Ref: SECT: STOC: 12-25

27th January, 2025

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

Scrip Code: 519552

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: HERITGFOOD

Dear Sir/Madam,

Sub: Transcript of Conference Call with the Investors/Analyst held on January 23, 2025 -reg.

In Continuation of our letter dated January 10, 2025 the Company had organized a conference call with the Investors/Analysts on Thursday, January 23, 2025 at 10.30 AM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been available on the Company's Website at www.heritagefoods.in.

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

Thanks & Regards,

For HERITAGE FOODS LIMITED

Umakanta Barik
Digitally signed by Umakanta Barik
Date: 2025.01.27 10:51:13 +05'30'

UMAKANTA BARIK
Company Secretary & Compliance Officer
M No: FCS-6317

Encl: a/a

About Heritage Foods Limited:

Heritage Foods Limited (NSE: HERITGFOOD; BSE: 519552), founded in the year 1992, is one of the India's leading value-added and branded dairy products companies. Heritage Foods' milk and milk products, such as Curd, Ghee, Paneer, flavored milk, among others, are consumed by more than 1.5 million households in 17 states across India. Heritage Foods enjoys strong brand affinity with its consumers and is primarily known for its product authenticity, quality and freshness. It also enjoys long-term relationships with over 0.3 million farmers and has a vast distribution network across the country, comprising 7,200+ distributors and agents. The Company is ESG responsible and has a total renewable energy generation capacity of 11.70 MW from both Solar and Wind for captive consumption within its dairy factories.

HERITAGE FOODS LIMITED

Q3 and 9 Months FY '25 Earnings Conference Call

January 23, 2025

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

INVESTOR RELATIONS REPRESENTATIVE:

MS. Garima Singla – GO India Advisors

Moderator: Ladies and gentlemen, good day and welcome to the Heritage Foods Q3 and 9 Months FY '25 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 touch-tone phone. Please note that this call is being recorded.

I would now like to hand the conference over to Ms. Garima Singla. Thank you, and over to you, Ms. Garima.

Garima Singla: Thank you. Good morning, everyone. I am Garima Singla, and it's my pleasure to welcome you all on behalf of Heritage Foods Limited. Thank you for joining us today for this earnings call where we will discuss the operational and financial performance for quarter 3 and 9 months of FY '25. This call is hosted by Go India Advisors.

Please note that today's discussion may include forward-looking statements. Therefore, they must be viewed in conjunction with the risks that the company faces. We are joined today by Mrs. N. Brahmani, Executive Director; Dr. M. Sambasiva Rao, President; Mr. Srideep Kesavan, CEO; Mr. A. Prabhakara Naidu, CFO; Mr. J. Samba Murthy, COO; Mr. Upendra Pandey, CEO of Heritage Nutrivet Limited; and Mr. Umakanta Barik, Company Secretary and Compliance Officer.

So, without any further delay, I now hand over to Dr. Rao to present the company's business outlook and performance, after which we will open the floor for Q&A. Thank you. And over to you, sir.

M. Sambasiva Rao Thank you very much. Good morning, everyone. Welcome to Heritage Foods Limited earnings call for quarter 3 and 9-month period ending financial year '25. As we approach India's 76th Republic Day, I extend warmest greetings to all. The financial results and earnings presentation have been uploaded to the Exchanges, and I trust you have had a chance to review them. Heritage Foods set an extraordinary benchmark over the last 3 decades by completely transforming the dairy industry.

With an impeccably robust integrated supply chain, a cutting-edge omnichannel presence and the revolutionary federated supply chain model, we ensure that every product reaching consumer is nothing short of perfection, always fresh, of the highest quality and delivered with unmatched consistency. We have been focused on building a strong portfolio of products which meets our consumer requirements across seasons and at the same time build a strong consumer engagement with Heritage brand.

I'm happy to report that today Heritage has one of the most diverse product ranges. Our value-added products now account for a substantial 28% of the total revenue, underscoring the continued strength and momentum of this high-growth segment. In anticipation of the festive season, we launched a series of dynamic consumer promotions and high-impact advertising campaigns, including a compelling TV campaign and an exciting scan-and-win promotion across our ghee and sweets range, further accelerating the growth of our VAP, value-added products.

Our commitment and connect with the farmer community is our biggest strength and sets us apart in many ways. Since our inception, we have had no milk holiday. We have had no milk holiday. And no farmer has ever been turned away from our milk collection centres. We have ensured full transparency in collection with fair pricing based on measurement of solids delivered and efficient thrice a month or twice a month payment, which help us build a strong community of over 300,000 farmer families.

We have empowered them with veterinary care, advanced nutritional guidance and industry-leading best practices. All of this is done while harnessing renewable energy to significantly shrink our carbon footprint, underscoring our commitment to a better tomorrow. Heritage has established a robust and expansive integrated network with a presence across 7,200 distributors, more than 180,000 retail outlets, about 25 modern retail chains and 16 e-commerce platforms, ensuring widespread accessibility to its products.

Additionally, the brand operates 859 Heritage parlours and 352 Happiness Points strategically placed within its own network, further strengthening its market reach and enhancing consumer engagement. The Indian dairy market is on the verge of an explosive growth surge, with a stellar 9% overall CAGR and the value-added products category growing at 20-plus annually.

India, already responsible for an impressive 25% of global dairy production, holds immense untapped potential, as its per capita consumption remains strikingly low at 81 kg per year, far below the 200-plus kg per year seen in developed markets. This stark consumption gap presents an unprecedented opportunity for organized players like Heritage to lead the charge and completely redefine the dairy landscape in India.

With the nation's expanding middle class driven by rising aspirations and the unorganized tech sector still commanding 60% of the market, Heritage stands poised to capture and accelerate this growth, positioning itself as an important player in India's dairy revolution. This is a once-in-lifetime market opportunity, and Heritage is primed to capitalize on it in a way that will reshape the industry for generations to come.

With high-asset-turnover products such as milk and curd, Heritage Foods is not just well positioned but perfectly poised to generate exceptional returns on capital employed far exceeding industry standards. Even with the inherent seasonality of the dairy sector, we have consistently demonstrated unmatched resilience by effectively managing fluctuations, converting excess milk into premium-quality skim milk powder to ensure uninterrupted supply during lean periods.

We have crossed INR10,000 million turnover for the third consecutive quarter. This quarter, we saw extraordinary demand for butter and ghee driven by festive celebrations, which significantly boosted our performance.

I'll now present some important operational highlights. We procured an impressive 18.38 lakh litres of milk, a substantial increase from 16.32 lakh litres last year. Our dairy milk sales reached an all-time high of 1,169,000 litres per day, marking a remarkable 6% year-on-year increase. Curd sales experienced an outstanding growth of 12% year-on-year, reaching 380 metric tons per day, while our value-added products volumes saw a surge of 14.3% year-on-year and 17.6% increase in revenue, generating INR2,874 million in revenue.

On the procurement front, we were able to secure milk at an average price of INR41.91 per litre, 2.7% lower than last year, enabling us to keep milk prices stable while maintaining our confident outlook. The average selling price remained flat at INR54.64 per litre in quarter 3 compared to INR55 per litre last year.

Now moving on to the financial highlights. On a consolidated basis, revenue from operations grew by an impressive 10%, reaching INR10,339 million. EBITDA for the quarter 741 million, reflecting 43% year-on-year growth, with EBITDA margins expanding to 7.2% from 5.5% in quarter 3 financial year '24. Profit after tax for quarter reached INR431 million, reflecting 60% year-on-year growth, with PAT margins expanding to 4.2% from 2.9% in the quarter 3 of previous year.

In addition, Heritage Nutrivet Limited, our wholly owned subsidiary, has also been a major contributor to our overall success, delivering strong growth with 15% increase in revenue to INR509 million, coupled with a 172% rise in PBT which tallied to INR56 million. We are committed to creating superior shareholder value and appreciate your strong support.

With this, I conclude our updates for quarter 3 and 9 months for the financial year '25 and now open the floor for interaction. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Sameer Gupta with India Infoline.

Sameer Gupta: Sir, firstly, there has been some firming up in procurement prices. It's up 4% on a sequential Q-o-Q basis. Generally, we see third quarter as a buffalo milk flush quarter. And there is an assumption that prices will dip...

Moderator: Sorry to interrupt, sir. Sir, may we request you to keep your handset little away?

Sameer Gupta: Okay, sir. So, basically first question is that there has been some firming up in milk procurement prices. On a sequential basis, it's up 4%. And generally, 3Q is a buffalo flush season, so one expects some dip here. So has there been any firming up of milk procurement prices for you? Or is this more of a mix change in terms of regions, buffalo-to-cow mix, etcetera? And what is your outlook going forward for milk prices?

Srideep Kesavan: Thank you, Mr. Sameer Gupta, for the question. This is Srideep Kesavan answering your question. So, you're right, quarter 3 is usually a buffalo flush season. And buffalo milk prices sequentially has come down by INR2.71 for us, per litre, INR2.71 drop, average buffalo milk prices, for us in Q3 over Q2. And -- but we have seen a marginal increase of INR0.3 or INR0.30 per litre increase of cow milk prices in Q3 over Q2. And this has mostly happened in Maharashtra and other cow milk regions for us.

The overall increase of INR1.66 per litre has happened because of mix change. With Q3 flush, more has shifted towards buffalo milk. That said, your second part of the question is what is the outlook on prices. Usually, from now onwards, prices usually firm up, so we are expecting the prices to go up. You -- I think we are all expecting prices to go up at least by INR1.5 to INR2 over the next several months. And the transition from flush to lean happens in various stages across various regions, so the net effect will be a weighted average of all of this.

Sameer Gupta: Sir, my question was more on the weather vagaries or nitty-gritties or exceptions. I know that this is a lean season and prices generally firm up, but are there any unusual aspects to the milk procurement this time? Like the last few years have been impacted by external events. Are there any such thing that you have been noticing?

Srideep Kesavan: Nothing we are noticing. There's nothing. Everything is fine. I think the rains have been very good. There is a lot of green fodder that's available in the rural markets. The concentrated feed consumption has gone up across the world. And we are seeing a normal flush, so I don't think there is anything. The only reason why prices might firm up is natural course because of overall cost increase across fuel and other things and all of that. So, it's a normal thing at this point in time. We are not witnessing any shortfall of milk.

Sameer Gupta: Got it, sir. Second question is can you help me with the amount of bulk fat sales this quarter. I think it seems to be on the higher side this time.

Srideep Kesavan: I will hand over the -- see. Before I hand over to our Chief Operating Officer, Mr. Sam Murthy, who will help you with the answer: One should realize that Q2 and Q3 usually are months when we liquidate surplus fat because we do not carry forward fat. That said, if you see sequentially, our fat sale and -- on B2B has actually tremendously come down. I think Mr. Sam Murthy will give the numbers.

J. Samba Murthy: Q3 fat sale is -- bulk fat sale is about INR54.66 crores compared to last Q3 of INR52.17 crores, almost same compared to the previous year.

Sameer Gupta: Got it, sir. This is helpful. I'll come back in the queue...

Srideep Kesavan: In terms of -- yes. In terms of if you compare it, like, last year, INR52 crores was out of INR941 crores of revenue for dairy division. In terms of percentage, this has come down significantly lower, now INR54 crores upon INR1,019 crores.

Moderator: The next question is from the line of Aniruddha Joshi with ICICI Securities.

Aniruddha Joshi: Sir, thanks for improved presentation which is very helpful. Sir, in terms of questions. So how should we see milk prices moving in FY '26? Because we have seen, in a way, almost 2 years of lower milk procurement prices, so a natural -- as naturally, cycle should turn upwards and we should see inflation in milk procurement prices. So, are we seeing on that trend? Or do you see the milk procurement prices may still remain at the lower levels on a year-on-year basis. That is question one.

And secondly, in terms of price hikes, where is the company? Because we have seen cooperatives raising the prices, but so far, we have not yet seen the private players hiking the prices. So, what is our take on the price hikes also?

Srideep Kesavan: Shall I answer? Okay. So, this is Srideep here. Aniruddha, thank you for your question. We are -- yes, from Q1 -- I think Q1 of last financial year was when we had seen a peak in terms of milk prices. As far as Heritage was -- Heritage is concerned, our prices, milk prices, had peaked to about INR44.78 in Q1 of FY '24. And now it is about INR41.91, so we are roughly INR3 lower than the peak that we have seen in Q1 of FY '24.

So, you are right. For the last almost 6 quarters, prices have been sequentially coming down. And this is the first month when we saw a slight turn of events. So, basically you could say that we are at the beginning of taking a U-turn, which is why I said one should expect at least a INR1.5 to INR2 price increase on an average basis, weighted average basis, over the next few months.

When will it happen? Will it happen in Jan, Feb, March and all is a timing issue of when the flush transitions to lean and also a weighted average of the procurement that we have from various regions, but I think roughly, around INR1.5 to INR2 per litre, we should expect despite supply not being a constraint. So, while Q1 of FY '24 was an aberration because there was a supply constraint, supply demand mismatch, this, I believe, is a normal course of events.

So, INR2 upon INR40, you can imagine, is about 4 to 5 percentages of annual inflationary impact that we should see over the next few months. I don't think that there's any surprise in there. As far as the market prices are concerned, I take note of the point you are making that cooperatives have increased the prices. Frankly, we are not aware of it because -- I think it was sometime beginning of this calendar year, last calendar year, 2024, that some of the leading cooperatives had increased prices by INR2.

And that too was mostly in Mumbai and Delhi and all. In our markets or rather actually after that particular point in time, nobody has increased prices. So as far as Heritage is concerned, we are maintaining the same prices as in Q2 of FY '24, so for the last 6 quarters, we have maintained the market milk prices. Obviously, everybody knows that, that is not possible going forward, so we are looking at price increases as well.

Aniruddha Joshi: Okay, sir. That's helpful. Second and last question. Some years ago, we had introduced multiple value-added products like Mamie Yova, Yo PoP, Alpenvie ice cream. Even we had tried cheese also in a -- value-added cheese variants also, so I guess -- any updates on that? And considering we are going geographically -- so whether it will be geographical or product growth or it will be geographical plus product growth as well. And any update on all these new products that you have done?

Srideep Kesavan: Yes. So, we have a -- you can call it like we are a full-portfolio dairy player. So, we have everything from milk to ice creams. We play across fresh category. We play across ambient value-added product category. We also play across frozen ice cream and other categories, right, so -- and except for frozen category, we have all other categories across all our locations, whether it is Maharashtra or North of India.

And the products that you spoke about, cheese: Of course, cheese is -- we are selling cheese in all markets. Cheese is a much smaller category for us at this point in time, but it is something that is growing in leaps and bounds. So, as you can expect, while milk grows at 5.5%, 6% year-on-year, the value-added products are growing at 14% to 17%, depending on the period of the year.

And within value-added products, while products like curd and all are growing at 12.5%, products like paneer and cheese are growing anywhere between 50% to 70%. So, the smaller the categories, the faster they are growing. And we are seeing robust growth across all categories of our value-added products. I hope I've been able to answer the question.

Moderator: The next question comes from the line of Disha Giria with Ashika Institutional Equity.

Disha Giria: So, I have a few accounting-related questions, and a few market share related questions. So firstly, can you just let me know, what is the ice cream business revenue for the quarter?

J. Samba Murthy: Yes. Revenue for ice cream, INR15.94 crores. Q3.

Disha Giria: Okay. Then secondly, So, there has been around 24.81% increase in our other expenses and around 177.46% year-on-year increase in our other income. So, what is the reason behind it?

Srideep Kesavan: So, this is Srideep here, CEO. Before I speak on the other expenses, I'll request our CFO, Prabhakara Naidu, to speak to us about the other income.

A. Prabhakara Naidu: Yes. This is -- other income is related to mainly -- we have actually surplus funds, which we have kept it in liquid mutual funds, which is giving us in this quarter around 7.34% of gain. So that is the main actually other income that -- entire 9 months actually, INR13.1 crores on account of gain on mutual funds we got it. So other income is because of the gain on mutual funds.

Srideep Kesavan: Right. I hope that is clear, Ms. Disha. On your question on other expenses -- yes. So, the expense that you read out in terms of increase is actually on absolute -- sorry. Let me rephrase that. The expense increase that you referred to is on absolute cost increase, and a large part of it is because of the revenue growth. So, if I could just read out the heads that come under other expenses. They are freight, power and fuel, selling and distribution, stores and spares and consumables, rent, repairs and maintenance, etcetera, etcetera.

So, as you can make out, most of these are directly linked to our business. As the business grows, they will grow. So currently our business in this quarter has grown at about 10.9% on our consumer side of the business which is keeping aside the bulk fat that we sell. So about 11 percentage on a year-on-year basis, you should -- the expenses to go up because of the variable cost nature of it. There'll be a little bit of efficiencies that come in, but that gets mostly all counteracted by the cost increases because fuel is increasing.

Power is increasing. Labour charges are increasing, etcetera, etcetera, right? Now apart from that, we have seen about -- on a percentage to revenue basis, we are seeing 2 aspects. One is that power and fuel as a percentage to revenue has gone up by about 0.2%. And that is a function of -- one, a function of unit cost increasing in terms of electricity and our tariff increase. Second, in terms of the -- some of the market spread and the market mix that is changing for us.

Rather than being -- that's actually good for the business because we are de-risking by spreading our geographical footprint, right? The second aspect is that our sales promotion and marketing expenses on a percentage basis has gone up by about 0.3%. And that's also something that we are -- you could say that we were pretty much aware of. So, in quarter 3 of last year, sales and -- sales promotions and marketing expenses used to be about 0.6%.

Now it is standing at about 0.95%. Certain investors who have been following us for a long time will know that we had very clearly, explicitly mentioned earlier that we want -

- we would be looking at spending about 1 percentage of our revenue in marketing expenses. And this is what is primarily driving our revenue forward despite the headwinds that we are seeing in terms of the general economy.

Despite the headwinds we are seeing in terms of adverse weather conditions. So, at this point in time, I'll believe -- I believe that all these promotional and marketing expenses increase of about 0.35 percentage as percentage of revenue has helped us gain more consumers, gain more consumption occasions and sustain our revenue growth so that -- when the market bounces back strongly, I think we'll be on top of it.

Disha Giria: All right. That answers my first question. Coming on to my second question that is could you give some sense on what is your market share, especially in the newly opened markets of Eastern India.

Srideep Kesavan: That's very, very, very -- see. In fact, actually, we are not measuring any market share at this point in time in these new markets because we are very insignificant in these markets. So, at this point in time, we are not measuring. We are working with what we call as metrics. There are business milestones that we have set for every quarter to achieve, and we are fairly on track of that.

We've just launched these markets 2 quarters back, so it's very -- nothing much to talk about, as far as those numbers are concerned, but as far as our regular core market -- core and other markets are concerned, we have gained market share. We are subscribing to several syndicated tracks, as well as we have our own tracking. Both are showing strong market share gains in our core and adjacent markets.

Disha Giria: On a year-on-year basis?

Srideep Kesavan: We are across different categories, right? So, if I can say that, we have seen more than a percentage gain in value-added products and primarily led by curd and paneer.

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

Digant Haria: So, I have 2 questions, 1 for Srideep. And 1 is on the cattle feed business. So, the first question, Srideep, is that you mentioned that we are about to enter a lean season and the flush season may be ending. And the opex of our company has generally been growing at a higher clip than our revenue because of all the marketing initiatives and expanding our -- the network and the delivery infrastructure, so have we seen the margin peak for now?

Like we have already seen 50 bps of gross margin erosion in this quarter and some erosion in the operating margins. Do we expect that next 6 months will probably be a little more tougher on the margins?

Srideep Kesavan: Okay. You said you have another question on the feeds business also. Will you be asking that later?

Digant Haria: Yes. Maybe I'll just ask it right away, that we have seen a big improvement in the performance of the cattle feed division. So, is it largely to do with the raw material? Or has it been our own initiatives? Any colour on that would be great?

Upendra Pandey: So, the improvement is mainly because of two reasons. One is as you rightly highlighted the raw material prices which was quite favourable in the last few months. At the same time, I would say 50% contribution has come from improvement in the operational efficiency. So multiple initiatives we took and those have started contributing. That has led to improvement in the margin part.

Srideep Kesavan: Right, yes, yes. So, on the question on margins. So, every quarter – see we have within dairy, there are 3 subsegments, right? One is milk. The other is value-added products. And the third is fats, consumer fats and bulk fats. Let me call it fats. And the mix of these or the ratios of these change in each quarter. In quarter 1, usually value-added products have tremendous contribution. Now value-added products include products such as curd, butter milk, flavoured milk, milkshake, ice creams.

These are all very highly summer-dependent products. And it also includes other product categories which are growing but still small, like paneer, cheese, doodh peda and other sweets, right? Now paneer, cheese, doodh peda, sweets, etcetera are, you could say, fairly non-seasonal. They sell throughout the year. And sequentially -- because these are small businesses, sequentially they are growing.

Every quarter, compared to previous quarter, we are growing in these categories, but the larger value-added products, whether it is curd, butter milk, flavored milk, ice creams, etcetera, are highly seasonal. And which means that quarter 1, you'll always see a surge of these products. And quarter 3 will be the rock bottom, as far as these products are concerned. Fats, on the other hand, usually surge during quarter 3. Quarter 3, October through December period is when ghee, butter and all is a festive period. That is when ghee, butter and all sells.

Now it is very important for us to ensure that the margin profiles of each product category is protected or improving. Now if you look at the value-added -- if you look at the milk gross margins, compared to Q1, we have been able to improve the gross margins of our milk by about 1.2% in quarter 3, right? This is despite a little bit of a sequential price, raw milk price, fluctuation.

In terms of fat products, we have improved the gross margins by 12%, okay, on fat on fat, right? The only area where we have seen a kind of a gross margin decline is in value-added products and that is only because of the mix change. Now because ice creams, like Mr. Samba Murthy read out earlier that while we do about INR100 crores, INR110 crores of annual revenue of ice creams, this quarter is only INR15 crores. So when something like that happens, you have a certain number of -- a certain percentage of costs that are loaded in terms of volumes.

The variable costs actually increased because of fewer units being produced, distributed, etcetera. Because of this, the value-added products come down in terms of margins. And also the mix also changes far more towards milk and fats, which are lower in gross margin. Other than that, we are not seeing any structural problem -- and plus, the marketing costs increasing by about 0.35 percentage that I spoke about earlier. Other than that, there is nothing structurally changing in the business.

The business is strong. Fundamentals are good. In fact, actually we are very confident that we are going to enter Q4 and next year, Q1, in a much, much stronger footing than we were ever before. Because whatever -- let's say for example if raw milk prices increases by INR2 or something, we are on the verge of increasing our market prices as well, and that will be easily absorbed.

We are entering a season where value-added products are going to come up, surge again, so the ratio will again swing back to as it was earlier. I hope you understand, right? So you can't compare sequential margins. I invite you and all other investors to look at year-on-year comparison of quarterly margins. And you will see that your company is actually performing strongly on a year-on-year basis.

Digant Haria: I wish you all the best. This is the first time that we are probably entering a lean season and we are still confident of maintaining or improving margins, so it will be very heartening to see that happening over next few quarters. All the best to the team.

Moderator: The next question is from the line of Pratik Kothari with Unique PMS.

Pratik Kothari: Sir, first question, this -- I mean, first of all, thank you for the change in presentation. It's much more detailed and informative. First, on this VAP, right, so in over 3 years, we plan to take this from 30% to 40% in -- I mean subsequently our gross margin also should improve. But in subsequent slide, you have mentioned that we intend to maintain these operating margins in this level of 7, 8-odd. So this delta in gross margin that we'll achieve -- I mean, how do we intend to spend this, given that it wouldn't pass to the operating margin line?

Srideep Kesavan: Okay. So thank you, Mr. Kothari. So it is correct that we are -- we intend to take our value-added products to 40 percentage contribution of our revenues. And you are yourself witnessing in the last 3 or 4 years consistently how it has improved. If you analyze our last 3-year numbers, you will see that for sure, right?

Every quarter also, we are -- I don't think that in recent -- any of the quarters, we have talked about value-added products coming down in terms of margins. Now that said, first of all, we do not give any guidance. And whatever I'm telling you should not be even taken as guidance, but because you asked such a question and it is -- yes?

No, but I don't want to give it as guidance. The reason is that -- so the numbers that you are referring to is you could say an all-weather fair number because now you know you operate in an industry which is cyclical in nature. We operate in an industry where 75 percentage of our cost is actually sitting in raw material. And we have seen how -- while fluctuations have happened.

We are at this point in time coming off a peak as far as the margin profiles and potentials are concerned. We have seen how there is a gap between raw milk price increases and market milk price increases happens. There is a small delay in passing on the price increases and cost increases to the consumer. We have also seen how our GDP rate of growth has slightly slowed down and has hit the consumption numbers, etcetera, across board, especially the consumer companies.

Now all of that said, I'll hope that you will look at the fundamentals of the business. And each and every fundamental number of the business and whatever we have transparently communicated to you will continuously keep improving, which is why on a relative scale I believe we'll continuously perform better than the past.

Now whether it will be 7%; tomorrow if market is conducive, it can even be 9%, but those are all statements that we wouldn't want to make. So hence, it is not a speculative number and it is an all-weather, all-season fair number assessment. And we have always maintained that we would like to look at the EBITDA margins in 8%. The question earlier was that that was not happening. Now we are all the more confident that we'll be able to deliver that. That's the way it should be looked at.

Pratik Kothari: Correct. So actually my question was that, even at 30% mix, we are achieving that. And our plan is 3 years out, I mean when VAP goes up and subsequently the gross margin also goes up, so this delta, do we intend to keep for ourselves...?

Srideep Kesavan: I understood your question, Mr. Kothari. What you're saying -- I understood your question. Your question is at 30%, if we are at this level, at 40 percentage, we should be much better. Why are we only saying much better…?

Pratik Kothari: We can be much better or you can use that to invest.

Srideep Kesavan: Yes. So you should expect all of that to happen. So we are expecting -- see, there are many -- if I were to unpack that, I'll say that at this point in time -- someone earlier, Disha, had asked this question about operating expense increases. Now when others are all growing in single digits, how is our company growing at 11%? So I'm saying that there are some expenses that we need to incur to keep these headlines growing as well, right?

So at the same time, we are investing to create capacities in value-added products, whether it is ice cream business and stuff like that, which will have certain depreciation costs coming in the future as well. The point is how can we maintain a healthy growth rate over long periods in time and how can we deliver strong, predictable, decent EBITDA is the way we are looking at business. Now if things go well, we should be able to outperform these numbers that we have talked about as well. I hope I've been clear.

Pratik Kothari: Correct, fair enough. Yes, yes, very clear. Sir, second, on this, the fat loss for this quarter, I mean, between bulk and consumers, if you can share that data.

A. Prabhakara Naidu: Sir, actually this is Prabhakara Naidu, CFO. Fat losses for the current quarter is bulk INR1.29 crores, consumer pack INR7.4 crores.

Pratik Kothari: Okay, sure. And sir, one on the distribution. So currently we have about 1.8 lakh retails, a few Heritage Parlours, etcetera. So over time, I mean -- what's our intention in terms of addition to this? I mean, at what run rate are we currently adding to retail outlets or our Heritage Parlours or maybe even distributors?

J. Samba Murthy: During the quarter, we have added at about 242 customers in the form of Heritage Happiness Points, agents, product distributors and all. So we are again planning to announce it further in the coming quarters as well. Happiness Points as on 31st December, it is 352 Happiness Points.

Srideep Kesavan: We should -- see we are adding close to about 35 to 40 Heritage Happiness Points every quarter, but Happiness Points are not the only distribution initiative we have. We have several others as well. Like COO just mentioned, we have added more than 200 distribution partners in the last quarter. So distribution expansion will continue to happen in the same cadence. You should expect that.

Pratik Kothari: Correct. And sir, last...

Moderator: I'm sorry to interrupt you, sir. May we request that you return to the question queue for follow-up questions…

Pratik Kothari: Just a last clarification, if you allow.

Moderator: Sir, we have participants waiting in the queue. Sir, may we request that you return to the question queue, please.

Pratik Kothari: Sure.

Moderator: The next question comes from the line of Naitik with NV Alpha Fund.

Naitik: Sir, congrats on a good set of numbers. My first question is, sir, you just mentioned that you have seen 10% to 12% gross margin increase in your fat products. So that is very commendable. If you could list out things that has helped to contribute -- helped to increase these gross margins?

Srideep Kesavan: Primarily it is a function of prices going up is what I should say. And we are at this point working on multiple initiatives. For example, the ratio of our ghee sales through quick commerce and e-commerce partners have increased tremendously. And our revenue realization in quick commerce and e-commerce is naturally higher because we sell smaller pack size -- smaller-pack SKUs in these channels, compared to, let's say, larger SKUs which we sell through wholesale and other grocery channel which is slightly lesser in terms of revenue yield. But a large part of it, I should say 70 percentage of it, is actually driven by prices improving.

Naitik: All right, sir, got it. And my second question was again on these alternate channels that you were mentioning. I have seen some -- the presence of yours on quick comm and e-comm increasing in the past couple of months, so I just wanted to ask what sort of contribution are we getting from these alternate channels like quick commerce and e-commerce right now? And how is it growing?

Srideep Kesavan: It's growing very, very, very fast for us. In fact, in many of these quick commerce channels in our core markets, we are market leaders. Currently, as we speak now, the quick commerce channel contributes about 6.5 to 7 percentage of our revenues.

Moderator: Sir, may we request that you return to the question queue for follow-up questions. The next question comes from the line of Kiran Kumar from Invest Now.

Kiran Kumar: Congrats for the good set of numbers, a steady streak of INR1,000 crores over last 3 quarters. I hope I'm audible.

Moderator: Yes, sir. You're audible, sir.

Kiran Kumar: Yes. Sir, I will just limit my question to one. I would like to ask, like, the current curd volume growth compared to Q3 FY '24, right, the volume of curd sold...

Srideep Kesavan: Yes. So I'll -- yes. Our Chief Operating Officer will give you the numbers, but primarily, if you -- if I could just talk about the first point I mentioned: We have not increased prices for the last 18 months or so. So every growth is actually driven only by volumes, yes, but he will give the exact numbers.

J. Samba Murthy: So this is Samba Murthy. So milk has grown by -- volume has grown by 6.08% and curd has grown by 12.37%. And overall, value-added products have grown by 14% volume terms.

Kiran Kumar: I didn't get. 14% is with respect to VAP, value-added products?

J. Samba Murthy: Yes. Value-added products has grown by 14.3% in volume terms and revenue terms, 17.8%.

Moderator: Kiran Kumar, may we request that you use your handset, sir. Your audio is not clear, sir.

Srideep Kesavan: We will give you some more product growth numbers just so that you get a sense. So if you -- I hope you heard; milk at 6.08% growth, curd at 12.37% growth, value-added products is about 14.3% growth now. And the breakup of the value-added products, some of the products' growth.

J. Samba Murthy: I think drinkables, we are growing at about 23.2% volumes and revenue at about 18%. And cheese, as you know, we are growing by 60% volume growth. So revenue also 64%. And sweets we are growing by 38% volume and revenue by 35%. And ice cream -- paneer we are growing by -- volume, we are growing by, paneer, 71%. So revenue by 66%. These are the -- yes, number of value-added products.

Srideep Kesavan: I hope this gives a sense of kind of growth we are getting across value-added products.

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

Sneha Jain: Yes. So just I wanted to ask, what kind of geographical expansion or which areas are we looking at? And what would be our growth drivers going ahead?

Srideep Kesavan: Thank you, Sneha, for the questions. See, geographical expansion at this point in time has -- we have -- in the last 6 months, we have entered Eastern markets, which is basically West Bengal and Bihar, etcetera. And through Amazon and other e-commerce partners, we are now fairly available across most of India. But I would invite you to think about the business going deeper more than growing broader, right?

Even in our core markets, which is actually the Southern states of India, 5 states, and the other states where we have deep presence, whether it is Maharashtra, NCR, Haryana, etcetera, we have quite a lot of headroom for growth. So our first and foremost priority is actually deepening in our roots in these markets and growing faster in these markets. And of course, with our ambient and longer shelf-life products like ghee and flavored milk and milkshakes and all of that, we are expanding into East of India and many other markets.

We are also -- in exports business, as you are aware now, we are in the last 12 months, we have been exporting to the US. We have been exporting to Singapore. We have been exporting to Middle East. These are markets that we are trying to grow faster, but still these are all like -- whether it is East of India or export markets and all of that, these are all at this point in time, as far as the company is concerned, very small, negligible contributions. And they will continue to grow in very high double digits, 50%, 60% kind of thing. But still it will take some time before they become significant enough for us to -- for it to really impact the business.

Moderator: The next question comes from the line of Dhwanil Desai with Turtle Capital.

Dhwanil Desai: So my first question is on the ice cream side, the recent capex that we are doing. I think it's going to get operationalized in November '25. And over next 4, 5 years, INR100 crores ice cream scale can go to INR500 crores, INR600 crores, INR700 crores kind of a number. So what are we doing at the ground level to ensure that this capacity that we are putting in get absorbed fast? What are the markets we are targeting? How about the freezer network, the distribution? If you can talk some game plan around that.

Srideep Kesavan: Yes, okay. So see, we have been in ice cream -- this is something that I should say. We have been in ice cream for the last 15 years. We launched ice cream for the first time in 2008, '09, so it's been a long time we've been in ice cream business. And primarily because our location was Hyderabad, we focused initially only in Telangana. And in the last few years ever since COVID, we have started expanding rapidly in South of India. Let's say, for example, Bangalore, Chennai, etcetera, which is why currently we are almost out of capacity. We are hitting close to about INR110 crores of revenue this year. That's the reason why we have gone in for the capex. So even if the current markets continue to grow, we will need capex. I hope you understand, right?

So the capex, you can first imagine, will go to serve the needs of the existing market. That said, the capex is also allowing us to set up a state-of-the-art factory which is able to produce the kind of new innovative products which we don't have in our portfolio. That will allow us to expand into newer channels. For example, we are not so strong in e-commerce and quick commerce and all of that with ice cream. Maybe it will help us to expand in those channels. It will also help us with the additional capacities to expand into adjacent geographies like Maharashtra, etcetera.

As far as game plan and distribution is concerned. Every year, we have been placing close to about 1,000 to 1,200 freezers. That's the kind of footprint expansion that we are doing. We have close to about 7,000 stores at this point in time, and that will continue to scale like that. So we expect our footprint to grow between 15 percentage to 20 percentage in terms of retail outlets. And the sale throughput per store should also increase 5 percentage to 10 percentage because of new innovative products. So net-net, we should be able to drive growth upwards of 20 percentage year-on-year on the ice cream business. That's the way we are looking at it at this point in time. I'm giving you broad strokes.

Dhwanil Desai: Yes, got it, sir. Very helpful. And sir, second question is on the milk side. So our milk sales, we have guided that, on the volume side, I think if industry grows at 2%, 3%, we'll be growing mid-single digit in terms of volume. So my question is that, given that we are getting deeper into existing geographies, also opening up new markets; and on procurement side, we are really doing well in terms of the volume. So is there any effort or thinking in terms of driving this growth beyond mid-single digit in terms of milk sales volume?

Srideep Kesavan: Yes. See, in the last quarter, it was 6.1%. So if you look at -- my request is -- we can share these numbers with you. Every quarter, if you look at the last 8 quarters, it's gone up from -- like it used to be 1%, 2%. Then it is 3%, 4%, 5%, 6%. So every quarter, the growth is going up. So our effort -- I mean that's what we are working towards, right? Our effort is to squeeze the maximum of what is possible.

Moderator: Our next question comes from the line of Falguni Dutta from Mansarovar Financials.

Falguni Dutta: Sir, I have not been tracking the sectors long enough, so I'll just -- 2 basic questions. Sir, what is the milk procurement cost for us for the quarter?

J. Samba Murthy: INR41 per liter.

Falguni Dutta: INR41 per liter. And what is the milk realization for us?

J. Samba Murthy: 54.64.

Falguni Dutta: Okay. And sir, one more basic question. Sir, is there any pattern in the change in milk procurement costs? I mean, when typically do the farmers increase or decrease, the prices change essentially for the procurement cost? In which quarter, if that is so?

Srideep Kesavan: So it's a free economy. Farmers don't increase the price, so it's a competitive thing. It's usually a dynamic between different players, but it follows the simple, basic principles of supply-demand. When supply and demand match, prices remain stable. At this point in time, you would have seen several reports that said that overall volume growth in milk production is around 4% to 5%. And consumption growth is also roughly following that number, which is why there is no ups and downs that we are seeing.

But that said, different markets have different dynamics. For example, in the last 4 or 5 months, Maharashtra government had given INR5 subsidy, in fact actually INR5 incentive for the farmers on top of whatever is the procurement price that the organizations were paying. Certain other -- and the lean and flush also happen at various periods. For example, the flush season in North India happens usually in the October to February period, whereas in, let's say, Tamil Nadu, the flush season happens sometime between May to December kind of thing. So these kind of things also impact.

So some -- in some places, there is a lot of excess inventory. The demand is less, so the prices might go down. In certain other places, supply is less and the demand is higher. So it's actually pure dynamics. And on top of it, like I said, the current situation is that everything is stable. There is no problem at all, but there is inflationary pressure. Input production costs are going up. Palm prices are increasing, so because of which, you should expect about 4 percentage to 5 percentage price increase. So it's very difficult to explain because you said that you are new to the sector. There are multiple dynamics at play. It's very complex. There are close to about 8 crores milk producers in the country.

Moderator: Due to time constraint, the last question is from the line of Chinmay Nema with Prescient Capital.

Chinmay Nema: Before taking my question, I just wanted to continue on the milk, the passing on of price variability. Just wanted to understand how does your ability to pass on the prices compare with industry? Just a qualitative commentary would do. And is it largely -- and you said there is some delay in this. So is it largely driven by your procurement cycle? Or is it more to do with how things happen on the distribution side?

Srideep Kesavan: It's a function of a lot of things. But if I can just -- this is Srideep -- qualitatively answer your comment, I should say that our ability to take lead and pricing is much higher in our core markets compared to some of the markets where we are weak and new. I guess like all of these things follow principles of economics, right? So, let's say, for example, in Delhi, I may not have the ability to take up pricing on my own. So we usually move in cycles with industry pricing, whereas in Southern markets we move fast.

But that said, there is always a -- there is a delay because see, usually, milk and dairy as a sector is very highly price sensitive unlike many other product categories. This is something that you buy every single day, every day. It's a 365 days product, right. So any small price increase actually impacts to a much higher degree in terms of CPI, in terms of a person's ability to spend, etcetera, and consumption also shrinks, market shares change. So we are a little careful in terms of our pricing, timing, etcetera. And I hope I'm able to answer you, right?

And this is mostly only in milk. Moment we move to value-added products, it's a very different game altogether because for each value-added product follows different cycles. For example, if it is paneer, there is no -- like there's no -- as consumers do not have a direct linkage of paneer price or MRP to, let's say, raw milk price or even market milk price.

So those are all -- like the further we move away from pure white milk, our ability to do pricing in line with our brand equity is much higher, even in, let's say, non-core markets. So our primary strategy is to grow value-added products where we have ability to do our pricing, where we have the ability to increase our margin potential, whether it is core market or weak market.

Just one more line I would like to say. While the company's average value-added products remain at about 32% or so, in our non-core markets, let's say, for example, Delhi, NCR or North of India or Maharashtra and all of that, the value-added product contribution there is much higher, 40% or so. Our dependence on milk is low there, which also allows us to build a more profitable business that way because there we have pricing ability, as far as value-added product is concerned. I hope I've been able to answer.

Chinmay Nema: Yes, sir. That's very helpful.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

M. Sambasiva Rao: Thank you all for participating in this earnings con-call. 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 managers at Go India Advisors. Thank you all.

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

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