new framework for engaging with customers especially our key national as well as regional customers it is a helping us get tremendous growth and gain market share as well so there is a very clear plan in place which is being executed which is resulting in the kind of growth that we are seeing.

Digant Haria: Right thank you so much for this detailed answer. My second question is that you in the last call clearly explained what we are doing to fight inflation like, you extend three points and one is smart sourcing, the second was basically operating efficiencies and the third one is



increasing the value of this product so this quarter we at least saw the value-added product but even then the margins are probably at 24 quarter low. So, revenue is at 24 quarter high and margins are at 24 quarter low so is this mostly attributable to the milk inflation we are seeing across the country and if this continues for about 3-4 quarters is it even fair to assume that we reach 6%-7% margins with this kind of sourcing challenges?

Sambasiva Rao:

Yes, see those are margin expansion strategies that you discussed just now that we spoke about in the previous quarters are directional in nature. Those are continuing activities for example expansion of gross margins through reduction of operational costs is a continuous process we are at this point in time at least eight projects of significant nature which will help us reduce our cost of production significantly over the next many months now these projects are the reason why I said continuous in nature is that at this point in time as we are executing these projects we are looking at other options or other projects that will kick in once these are completed similarly there are many other stuff that we are working on in terms of valuing our outward freight or inward freight through conversion of more and more of our vehicles electric reducing dependency on fuel costs inflations etc., that said what happened in the first quarter and this is not just we are not the only the ones that got impacted, this impact was felt across industries with almost like a perfect storm on one hand we had global inflation inflationary pressure due to the ongoing war and many other aspects and specific to our industry, there was severe milk shortage which was sent across the country, which was reported by many large co-operative companies as well and it was a combination of this which impacted the profitability the way that it did while raw material prices are milk prices is something that has to cool off once the flush season begins to happen and we have already seen a cooling off to certain extent in the last I should say 45 days but the other thing let us say for example inflationary pressure on input material packaging material or fuel costs, it is not something that we can be assured of so we have put several things in place to see whether it is alternate packaging, materials or alternate ways of reducing costs to fight off these inflation pressures so those are things that are already put in motion and we are making good progress against those.

Digant Haria:

Alright so thanks for that. Sir last question is for Mr. Brahmani and Mr. Rao last decade like we had where we spent certain time and energy when we sold it off to future group that also our future work also went through its own share of volatility and then probably know that consumed a lot of time and energy but now like can we really say that all those things of the past are over and the company is completely focused on this new things like there are no one-off that phase where we went into ventures which were away from the dairy segment so that is just my last question.

Sambasiva Rao:

Yes, absolutely alright.



- Moderator:** Thank you. We have the next question from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Hi Sir and thank you for taking my question first of all two bookkeeping questions milk procurement prices and liquid milk prices this quarter?
- Sambasiva Rao:** Milk procurement price and liquid milk sale price?
- Sameer Gupta:** Yes used to give these numbers like sometime back but...
- Samba Murthy:** Milk procurement price in the quarter is Rs. 40.77 paise per liter whereas the selling price is Rs. 53.93 per liter.
- Sameer Gupta:** Sir, there is an equal increase in liquid milk price and milk procurement price there is a 15% kind of sales growth in liquid milk so is that VAP portfolio currently at a lower gross margin than a liquid milk portfolio because otherwise sequentially our gross margin should not drop right?
- Sambasiva Rao:** Milk procurement price average per liter is Rs. 40 rupees 77 paise, the liquid milk sale price is Rs. 49 rupees 16 paise what he earlier said was an average realization of milk and all products put together you ignore that.
- Sameer Gupta:** Okay got it but again since that average is also there and it is pretty healthy sequential that I am looking at might be of the liquid milk price Sir so my second question is this and this is based on these data points only that here on we are at a gross margin which is one of the lowest and we are our milk requirement in a lean quarter is that 1.5 million which is one of the highest and at a time when the milk prices are supposed to be high so is this a mistake by chance that we have had and not have had enough SMP stocks that led to this situation?
- Sambasiva Rao:** Not having.
- Sameer Gupta:** So typically you procure more enough last season so that it lasts in a lean season what I see is that milk requirement is one of the highest this quarter and that too in a lean season where generally milk availability is lower and milk prices are higher so have we made a mistake this time that we did not procure enough in our last season and now it is being paid in terms of margin pressures in Q1 or is that understanding wrong?
- Sambasiva Rao:** You need not call it a mistake if you said strategic to grow so we wanted to raise sale volumes the typical milk procured in the flush season gets converted into milk powder and



it is used as an additional factor in the curd or other products also for reconstituting the milk so irrespective of that the growth has to come from the milk only so we have grown on the sales side consciously as the milk prices cool off then the benefit of margins will kick in as soon as possible so it is a great expansion.

Sameer Gupta: Got it Sir

Sambasiva Rao: Prices will not remain the same throughout the year I mean if you go by the trend there are two cycles or three cycles in a year where milk prices fluctuate and the lowest is expected to be in the winter months after the rain then the animal's yield is very high and that is the time we get milk at a lower price and certain excess milk will be converted and kept in the powder form for the summer season that continues as an operation every year but with lean season growth is something which we can sustain in the flush season and we will have much more milk in the flush season coming flush season.

Sameer Gupta: Okay Sir just a follow up to that let us suppose because I have seen this in the past two to three years what has happened is for some reason or other the milk prices are not very favorable in the flush season either sometimes there are unseasonal rains sometimes there are late rains so let us say assuming that these milk prices do not correct in the plus season to our expectations will be willing to increase our end consumer prices so that our margin stabilized back to our 6% to 7% range or we will still whether the storm and sea wait for another better period of cooling of these thermal prices?

Sambasiva Rao: No we have already taken price hike towards the end of the quarter and the price benefit is a bit there is a lag between the procurement price and sales price increases and we have not taken a full hike also so one round of hike has been done in the Q1 another price hike will happen in Q2 so therefore we try to reach the margin levels as it was earlier.

Sameer Gupta: Great Sir but I still heard that with the flush season the prices will cool off and our margins will come back I understand that is the normal course of operations but let us say because these are quite unpredictable times, prices for some reason do not cool off will be willing to take more price hikes or we will be thinking that this is just a one-off and you know let us just wait and wait the season out and just one year of difference margin is Okay.

Sambasiva Rao: There are two elements Sameer for margin build up as one is the procurement price cooling off, and second is the sale price increase for end consumers so both the levers we operate only thing we do not stretch passing on entire price burden to the consumer in one go it is staggered, 2 if somewhere we see the prices of farm gate prices are falling then we stop there to build the volume so it is a kind of a careful synchronization of both the trends, it is



not that we just wait for the prices to cool off only when one of the two elements and 3rd element is also there and increasing the contribution of value-added products where the margin is slightly better so we play with all the levers in such a way that we gain market share and we recover our profitability levels as early as possible but the lack always will be there.

Sameer Gupta:

Fair enough Sir if I can squeeze just one more question with your permission so now we are also in a sort of expansionary phase where milk procurement has gone up by 21% on a y-o-y basis and we are expanding our value-added portfolio which would imply that we are reaching out to more distribution touch points typically which do not have a Heritage product does that also put downward pressure on our margins I know it would not be very high but something that we should factor in?

Sambasiva Rao:

No because we are operating in the same regions where we have operated and the more and more we deepen our penetration in these markets what we are experiencing at this point in time is that our net revenues have improved even though in Q1 it is only as in you can only see part of this improvement but in the last like I said in the last 30-40 days we have seen significant improvement in net revenue and number two our cost of operation whether it is in terms of efficiencies of those plants in those geographies or in terms of market discounts and other sales and distribution costs have all been significant improvement so you can imagine that let us say a truck in one of these marginal markets earlier was carrying 50% load and hence cost of operation was a higher today is carrying 70% or 80% of truck utilization in these markets so costs are constantly coming down for us in these marginal markets and we do not Heritage right from the beginning, we do not if you are consumers you will also know from the markets that you do not go for deep discounts kind of strategy because our product well because their high quality products and all this growth we have got with just purely by acquiring more and more consumers and not by offering discounts.

Sameer Gupta:

Thanks Sir that is all from me. I will come back and if you have any follow-ups.

Moderator:

Thank you. We have the next question from the line of Rohit Suresh from Samatva Investments. Please go ahead.

Rohit Suresh:

Thank you for the opportunity so my first question would be if you could give me the number of the contribution of the non-products in the value-added segment for this quarter and for last year also, in the value-added segments the non-curd portfolio what would be the share of that for in Q1 and for the entire financial year 2022?

Sambasiva Rao:

Other than curd roughly around 25% would be the contribution.



- Rohit Suresh:** So you indicated 25% is the product apart from curd so within that 25% what would be the major segment that are contributing to the revenues the top two to three products?
- Sambasiva Rao:** It would be Paneer, ice creams and drinkables would be the largest contributors in that and drinkables we have a long range of flavored milkshakes, cold, coffee, buttermilk, and lassi product.
- Rohit Suresh:** Sir and just one more question was that right now our expansion will be focusing only on the southern market right our existing markets will be penetrating much deeper we would not be getting into the North and Western markets right?
- Sambasiva Rao:** We have a presence in Delhi NCR, Mumbai, and Pune where we are deepening our presence rather than going horizontally so you will see us more and more in parts of the geographies of Mumbai and Pune and Delhi NCR but yes you are right as a percentage to our overall business our business is still largely concentrated in the southern markets especially AP Telangana, Southern Karnataka which is Bangalore and surroundings and part of Tamil Nadu.
- Rohit Suresh:** Great Sir thank you so much and wishing you all the very best.
- Moderator:** Thank you. We have the next question from the line of Nitin Awasthi from Incred Equities. Please go ahead.
- Nitin Awasthi:** I have one question regarding the upcoming flush season which has been talked about by you and your competitors also and what is your seeing in the market is this disease going around lumpy skin disease, which is affecting a lot of cattle and dropping field all around cattle that survived so will that have an impact on the upcoming flush season do you think that would be a path because of the drop which you will see in the yield?
- Sambasiva Rao:** Not really because this year had the great monsoon heavy rains all over and we expect green fodder availability to be higher, temperatures to be lower and milk prices at farm gate being high, the interest of farmers is back unlike to COVID affected years where the farm gate prices were low and farmers interest was also low in dairy now the interest is high and more and more care and we see the nutrition supplies, etc., so we do not anticipate any such adverse impact on the yields in the coming flush season.
- Nitin Awasthi:** My question was about the specific rise of the disease which was not something which we see normally in the industry.



- Sambasiva Rao:** We do not see that as a big impediment to milk production in fact every mentioned...
- Sambasiva Rao:** There is always this last year in Q3 we saw a foot and mouth disease in parts of Tamil Nadu so do not think that will be there.
- Nitin Awasthi:** Okay Sir got it noted. Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Resha Mehta from GreenEdge Wealth. Please go ahead.
- Resha Mehta:** Sir my first question is on the curd sales right so I think this is the highest ever curd sales that we have done so the kind of growth that we have seen so what really drove that was it that the demand in the market like came back in a big way after two last summers or is it that we have gained share from some organized or unorganized players or is it that going deeper into existing markets this something that has brought us growth?
- Sambasiva Rao:** I think it is a fair question I think it is a combination of all first of all I think it was a great summer not just for us I think even many related industries as well. We were perfectly poised because we had been working on correction of our portfolio sales and distribution are themes organization, structure a lot of things so we were in the right place at the right time we were able to capture the opportunity that is the way I would like to put it in addition to that we had open several new channels for example whether it is big commerce which you see significant growth with their compared to as a subsegment of e-commerce so we were one of the first movers in quick commerce which gave us a tremendous boost as far as sales are concerned even many of the geographies where we have been working to build our presence we have gone deeper this year so it is a combination of all factors right now.
- Resha Mehta:** Right so I think so to some of the past participants you did allude to your execution plan right and the fact that you all have been able to recruit new customers so can you make this elaborate a little bit more on this on the execution front like what are we doing differently v/s is let us say some quarters or years ago and which is helping us get this kind of growth?
- Sambasiva Rao:** Not so much so that others can capture it.
- Umakanta Bakri:** I will keep it at a very high level a rest assured that we have very micro detailed plans that are being executed but yes because I already mentioned quick commerce I can confidently I can probably speak about that for example today you can buy Heritage and whether it is Dunzo, Swiggy these are all channels that carry Heritage products and in most of the



markets because we are one of the first movers, we have an advantage for those customers just one example there are several other customers annual market combinations which have opened up this year which was not there in the previous year's. Secondly, like I said portfolio correction is something that we have done so that we know where the market is and where the manufacturing happens we have fixed that to the extent that we have the right back in the right channel in the right market that is a strategic threat has been done and today it is quite smooth so third is we have been speaking about the organizational structure so we have the right capability of people in the right market in the right place we have divided the portfolio into multiple fruit markets or something we spoke about on the previous quarters earlier we used to have a large part of our business coming from milk agent network today we have large professional FMCG distributors who take our products from market. We also have alternate we have strengthened our sales through Heritage own Parlors we are also at this point in time building a unique distribution structure which is at a very nascent stage but showing promising results so these are working on and that is what is giving us the results.

Resha Mehta:

Right and also related question right so I see that your Heritage distribution centers they have almost doubled sequentially right so from 65 to 121 in Q1 so anything to lead here and so what kind of expansion are we looking at and how is this expected to help us in our topline growth further?

Sambasiva Rao:

The only thing to read there is good news. Future is bright.

Resha Mehta:

Got it but this kind of aggression so we have not seen so that is why this was trying to understand a little bit on your pace of expansion of Heritage distribution centers and how that will help us in the revenue growth because I think the number of parlors are the same while the distribution centers have doubled?

Sambasiva Rao:

So yes distribution centers and parlors are plus plus kind of concept we are parlors as well as they also contribute to creating distribution network and see to be fair last couple of years that is from 2020 March till, about March or April of 2021, life was difficult because of COVID restriction of movement we even lost in certain markets, we had a little bit of a distribution shrinkage because some of our distribution partners stopping business during the pandemic and all of that so that is the reason why you probably do not see much of an expansion in that period of about 18 months but since June of 2021 we have been aggressively building working on these strategies and it is little pay us dividend in coming months and quarters.



- Resha Mehta:** Right and if I can squeeze in a last one so you also spoke about nil fat revenues in this quarter so structurally is it possible so I think historically our fat revenues have been in the range of 8% to 10% right so structurally is it possible that we bring down this number a little more and because this is anyway the low margin kind of a business?
- Sambasiva Rao:** Can you repeat your presumption I could not get you with said milk revenue flat?
- Resha Mehta:** Sorry so I just repeat so you did mention that the fat revenues were almost nil for Q1?
- Sambasiva Rao:** Let me clarify in the base quarter which is quarter of FY2022 Q1, we have some revenues coming from the bulk sale of butter and bulk sale of fat so just clarifying there was a gentleman I think it was because you asked the question how much of it is the repeatable sale and how much of it is one-time sale so I just reassured him that we do not have anymore one time sale because we are doing everything as consumer products.
- Sambasiva Rao:** Yes in the last financial year there was some surplus butter which was sold in the bulk packs not in the consumer packs that that factor is not there in this yet you are trying to present the change scenario, there is no institutional sale, there is no bulk sale, it is all consumer pack sales in that context you mentioned that.
- Resha Mehta:** Got it so now safe to assume that 90% plus would be B2C sales for us?
- Sambasiva Rao:** Yes 100%.
- Resha Mehta:** Got it right alright thank you so much and all the best.
- Moderator:** Thank you. We have the next question from the line of Sneha Jain from SKS Capital. Please go ahead.
- Sneha Jain:** Hi Sir thank you for the opportunity. My first question would be so will we always be dependent on the fluctuation of the milk prices like if thing go ahead like this how are we planning to hedge ourselves against it?
- Sambasiva Rao:** inbuilt nature of the business dairy sector. There are two seasons in a year summer and winter, in winter season animals yield more milk after the lactation cycle begins as lactation cycle ends in the summer season the milk yield comes down so the availability of milk is dependent on the biological reproductive cycle of animal at the beginning of lactation to end of lactation that synchronizes winter and summer and in summer the sale consumption consumer side consumption goes up, demand goes up because of the ambient temperatures



being high in summer so that puts more pressure in the summer season for more products and more sales and winter consumption comes down on the other hand because of the chill weather so it reduces the demand so it is a combination of availability and demand in a reverse manner in winter and summer so as long as we depend on the fresh produce and we depend on fresh sale this cycle I think is inevitable. There is no method of undoing this cyclical nature of the dairy business in India unless we go into the preserved products like UHTs or where you have long shelf life you can undo the seasonality but the country being a fresh products business consumers preferring only fresh products and we do not have processing capacities in the country for handling entire year production and then hold on for in ambient temperature for the next season. I do not see any possibility of hedging the price fluctuations in the next decade just add so that is it one of the strategies we had discussed and what we have we are working on in which where we are seeing significant progress, he is increasing value-added products portfolio now the more and more value-added products that we have. We will be able to decouple ourselves a little bit and if I can explain roughly 70% to 75% of the revenue that we get is or the raw material price or raw milk price would be about 70% to 75% is the net revenues the more and more value-added product portfolio grows the salience of raw milk producing so that is this one clear strategy that we have which also helps us expand our margin so that impact of raw milk cyclicality will be reduced but there is no way or at least we as a Heritage alone cannot make much impact in terms of reducing the cyclist that is because nature of the industry I hope together we have been able to answer your query.

Sneha Jain: Oh yes so that was very helpful building on that what are we planning like what should we ask you so as in value-added products versus milk percentage and our revenue that you are looking at?

Sambasiva Rao: So last year we closed at 2605/2% and we said that in the next three to four years time we are planning to take it to 40% and which means that a good milestone for us to have this year is about 51% we are internally targeting that kind of jump in terms of value-added products contribution improvement and this quarter we have delivered 34.9% roughly around 35% but then like president alluded to it in the Q2 and Q3 this value-added product portfolio comes down a little bit so overall this here we are expecting VAP contribution to jump significantly up from last year and on a good way towards or 40% contribution in the next three or four years.

Sneha Jain: Okay Sir on another thing what do we have of vision for strengthening our business model going on from here on any thoughts on that?



Sambasiva Rao: If it moves in the same direction like we are expanding ourselves in terms of backend we are expanding in the front end and we are expanding value-added product sales so we continue to grow every year-on-year with a higher mix of value-added products.

Sneha Jain: Okay and lastly Sir to ask like macroeconomic situation basically the entire thing is review entirety, what do you think would drive growth going ahead and like coming quarter at least in the near and long-term?

Sambasiva Rao: It is only urbanization as we are all in the act product segment in the urban areas, urban markets and now we are also getting into suburbs or tier 1, tier 2 cities markets so the urbanization is one factor where the milk and milk is not available in loose form for anywhere and health consciousness which is shifting people towards the packed products coming from the end where quality is taken care by the companies and 3rd is affordable income increase the income from the families particularly convenience also is one of the factors where making these products at home was possible once but now everybody is under time pressure so we ready to consume products are gaining ground so you have the population increase urbanization increased health awareness towards dairy products and inflammation for packed products for health reasons and convenience of the product availability and access to products and most of the consumers get home delivered today through various channels and we are in the predominantly home delivery model with e-commerce without e-commerce also our model is essentially home delivery model since beginning so these are all the factors which continue to help us grow in the market irrespective of the major economic factors fluctuating and this being one of the essential products and low cost source of nutrition including protein.

Sneha Jain: Sir one last thing of any person how can we improve multiple compared to our other competitors like might not play in the same, any thoughts on that?

Sambasiva Rao: Yes, value multiple sets. Right is it you are talking about value multiples?

Sneha Jain: Yes, Sir I am talking about value?

Umakanta Bakri: It is only our strength like in terms of growth in terms of quality of the brand and our strength in the balance sheet principles of governance, these are the factors which market has to perceive in the right perspective and rate us I think this question comes up in most conversations we are focused on our work will continue to grow revenues and grow revenues profitability, profitably in the long-term we are building our value-added product portfolio, we are building a portfolio of brands which consumers love.



- Sneha Jain:** That is right. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Anupama Bhootra from Arihant Capital. Please go ahead.
- Anupama Bhootra:** Thank you for taking my question so I just wanted to understand what is the product mix like FY2022 revenue buy milk value added and in terms of percentage and we keep the highest margin contribution?
- Sambasiva Rao:** FY2022?
- Anupama Bhootra:** FY2023?
- Sambasiva Rao:** 2023 is not ready.
- Sambasiva Rao:** She is asking for Q1. You are asking current quarter Q1 FY2023?
- Anupama Bhootra:** Yes current Q1 product mix in terms of VAP numbers?
- Sambasiva Rao:** 62% Milk, VAP 33%, FAT 3% and other 2%.
- Anupama Bhootra:** Thank you. And one more question is what is the capex that the companies planning for FY2023 and FY2024?
- Sambasiva Rao:** There is slight correction 60%, VAP 35% PAT 3% and others 2%.
- Anupama Bhootra:** Okay thank you and any capex plan if you can like elaborate also quantify FY2023 and 2024?
- Sambasiva Rao:** Yes generally 100 Crores - 120 Crores per annum so you can say.
- Anupama Bhootra:** Okay fine thank you so much.
- Moderator:** Thank you. We have the next question from the line of the Digant Haria from GreenEdge Wealth. Please go ahead.
- Digant Haria:** Thanks again for the opportunity we have always explained that margins in liquid milk 6%, curd will be around 9% and another value added will be around 12% but I assume that 12% in value-added comes when we have scaled those value-added products so I just wanted to check having achieved and how far are we from that scaling drinkable which are our three largest value-added products after curd?



- Sambasiva Rao:** You are asking about the profitability?
- CA Prabhakara Naidu:** Yes this quarter being an exceptional quarter because of the raw material prices, fuel prices, energy prices, and packing material prices and not passed down fully to the consumers I have done in a staggered manner, so this quarter may not be a reference quarter for these numbers we will perhaps give you a better picture as we go into the financial year.
- Sambasiva Rao:** Right let us just add about 4.5% to 5% because of procurement price to sales right so we did not say that whether it is milk or valuable products that are 4% or 5% got negative because of that right.
- Digant Haria:** Sir my question is more let us assume that raw materials fluctuation is not there and even in Paneer if we have to earn that 12% operating margins we at least would need some scale we will not achieve 12% having that at 20 Crores revenue but we may achieve that at 200 Crores revenue so I am just asking that on that scale level have we reached that critical mass in these two or three value-added products like drinkables, Paneer and ice cream that we can actually some days he had 12% margin when there is a raw material stability?
- Sambasiva Rao:** We will get into this next quarter or next following quarters is not really readily available that and we also did not see that perspective as we were going through a normal price scenario I will certainly assure you we will explain next time.
- Digant Haria:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Disha from Anvil. Please go ahead.
- Disha:** Sir since we are entering the flush season we expect with the lower milk prices and margins to go up from here on that is the first question and second what is the margin difference between liquid milk and value-added portfolio and third question is on our subsidiary Heritage Nutrivet, we have the ambition to achieve 500 Crores sales so if you can throw some light on that?
- Sambasiva Rao:** The first one yes the milk procurement prices are expected to cool off as flush begins flush typically begins towards the end of September beginning of October that is the season we have to watch out for and the second one the difference between the liquid milk margins and value-added product margins consolidate level will be almost double the milk to products margins would be double in any season and coming to Heritage Nutrivet growth ambitions so I request CEO Mr. Upendra Pandey to elaborate a bit.



- Upendra Pandey:** Thank you so much. We were very roughly around 100 Crores this has last financial year and our outlook is that want to grow with 25%-30% kind of year-on-year in the next few financial years and we have our strategies in place, we have to escape the art plant and our captive business is going well so we are focusing on deeper penetration in our captive network at the same time we are also spending in our general trade business having the right program, right mark, right channel quite hopeful that we will be able to achieve.
- Disha:** Okay so when you mention that the flush season will start from September and October so we will have a positive margin impact from Q2 onwards or do we have to wait for Q3?
- Sambasiva Rao:** Something has kicked in Q2 also but the real flush and the best price scenario, the best production scenario will emerge from October.
- Disha:** Thank you so much and when we say that we want the 40% value-added so what overall margin guidance do we say on the overall portfolio in the coming three years?
- Sambasiva Rao:** It would not alter much because of that increased contribution as there is a cost of growth during that period so post stabilizing at a particular level we can look for an alteration in the overall margin structure.
- Disha:** Okay so earlier you mentioned that you have a 6000 turn over with 40% value added with 8% margin is that assessment right we are going on the same?
- Sambasiva Rao:** Yes that is the ambition.
- Disha:** Okay that is it from my side. Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question I would like to hand the conference over to Dr. Sambasiva Rao for closing comments. Please go ahead.
- Sambasiva Rao:** Thank you very much for your valuable time and joining us for this call and also sharing your thoughts. The company is confident in creating sustainable value for its stakeholders and we thank you all for your continued interest and faith in us. Please do contact Dickenson world ask us directly should we have any further queries I wish you all a great evening and I look forward to reconnecting with you for the next call after Q2. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Heritage Foods Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.