



Ref: SECT: STOC: 48-24

June 03, 2024

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 May 15, 2024 the Company had organized a conference call with the Investors/Analysts on Friday, May 31, 2024 at 04.00 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

Encl: a/a



HERITAGE FOODS LIMITED

CIN : L15209TG1992PLC014332

AN ISO: 22000 CERTIFIED COMPANY

Regd. Off : H.No. 8-2-293/82/A/1286 , Plot No. 1286, Road No. 1 & 65, Jubilee Hills, Hyderabad - 500033, Telangana, INDIA.
Tel. : +91-40-23391221, 23391222, Fax: 23326789, 23318090 Email : hfl@heritagefoods.in, Website : www.heritagefoods.in





HERITAGE FOODS LIMITED

Q4 FY2024 Earnings Conference Call

May 31, 2024



MANAGEMENT:

Mrs. N Brahmani – Executive Director

Dr. M Sambasiva Rao – President

Mr. A Prabhakara Naidu – Chief Financial Officer

Mr. Srideep M 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 Q4 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 call is being recorded.

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

Anuj Sonpal: Thank you. Good evening, everybody, 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 fourth quarter and full year financial year ending 2024.

Before we begin, let me mention a quick 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. N. Brahmani, Executive Director; Dr. M. 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 Limited; and Mr. Umakanta Barik, Company Secretary and Compliance Officer.

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



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 quarter 4 and full year 2024. The financial results and earnings presentation have been uploaded already on the exchanges, and I hope you must have had a chance to look at them. We are pleased to inform you that Heritage Foods has reported robust growth in terms of earnings and profitability for the quarter as well as for the full year.

For the quarter 4, under revenue on a consolidated basis, the operating income was INR951 crores, representing a growth of 16% year-on-year. EBITDA for the quarter was INR70 crores, which grew by 68% year-on-year. EBITDA margins were at 7.39%. Net profit for the quarter was at INR41 crores, representing a strong growth of 126% year-on-year, with PAT margins reported 4.26%.

For the financial year ending 2024, our consolidated operating income grew by 17% year-on-year to INR3,794 crores. EBITDA stood at INR210 crores, representing a strong growth of 52% with EBITDA margins improving to 5.52% as compared to 4.27% in the last financial year. Net profit for the year stood at INR107 crores, which has seen a significant improvement of 84% on a year-on-year basis with PAT margins reported at 2.81%.

Now moving on to the operational performance. In the fourth quarter under review, milk procurement volume grew by 11.32% year-on-year to 1.59 million liters per day, while the average procurement prices dropped by INR3.5 per liter, that is 7.5% to INR41.7 per liter. Our milk sales volume experienced a steady growth of 3.74% year-on-year in quarter 4 to 1.11 million liters per day. While the average milk selling prices for the quarter rose by 1.78%, that is close to INR1 per liter to INR54.84 per liter. Value-added products registered a robust revenue growth of around 22% year-on-year in quarter 4.

We also had several new launches in quarter 4. The products we launched include toned and skimmed milk in tetrapak under the brand name Farm Fresh and Lite Fit; a new ice-cream variant VibeZ's launched during Valentine's Day; new variants of fresh milk, Gold and Super Gold in Chennai; flavoured curd in two variants under brand name Shubh Meetha Dahi.

We also expanded our distribution network further in quarter 4 by adding 432 milk distributors, 33 VAP distributors and 11 fresh value-added product distributors. This expansion aims to improve product availability and reach a wider consumer base.



For the financial year ending 2024, VAP witnessed a strong growth of 18.7% year-on-year basis. Value-added products contribution including consumer packed ghee and butter stood at 33.5% for the financial year '24 and at 29.63% without ghee in consumer pack and butter in consumer pack.

Coming to our subsidiary and joint venture. They also had a strong performance in financial year '24 with Heritage Nutrivet, the wholly owned subsidiary, reaching INR160 crores in revenue in FY'24, representing a growth of 50% year-on-year and also a significant growth in bottom line from INR1.6 crores to INR7.4 crores, which represents a growth of 360% year-on-year. Our joint venture, Heritage Novandie Foods Private Limited reduced the losses by INR4 crores during the financial year from INR17 crores to INR13 crores.

With this, we'll open the floor for question and answers. Thank you.

Moderator:

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

Sameer Gupta:

Firstly, sir, on the milk procurement price. Now there is a sharp reduction in this price this quarter. And the same is not yet visible in the selling milk prices, which usually follows with a lag. So first of all, this milk procurement price reduction, is there something which is a one-off or this is more of a trend now because this was also expected in a way? And if that is so, then do you expect some moderation in EBITDA margin from the current level, it may still settle at a higher level, but just the fact that some of this may need to be passed on to consumers. Do you foresee that? Your thoughts here.

Srideep Kesavan:

Thank you, Sameer. This is Srideep, here. So first of all, yes, we have seen milk prices drop in quarter 4 of the financial year. And it is usually the case because quarter 4 is the end of a good flush season and prices usually start to drop from November, December onwards, and it continues to drop. So there is nothing unusual about it. In our opinion, this we had seen in all good flush years, except in the years before, where we had an abnormal year. So that is first answering your question on why the drop happened.

Second question, I think you're probably asking us if we will drop the consumer prices. No is the answer usually because the pricing up with a lag is a reality, but pricing down with a lag, usually doesn't happen. So that we are not looking at any price reduction at this point in time.



Third, the price drop will it sustain during the quarter, Usually the prices go up a bit depending on the availability of the milk as we come off the flush season. So we are seeing a little bit of prices climbing up , but I don't think that there is anything to worry because alongside that, we are also seeing the sales volumes increase and the value-added product contribution increase as is usually the case in quarter 1. So we don't see anything abnormal happening at this point in time.

Sameer Gupta: Second question is that I still see a large amount of fat sales this quarter, around INR71 crores. Now before there was the phenomena of bulk fat sales, this used to be a INR30 crores to INR40 crores quarterly number. So just a question here that is it like your branded fat sales have gone up to that extent? Or there is still some element of bulk fat sales sitting in this quarter?

Srideep Kesavan: Yes, Sameer, Srideep here. Yes, this quarter also, we had bulk fat sale. But if you look at the quantities, while in quarter 3 -- quarter 2, we may have sold close to 2,000 tons, in quarter 3 that came down to 1,500 and quarter 4 was just about 1,000 tons. So the quantity has significantly come down. In fact, the closing stock of fat is now very much in under control in the sense we have just about a month's stock. So we do not anticipate any further bulk fat sales to happen.

The sale of fat products on the consumer side has been steadily growing. While in quarter 1, we sold close to 560 tons, the same number in quarter 4 was close to 800 tons. So if you could note the trend on consumer side, the sales volume is growing steadily quarter-on-quarter 560, 680 like that, eventually ending up with 800-odd tons in the quarter, whereas in the commodity side, which is the bulk fat sale has come down from 2,000 tons to 1,000 tons and nearly we can say that it is now absolutely at 800 tons is nothing, 800 tons is what we need for sales of consumer products. So we are not carrying any bulk fat at this point of time.

Sameer Gupta: Just a follow-up here, Sri. This bulk fat, and correct me if I'm wrong, this is usually sold at the existing fat prices with almost a 0 gross margin. Is this understanding correct?

Srideep Kesavan: It depends on when you accumulate it, at what price you accumulate it and when you liquidate it. So there is always a lag...

Sameer Gupta: Assuming there's no price change during that time, would that be a fair understanding?



Srideep Kesavan: Okay. If it is sold on the spot, you're absolutely right, you're bang on. But if you recall what happened early on in last financial year, the raw milk prices were very high in quarter 1. And in fact, in quarter 4 of last financial year, the milk prices were very high. And last financial year, which is FY'23, we exited with a good amount of bulk butter in hand, and that was helped 2,000 tons of bulk butter in hand. And that was you can imagine at the peak raw milk prices.

And from then on, quarter-on-quarter, the milk prices -- raw milk prices have come down steadily, which means that the butter was being sold always at a lower price than the accumulated price. That is the reason why the loss happened. But if you do spot trade, you are right, that buying and selling would be at the same price. But that's not how usually it happens. There is a small lag.

Sameer Gupta: Got it. No, no, this was just for understanding.

Moderator: The next question is from the line of Kiran Kumar from Investwise.

Kiran Kumar: So my question is on this milk growth, where we have grown 3.74% year-on-year. So majorly, which market had given us this growth? Is it overall all the geographies we operate like Hyderabad is our major area. So are other areas also contributed to this growth or only it's Hyderabad, which we grew?

Jangam Murthy: Yes. This is Samba Murthy. So milk sale volume has grown across all the markets. Growth is there all the markets, okay, not only a single market.

Kiran Kumar: Can you just tell me how much we grew in Hyderabad, which is our major market, which is a sustainable growth as I feel?

Srideep Kesavan: Okay. While Mr. Samba Murthy gets that number, I do not agree with what you said that growth in Hyderabad is only sustainable. In fact, all the other markets are also equally sustainable, our growth. Usually...

Kiran Kumar: Sorry for my statement. What I meant was like since we have the higher market share in Hyderabad, which gives you a better margin. So I quoted in that sense, not in a different sense.

Jangam Murthy: Hyderabad also roughly the same growth.



Kiran Kumar: So my second question is on your future -- I mean Q1, how are we trending in our sales milk and other product sales? Is it like last year, I remember we were like -- we had a bad season our VAP products and all because of unscattered rains, all those stuff. Is it better in this quarter? Or we are still experiencing the same?

Sambasiva Rao: We'll answer later, Kiran.

Kiran Kumar: Okay. And my last question is regarding butter provision. Did we exhaust our butter provisions which were made till Q3 Or are we still carry forwarding some provisions in our books?

Sambasiva Rao: Butter provision around INR4.5 crores is still carried -- we have provided actually as on 31st March.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Congratulations for great set of numbers. So my first question was on the milk sales. We have seen a steady increase in the milk procurement over this financial year. But our milk sale has been in low single digit for the full year and most of the quarters. But -- and our VAP sales have continued to grow pretty well in high double digit. So is it that the increase -- the higher milk procurement is going -- is being directed towards VAP, and since those are higher-margin products and milk sales growth will continue to lag the milk procurement number by a big margin?

Srideep Kesavan: Thank you, Ankit. This is Srideep here. So just to give you a sense of last 4 or 5 quarters trend of what has happened. In quarter 1, we declared milk volumes degrowth of about 1.1%. In quarter 2, volumes of milk grew at 0.8%, quarter 3 was 2.3%, quarter 4 was 3.8%. So you can see that minus 0.1, minus 1, plus 1, plus 2.3, plus 3.8. So -- which should give you confidence that the trajectory is good.

And the reason why it initially went negative was because of raw milk procurement price increases we had passed on close to about 11% to 12% price increase to the consumer. Whenever there is a significant price increase to the consumer, there is a little bit of a contraction of consumption. .

And I'm not sure, Ankit, if you had attended the previous con calls, investor con calls, we had mentioned that we had achieved the price increase partially through increase of MRP, and partially through what we call shrinkflation, which is basically a reduction of grammage of the pack sizes, which also resulted in like a consumer buying -- the number



of packets the consumer buys remain same, but the quantity purchased comes down a little bit. So it is pretty much understandable when we take a price increase of 11% to 12%, volume tapers a little bit. But the good news is that we have been able to turn it around, and now it has ended -- the year has ended with a steady growth of about close to 4%.

Now specific question about difference in growth rates of value-added products and milk. One should understand that milk is largely organized. 40% of milk consumption in the country is in the organized sector, and only rest is unorganized. Hence, the growth that we see in milk is usually at the rate of population growth or growth of organization. Unless consumers start to drink a lot of milk, the consumption quantities increase. That is not the case as far as value-added products are concerned.

Value-added products -- most of the value-added products are largely unorganized. And the momentum that we are able to get is because of the conversion from unorganized to organized because we are able to provide the highest quality products because we are able to give consumers convenience, which they do not have with organized. For example, paneer, only 4% is organized. Curd, only 8% is organized. So naturally, value-added products will continue to have a higher growth rate compared to milk. And so this you should expect going forward as well.

Ankit Gupta: So that very well explains my questions. And my second question was on -- in the current quarter, given the kind of the heatwave which the entire country has experienced. How do you see the growth of VAP, specially products like curd and ice-cream in the quarter? And what percentage of our total sales from VAP are we targeting for FY'25?

Sambasiva Rao: Yes, Ankit, as we mentioned earlier, we are trying to defer discussions on current quarter to the next quarter.

Ankit Gupta: But any targets that you can give for value-added product contribution for FY'25?

Srideep Kesavan: I think there's a lot of general opinions in the media from some of the leaders of cooperatives. I think -- you have a lot of information. But specifically to our company, we can't release at this point in time But if you -- you can look at the past trends and understand what the potential could be.

Moderator: The next question is from the line of Nirmam from Unique PMS.



- Nirmam:** Sir, can you quantify the fat loss for the quarter? And do we expect any fat losses in the next year?
- Prabhakara Naidu:** Sir, this is Prabhakara. Fat losses for the quarter 4, INR13.45 crores, both bulk and consumers.
- Nirmam:** And do we expect this in the next year, say, what amount could it be?
- Srideep Kesavan:** This is Srideep here. So like we said, it's our intention to consistently bring the losses in fat quarter-on-quarter. There are several strategies that we are working on to ensure it happens. First of all, the larger part of the loss is when we sell fat in bulk in quantities. So we are -- like I mentioned earlier in the call, currently, the bulk fat that we are holding is very minimal. So we do not expect too much of bulk fat sale to happen.
- Most of the sales should happen in consumer packs, which means that naturally like that will help us in reducing the losses to go on. Number two, we are also trying to reduce the time lag between accumulation and sales, which will also reduce, what you call the arbitrage as far as the price is concerned.
- Nirmam:** Got it, sir. And sir, secondly, so we've seen a good uptick in the gross margins for the quarter. So can you elaborate what led to it and if this number is sustainable going forward?
- Srideep Kesavan:** Sure. Thank you. And I think specific numbers, I will request CFO, Mr. Prabhakara Naidu to give. But on a very high level, one, the fat losses came down in quarter 4. And secondly, we had the benefit of raw milk price reduction, which happened in quarter 4. We also had advantage of low-priced SMP that we use. And you will also see that the value-added products growth had gone up at around 22%. So all of these helped, and specific numbers may...
- Prabhakara Naidu:** Gross margin for Q4 is actually 23.34%, for the year 20.09%.
- Srideep Kesavan:** So his question is why? The raw milk prices, we have already indicated that it has come down. I think it is there in the investor note. The second thing is SMP, whatever we have consumed is also at a lower price compared to because of -- all benefited because of the milk prices coming down.
- N. Brahmani:** Brahmani here, just to expand a little bit upon gross margins. we have displayed in our results also stability or improvement of gross margins over the last 8 quarters through a



combination of different initiatives, as CEO, Srideep had mentioned, the focus on value-added products, better procurement mix and more focused on growth of these higher-margin products and also improvement in the increase in sale of consumer fat versus bulk fat. So I think that's something we can expect going forward, a focus on stable and growing gross margins.

Nirmam: And my third question is just related to the JV. So we've seen reduction in losses, but we've still provided an impairment of about INR16 crores to INR17 crores this year. So can you talk about that?

Prabhakara Naidu: This is as per accounting standard, actually, when there are indications that the company continues to incur the losses, we need to test it for impairment. We have appointed external consultants for valuing the company, applied DCF method. So based on the valuation report and our carrying amount of investment in stand-alone financial statements, we are supposed to provide the higher of the carrying amount more than our share of value of the JV, that has been provided as of now.

Nirmam: Okay. But then we need to...

Moderator: Sorry to interrupt, sir.

Sambasiva Rao: Just to add one point. It's true that losses have come down and business building is happening at a rapid pace by expanding the channels and outlets, markets, etc. But to present the true and fair situation of the company's assets value, investment value, it was recommended by our consultant to have impairment noted so that has been carried through so that the health of the company is clearly reflected for the years to come.

Moderator: The next question is from the line of Rohit from Samatva Investments.

Rohit: So my first question is on the JV only. So I just want to know what's our plan for the JV, right? The losses have decreased, I get it. But what's our plan next 2, 3 years in terms of revenue growth, in terms of market reach? And by when do you see it breaking even, just your thoughts on that?

Sambasiva Rao: So it's a -- yes, sure. Thank you. It's a single product category company, which started focusing on yogurts in different forms, liquids, fruit, flavour, etc. We had an initial setback when the business commenced because of the COVID that this company was ready to commission at the onset of COVID.



So 2 years, we couldn't place the products in the markets because of the physical constraints of reaching, etc. So we lost valuable time for the first 2 years after commissioning the business. But subsequently, it picked up, the volumes are growing. There was some issue in terms of reaching out long-distance markets because of the cold chain requirements. Now all the requirements have been fulfilled. The business is picking up.

We estimate another 2 financial years, including current year to achieve breakeven as for the current movement of the business. So that is '26 financial year we can see a business in a very healthy shape. We're even trying to expand the product portfolio so that the volumes can come faster. It's a well-accepted high-quality niche product. There's only a question of building volumes, how rapidly we can build to absorb the overheads and other costs.

- Rohit:** Got it. So what has been the revenue for the last 2 years for the joint venture?
- Sambasiva Rao:** Revenue is small. It's about INR6 crores, INR7 crores, INR8 crores kind of thing.
- Rohit:** Got it. Sir, my second question would be, could you give me the number for curd sales FY'24 and FY'23?
- Sambasiva Rao:** It's close to about INR820 crores, which is growing at a rate of 16%.
- Rohit:** So FY'23 to FY'24, it has grown 16%, right?
- Sambasiva Rao:** That's right.
- Rohit:** Okay. Sir, and my last question would be on the ice-cream part. So this year, we have done around INR70 crores to INR80-odd crores. So in terms of scale, right, there's a very big opportunity in ice cream. So the next 3 to 4 years, how big can this segment be for us?
- Srideep Kesavan:** Yes. This is Srideep here. Ice cream is a category which you're seeing -- like all, every single value-added product category is growing. And our intention is to keep the growth ahead of the industry. So our understanding is that ice cream as an industry is growing at the rate of about 16% to 18%. And for us, this year, we have grown at 58%, which I think, okay, fine. See, you asked me why didn't we grow 40% or 50%, of course, it can be much better than this. So it's our intention. If I could just give you the comfort that we intend to grow much faster than the industry. At this point in time, we are growing at



double the rate of the industry because our size of the business, like you mentioned, is still small.

Moderator: The next question is from the line of Dhawal Dhama from DVD Capital.

Dhawal Dhama: Sir, my first question is -- I mean, we have come a long way in terms of value-added products being 25%, 26% of the revenue to now north of 33%, 34% of the revenue. In your mind, what's a sustainable number in terms of -- let's say, what's your ambition when you're talking about INR6,000 crores revenue? What number can VAP be? Like -- I mean, will it peak out at 35-odd-percent or even 35%, 38% or 40% is possible? Just wanted your sense on that.

Srideep Kesavan: Thanks for the question. We have been -- like INR6,000 crores is the ambition that we have as far as revenue is concerned, and the same breadth we had mentioned that we want to have 40% of that revenue coming through value-added products. So we're sticking to the same number, which means that internally for me, my effort is to ensure that 2.5% to 3% improvement happens every year, which means that in 3 or 4 years' time, when we get to the INR6,000 crores, we should be able to get to the 40% as well.

Dhawal Dhama: Sure, sir. Sir, my second question is regarding sustainable margins. You've always mentioned that your margins in VAP are significantly higher than what it is in milk. And when you say that -- and the journey that we have travelled from 25%, 27% to 33%, 34%, and you want to take it to 40%. And obviously, there will be some operating leverage. On a sustainable basis as a company, from where we were, do we see at least 2, 3 percentage points higher margins as -- not quarter-to-quarter or even year-to-year. But I think on a sustainable path basis, do we see us becoming an 8%, 9% margin company over a longer term when this VAP goes to 35% and 38%?

Srideep Kesavan: Yes. This is Srideep here. See, this is all a little speculative and a little bit of arithmetic. But what we know for sure is that on a sustainable long-term basis, value-added products will always have higher margins compared to milk, right? Primarily because that was a very nature of value -- by very fact that it is a value-added product means that consumers will pay a higher price, and we should be able to make higher margins in that. Now the rest is you can do arithmetic at some point in time, the gap between milk and value-added product was 5% to 6%. At this point in time, the gap has come down a little bit because we have taken up prices of milk quite a bit. So milk is actually now pretty much profitable for us.



So a gap between milk and value-added products has reduced, and it's only now 2.5% or so. So -- but still, value-added product will always give you a higher return compared to milk. So in our opinion, if currently, we are at around 29.6% of value-added product without ghee and butter because in our -- the reason why we gave two numbers is that internally, we keep value-added products to quote without ghee and butter because the margin profile of ghee and butter is different from the rest of the value-added products.

So whenever I say that the value-added products return higher margins compared to milk, I'm talking about value-added products other than ghee and butter. So the value-added product contribution today other than ghee and butters is 29.6% and including ghee and butter, it is 33.5%. So that 29.6% is what we hope and aim to take to 40% and that 10% swing should definitely help us improve the profit profile of the company as the bucket moves from, let's say, 5% or 6% EBITDA to about 11% to 12% of EBITDA bucket.

Dhawal Dhama: Sure, sir. And my last question is regarding capex. What will be your capex for this year and next?

Sambasiva Rao: Capex for the financial year completed was INR136 crores, that is FY'24. FY'25, current year, we are planning around INR150 crores.

Moderator: The next question is from the line of Resha Mehta from GreenEdge Wealth.

Resha Mehta: Congratulations on a very strong set of numbers, especially on the profitability side. My first question is on the growth rate, right? So last financial year, we have seen a higher kind of growth rate. And do we see -- so even in Q4, we saw that the growth rate kind of tempered a little bit at 16% versus 20% in Q2 and Q3. So now we are cycling such a high dose, did you see any moderation in our growth rate? So let's say, going ahead, could this number from high-teen go to a low single kind of a number or any thoughts around that? And also for this growth that we are targeting, are we confident of achieving the related procurement growth as well? That's the first question.

Srideep Kesavan: Yes. Thank you, Resha. This is Srideep, here. Fortunately, we are in a very attractive industry. And this attractive industry is sitting in a very attractive country. So that's possibly what our biggest strength is, right. The country GDP is expected to grow at 7%, 7.5%, 8%. And in that dairy industry -- dairy sector is supposed to grow or expected to grow faster than that, right? And all estimates given by experts all talk about 11% to 13% kind of industry growth rate.



And our intention is to continue to gain share and grow at a differential rate compared to our peer group. And if you compare our growth rate with any of our competitors, you can see that we are above them, which means that if industry is growing at 11% to 13%, then we should aim to grow higher. We should continue to grow that, right? So I can give you the comfort of tailwind that we have and our determination to make it happen.

Resha Mehta: And related procurement rate?

Srideep Kesavan: Yes. So which, this year, we have grown our procurement in line with our milk market -- milk requirement. So every year, we have -- as it's a steady work that we do every month, we open about 150-odd village-level collection centers, which means that in a year, we opened about close to 2,000 village-level collection centers. And each village-level collection center picks up close to about 180 to 200 liters of milk, which means that every month our procurement is growing in line with our milk requirement or milk demand. I do not see at this point in time -- there is a lot of hard work, but I do not see any challenge or disruption in this journey.

Resha Mehta: Right. The second one is on the margins. Again a two-part question here. The first thing, so milk prices have been largely subdued for the last 18 months, right? And while you've mentioned that, okay, in Q1 we may inch up because of the seasonality factor. But otherwise, we have been largely subdued for the last 18. In the past cycles, what we have seen is that whenever milk pricing remains subdued for a very long time, the farmers, their behaviour changes a little bit, they tend to ignore their animal's health, which eventually leads to drop in productivity and then milk inflation cycle. So how are you people seeing it on the ground in terms of farmer behaviour? And because of this, how do you see the milk prices shaping up both on a long-term perspective?

Srideep Kesavan: Yes. Resha, this is Srideep here again. It's a very, very excellent question and very difficult question to answer because we are talking about large numbers, and many -- India is the largest producer of milk with 6-8 crores people involved in it. And so it's very difficult to predict.

But if I could just call out a few things, which could be in our favor, at least in the near to short term, first of all, even when the prices have come down, it has just come down -- you could say that it is just nipped a bit lower than its peak, and it was not crashed. So the prices have come down, for example, in the last quarter by 7-odd percent. But it is still considerably good or higher than, let's say, Q4 or Q3 of the previous financial year,



which means that as far as the farmer remuneration is concerned, it went up quite a bit, and it has settled down to a sustainable price is the way I'll put it.

So at this point in time, I believe that the producer is happy, companies like us, we are able to make money, and we are able to give the consumers products at affordable prices. So it's -- the equation is actually very well balanced at this point in time, and which is the reason why there is stability for the last many months, and we are hoping that the stability sustains for some time. But surely, like external disturbances and disruptions can happen. But at this point in time, the prices that we are paying to our farmers is quite sustainable on both sides.

Resha Mehta: So you're not seeing in the market where you procure that farmers have started neglecting animal health or anything of that sort, right?

Srideep Kesavan: No. Such things would be seen on news as well. We are not seeing anything. Everything is -- at this point in time, everything is very stable, touch wood.

Resha Mehta: Got it. Right. And lastly, on the EBITDA margin. So just a quantitative data point question here. So if you could call out the EBITDA margins for liquid milk and VAP in Q4 and also for the full year? And also, have you taken any blended price hikes in VAP in Q4?

Srideep Kesavan: I'll answer the second question. We have had market mix changes because of which the prices have changed. You will see that the net realization weighted average -- yes, blended average would have changed, but we have not taken any price increase as such.

Resha Mehta: Okay. So for entire FY'24...

Srideep Kesavan: Resha, to your first question, I think CFO is answering.

Prabhakara Naidu: This is actually for Q4, milk margin is 8.97%, and VAP margin is 10.48%.

Resha Mehta: And for the full year?

Prabhakara Naidu: For full year, milk margin, 6.34%; VAP 9.75%.

Resha Mehta: Right. And just a clarification for no price hike have been taken...



Moderator: Ma'am may we request that you return to the question queue. There are several participants waiting for their turn, please. The next question is from the line of Sanika from Sapphire Capital.

Sanika: Like -- since you said that we're going -- we are targeting higher growth. So what kind of growth are looking from the value side? And what kind of growth are we looking from the volume perspective?

Srideep Kesavan: Yes. This is Srideep here again. Sanika, this year, the raw milk prices have stabilized, we are not expecting a lot of price increase to happen on the consumer side. So a large percentage of the growth will have to be driven through volume growth. That's what we foresee. I hope I've answered your question.

Sanika: Yes. So like this 15% to 20% growth, can we expect this kind of growth on a year-on-year basis going in quarter 1 and kind of 7.5% to 8% EBITDA margin?

Srideep Kesavan: So for volumes growth, we have been delivering the level of volume growth in value-added products for some time. Milk is a product category where we need to accelerate the growth as well. And that also is an upward trend. There is a lot of work that we are doing, both on distribution side as well as on the consumer side to make sure this happens. For example, you have seen in the report itself that we have added close to 400-plus distributors in the quarter, which is going to help us in quarter 1 and beyond. We continually expanding our presence in the market through distribution initiatives. We have added tens of thousands of retail outlets.

We have entered new channels of distribution. For example, in Tamil Nadu, we have opened several new towns where we were not present earlier. So that's the continuous work that we are doing. And on the consumer side, we are investing now consistently on the marketing side to create consumer demand. And that's also helping us drive differential offtake from the stores compared to our competitors. So we are gaining market share as well at the same time. So it's a combination of these, which should help us continue the growth journey.

Moderator: The next question is from the line of Sameer Gupta from India Infoline.

Sameer Gupta: Just wanted some colour on the current state mix in terms of sales. If exact data you cannot give, any flavour that you can share will also be great. This is for FY'24, I'm asking.



- Srideep Kesavan:** Sameer, you're quite anxious to know, but we are also trying to be disciplined.
- Sameer Gupta:** I understand, sir.
- Srideep Kesavan:** Our compliance officer is sitting next to us.
- Sameer Gupta:** Any flavour will also be helpful, sir. Just wanted to understand, it's been some time since we tracked it.
- Srideep Kesavan:** I tell you that our core markets are growing at healthy numbers, and our noncore markets or frontier markets, all the developing markets are growing much faster. That's all I can say at this point in time. And it's a healthy mix at this point in time.
- Sameer Gupta:** And just a follow-up here. Any new states you might have entered in the last 2 years?
- Srideep Kesavan:** We had mentioned that we have entered Odisha. Odisha is a market that we entered in this quarter, quarter 4 of FY'23.
- Moderator:** The next question is from the line of Govindlal Gilada, who is an Individual Investor
- Govindlal Gilada:** I have got only one question. A few days, exactly on 28, there was webinar organized by CRISIL. In that one of our official, I don't remember his name was represented in this webinar...
- Sambasiva Rao:** Please go ahead.
- Srideep Kesavan:** Yes, yes, please.
- Govindlal Gilada:** So there was a statement from one of our representative who had represented in this CRISIL webinar that this year, dairy is growth story of this decade, so that I want to just -- can you elaborate on that decade of dairy growth story, what exactly, some elaboration can give on this, sir?
- Srideep Kesavan:** Yes. So see, I think that is a figure of speech. The idea is that this is what I was just saying some time back that in India is expected to have a continued consistent GDP growth for the next many years to come, and we are growing at a rate of 6% to 7%, which means that if the economy is growing at that rate, then dairy industry is expected to grow faster. And here are the reasons why.



Number one, a large percentage of dairy sector is still unorganized. In fact, close to about 55 percentage of the dairy sector is still unorganized. So there is a constant shift that we are seeing from unorganized to organized. I had mentioned this answering to another question earlier. For example, product such as curd, it's only 8% to 9% is organized.

Ghee, only 18% is organized. Paneer 4% is organized. Even milk, only 40% is organized. So the shift from unorganized to organized is what is helping dairy grow faster than the economic growth of the country. Secondly, the consumers are becoming more and more health conscious. And in India, 40% of consumers are vegetarian. The primary source of nutrition or protein for most of these consumers is milk or milk products, which means that actually, like we are seeing that in India, the protein consumption still is way below the requirement. That is another thing which is going to drive growth of dairy products.

The third reason is the dairy is very versatile. See, unlike any other food category or any other FMCG category, which only plays in one opportunity or one occasion. Dairy plays across many occasions, from the morning tea or coffee until lunch or dinner, even snacks, even sweets. So sweets -- organized sweets is a fast-growing category. Ice cream is a very fast-growing category. Everything is made from dairy.

So the number of occasions that you count in a day, you can have a dairy is enormous, even ghee, which is a cooking medium, butter. So it's boundless, which is the reason why I think there was a general opinion that we are just going -- we are going to witness a very fast-paced growth in the dairy sector.

- Moderator:** The next question is from the line of from Kruttika from Sharekhan by BNP Paribas.
- Kruttika:** Just one confirmation. We said that the Q4 bulk fat loss is of INR14 crores. So for the full year, they were INR47 crores. Am I right?
- Sambasiva Rao:** Sales growth. And then second part, I couldn't hear you.
- Kruttika:** Bulk fat losses for the Q4 it was INR14 crores. So for the full year, was it INR47 crores, if I'm right? Around INR45 crores, INR47 crores?
- Prabhakara Naidu:** INR49 crores.



- Kruttika:** Okay. So excluding the bulk fat, our margin for the year, would that be around 6.8%, is that calculation correct? You said it's 5.5%. So if we exclude these losses...
- Srideep Kesavan:** Krutika, this is Srideep here, so bulk fat contributed close to about 1 percentage of the loss, okay? It's slightly at that of a 1.1%. So if you look at the margins without the bulk fat, then you can add that back.
- Kruttika:** Okay. Also, sir, regarding the fat, what we are expecting for FY'25? So are we expecting that the fat products sales will likely to decline because we have shown a very strong growth in FY'24. So for FY'25, what are we expecting?
- Srideep Kesavan:** Impact on the sales?
- Kruttika:** Yes, revenue from the fat product.
- Srideep Kesavan:** Your question is on revenues or on volumes?
- Kruttika:** Revenue.
- Srideep Kesavan:** Yes. So yes, that is something that we are aware of. And hence, our intention is to continue to drive growth in the core categories where we are focused on like whether it is curd, paneer, flavoured milk, milkshakes, ghee, cheese, milk primarily. So these are all the core categories that we are trying to continue to drive and sustain the growth rate that we expect.
- Kruttika:** Okay. Sir, the last question. What will be the VAP volume for Q4 and for FY'24, VAP volume growth for Q4 and for the full year?
- Sambasiva Rao:** Volume growth VAP it is about 20%. And the value growth 32% in Q4. Full year, it is 13% growth in volume and 19% growth in revenue.
- Moderator:** The next question is from the line of Dhwanil Desai from Turtle Capital.
- Dhwanil Desai:** Am I audible?
- Srideep Kesavan:** yes, sir, please go ahead.
- Dhwanil Desai:** So Srideep, my first question is, I think we have been having discussion around fat losses or gain. And I think you have explained in earlier calls and interactions that it's very peculiar for every company to have very different profiles on that. And we are



working on 3 or 4 initiatives to ensure that over a period of time this fat loss or gain part is minimized.

So can you update on that, whether it is introduction of gada milk or selling more butter and ghee, or changing the milk buffalo and cow mix. If you can update on that? And any timeline where we would be able to kind of you move away for these fluctuations on the fat side of it?

Srideep Kesavan:

Thank you, Dhwanil. Actually, I'm very pleased and surprised that you remember exactly the conversation that we had and the points that we discussed. So yes, so there are three interventions that we can have. One is on the supply side, right? Supply side intervention is the shift from the proportion from buffalo milk more towards cow milk. It actually reduces the incoming fat into the company. And we have actually made good progress on that in this financial year, actually, when we closed, the contribution of cow milk has increased by 3%, right? And that is something that is significant when we are procuring 15.5 lakh liters per day.

The 3 percentage is something that really makes a big difference, big impact over a period in time. So you should realize that the fat difference between cow and buffalo milk is close to 2.5% to 3%. So that's the first initiative. So that's something that we are working on -- we have been working on for some time and it's yielding results. The second, I'm not sure if you have received the investor presentation.

In the presentation itself, we have shown that we have launched so many products which is like higher fat products, which is helping us take this -- the incoming fat out into the market. In addition, we are also growing our ghee sales steadily and ghee and butter, which is on the consumer side, this is something that is growing steadily, and I called out some numbers earlier that from 500, 600 tons per quarter, now it is 800, 900 tons per quarter. So that's also -- these are all the initiatives that we are taking to ensure that over a period of time, we tied over and we do not have this problem.

Dhwanil Desai:

And second question, so whatever our aspiration is of reaching, let's say, INR6,000 crores number over a period of time. So are we factoring in growth in the existing states? Or it's also considering entry into -- meaningful entry into newer states? If you can talk a bit about that.



Srideep Kesavan: Yes. It will be a mix of all. So we will continue to, like I mentioned, we just entered Odisha market. So we are looking both geographic as well as entering into a new state, but we are also looking at entering into newer markets in existing states. So we are now expanding our reach into Tier 1 cities, Tier 2 cities, which is where we are seeing a lot of growth as well. So that's the geographic expansion definitely is in place, is part of the plan as well as going deeper in the existing geographies and cities where we are operating.

Dhwani Desai: Okay. But the larger part of growth will come from the existing geography. getting denser. Is that how you look at it?

Srideep Kesavan: Yes, you could say that.

Moderator: The next question is from the line of Aditya from Securities Investment Management.

Aditya: Sir, my first question is on our inventory. So this year, our inventory has reduced considerably, while I look at your other two south-based players, they have almost doubled their inventory. And they are talking about taking advantage of the low-cost milk situation which we are currently witnessing. So what is our strategy on inventory, if you could just elaborate?

Sambasiva Rao: Our inventory on butter has been much lower than the last year's. So that is to our advantage, we visualize. The other inventory of milk powder, value is low because the price is lower. Per ton price is lower this year significantly. So the quantity required for our internal consumption is available. So we are comfortable with the inventory buildup we have for company's requirements. We don't have any surplus inventory, which we have to sell out in terms of butter, in terms of SMP.

Prabhakara Naidu: And finally, just to add. So previously also, we mentioned, I think it was in the Q2 call, we had mentioned that we do not do speculative trade. So we don't do that. So we are not speculating and buying. Last year also, we bought enough to cover us till December, the SMP. This year also, it's exactly the same.

Aditya: Sir, but as our strategy, don't you want to take the advantage of these low prices, which we are currently witnessing because in Q1 or Q2, when the prices increase, you could take advantage of this low-cost inventory what the other players are doing instead of buying from spot.



- Srideep Kesavan:** It's a good question. At this point in time, monsoon is very good. So we are expecting the milk production to be very good. And if that happens, then?
- Sambasiva Rao:** Yes, it's a double-edged weapon, in can go either way. So we chose not to do speculation
- Srideep Kesavan:** Good production prices to come down further. So anyways, I don't want to comment on that. Let's not see the point is that as you're investing in our company, I would like to assure you that we won't give speculative surprises, yes. So we are trying to build the business on a more robust predictable model.
- Aditya:** And sir, generally, in Q1, we see a spike in prices in milk procurement. So have you seen a similar spike this year or the increase has been very limited in the procurement prices? And secondly, we see how is the cow flush progressing for us this year?
- Sambasiva Rao:** Yes. As we discussed earlier, Q1 discussion, we'll have next time, please.
- Aditya:** So I'm talking about procurement prices, how are they been trending as compared to Q4?
- Srideep Kesavan:** The prices are stable, but in Q1, always, there is a little bit of price increase which happens. So we are witnessing that. Nothing out of the ordinary.
- Moderator:** Ladies and gentlemen, that is the last question for today. I would now like to hand the conference over to Dr. Rao for closing comments.
- Sambasiva Rao:** Yes. Thank you all for participating in this earnings call today. I hope we were able to answer your questions satisfactorily, and at the same time, offer insights into our business. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations manager at Valorem Advisors. Thank you.
- Moderator:** Thank you. On behalf of Heritage Foods Limited, we concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank You

--0--