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October 28, 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**

**Sub: Transcript of Conference Call with the Investors/Analyst**

Dear Sir/Madam,

In Continuation of our letter dated October 10, 2024 the Company had organized a conference call with the Investors/Analysts on Thursday, October 25, 2024 at 11.00 AM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been available on the Company's Website at [www.heritagefoods.in](http://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**



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## **HERITAGE FOODS LIMITED**

### **Q2/H1 FY2025 Earnings Conference Call**

**October 25, 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

#### **INVESTOR RELATIONS REPRESENTATIVE:**

**Mr. Anuj Sonpal** – Valorem Advisors



**Moderator:** Ladies and gentlemen, good day, and welcome to the Heritage Foods Q2 H1 FY '25 Earnings Conference Call. As a reminder, all participant line will be in listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anuj Sonpal. Thank you, and over to you, sir.

**Anuj Sonpal:** Thank you. Good morning, everyone, and a very warm welcome to you all. On behalf of the company. I would like to thank you all for participating in the company's earnings call for the second quarter and first half of financial year 2025.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated.

Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

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

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

**M. Sambasiva Rao:** Thank you, Mr. Anuj. Good morning to everyone joining us today on this call. We are pleased to welcome you all to the earnings call for the second quarter and first half of



financial year 2025. The financial results and earnings presentation have been uploaded on the Exchanges, and I hope you have had a chance to review them by now.

Let me take you through the financial performance for the quarter and review first. For the quarter under review, on a consolidated basis, we recorded revenue of INR1,020 crores, reflecting a 4.2% year-on-year increase. EBITDA the quarter was INR83 crore, representing a 77% year-on-year growth with EBITDA margins at 8.16%. Additionally, net profit for the quarter was INR48 crores, which surged by 117% year-on-year, resulting in PAT margins of 4.77%.

On a half yearly basis, we reported revenue of INR2,052 crores, reflecting an 8% year-on-year increase. EBITDA for the period was INR177 crores, representing a 103% year-on-year growth with EBITDA margins at 8.63%. Finally, net profit for the period was INR107 crores, which surged by 173% year-on-year, resulting in PAT margins of 5.22%.

Now moving on to operational performance. Milk sales volume continued its steady growth in Q2, increasing by 5.11% year-on-year to 1.19 million liters per day. However, revenue growth in milk was slightly lower with average milk selling price at INR54.59 per liter, a 0.31% decline compared to the same period last year. Average milk procurement in Q2 FY '25 stood at 1.64 million liters per day, marking a growth of 11% year-on-year.

Average milk procurement prices for Q2 '25 decreased by INR2.94 per liter compared to Q2 of the previous financial year. The growth momentum in value-added products remained strong in Q2 with a robust 16% increase reaching to INR298 crores in revenues. and VAP contribution to total revenue rose to 30% compared to 27% in Q2 of FY '24.

In anticipation of the festive season, the company launched several engaging consumer promotions and advertising campaigns, including TV campaign and the scan-and-win offer across the ghee and sweets range, further accelerating the momentum in value-added products.

Lastly, Heritage Nutrivet Limited, the wholly owned subsidiary, experienced robust top line growth of 18% year-on-year, reaching INR86 crores during H1 with a healthy 117% increase in PAT totaling to INR4 crores.



With that, we can now open the floor for question-and-answer session. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kiran Kumar from Investwise. Due to no response from the current participant, we will move on to the next participant. The next question is from the line of Sandy Mehta from Evaluate Research. Please go ahead.

**Sandy Mehta:** Yes. Congratulations on strong bottom line growth. What is your expectation of normal margins going forward? So I think the management, you have previously talked about 7% to 8% EBITDA margins as normal. But in a recent media interview, I believe the CEO talked about 9% to 9.5% EBITDA margin as a sort of a normal level going forward. And especially as you get closer to that INR6,000 crore revenue target, which you have publicly stated, at that level, on a normalized basis, then would you target 9.5% EBITDA margins?

**Srideep Kesavan:** Yes, Mr. Mehta. This is Srideep Kesavan, CEO. We have always maintained that, we are aiming to keep our EBITDA in the range of 7% to 8%. And that's our long-term outlook and this is something that we have maintained. And just to correct, I have not mentioned 9 percentage to 9.5 percentage in the TV interview that you mentioned. You could listen to it again.

The question asked was would the EBITDA margins be sustained in the near term. The answer to that would be that the raw material prices are expected to remain stable as a not too much volatility. Hence, it will be in this particular range that we are seeing. We did not mention 9 percentage to 9.5 percentage. Even though that will be very good for us to achieve that, but our objective is to keep it in the range of 7 percentage to 8 percentage.

**Sandy Mehta:** But as you grow your revenue substantially, there has to be some operating leverage, operating synergy. And also your Value Added Products continue to increase. So is it reasonable -- even if you are not articulating and publicly stating a higher margin target, is it reasonable for investors to expect that, over time, margins may possibly increase?

**Srideep Kesavan:** So Mehta, this is exactly what happened on the TV entity also. If you try to put words in my mouth, then it is difficult. See, the thing is we do not give guidance. Of course, because you are asking this question in this particular point of view, I will have to agree with you that in every business, our objective is keenly on increasing the margin over a



period in time. And that's what we are going to do. But at this point in time, we are not promising that we'll go to a 9% to 9.5% range immediately. So that's what we'll aim to do, right?

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

**Digant Haria:** I have three questions. So, the first question is that in the last 5 quarters, we have been in that INR1,000 crores kind of revenue, say, plus/minus INR20 crores. So why is the stagnation in revenue that we are seeing? Like is it just because of the prices which have come down? Or is it something on the sourcing side? Or is it just that whatever preparation we did as an organization for the last 2, 3 years, we have probably grown there. And now we need more infra and more setup to reach that number? So that's my question number one on revenue stagnation.

Question number two is on the employee costs that for us, employee costs are roughly around 8%. They used to be around 6%. They are now around 7.5%, 8% of the revenue. Is there any sort of operating leverage here? Or this is the new heritage, which will incur this 8% employee cost?

And I ask this because your competitor is at around 4%, 4.5% kind of employee cost, the one who's in the neighbouring state. And my third question is on the Nutrivet business. Like has cattle feed business really picked up? And despite the low milk prices, are farmers investing in giving good cattle feed to their animals? What's happening in this cattle feed market, that would be useful. So these are 3 questions from my side.

**Srideep Kesavan:** Yes. Thank you. There are 3 parts to our question and 3 of us will try to answer it. this is Srideep Kesavan. I'll go first. And then I'll request CFO to speak specifically about the numbers that you're mentioning as far as the human resource cost is concerned. And then Mr. Upendra Pandey, CEO of HNL, Nutrivet Limited, will answer the feeds question.

So the first question, I'm just reading out the numbers. Q1 of last year, the number was -- I'm reading out last 6 quarter numbers. Q1 of last year was INR913 crores. This is stand-alone numbers, INR913 crores. Q2 is INR962 crores. Q3 is INR922 crores. Q4 is INR935 crores. Q1 of this year is INR1,020 crores and Q2 of this year is INR1,007 crores. These are stand-alone numbers. So I don't see why you say it is stagnant.

Last year, around same time, we had breached the INR900 crores revenue in a quarter for the first time. This year, we've reached INR1,000 crores in a quarter in a revenue for



the first time, and we are sustaining that. Secondly, our business has -- whenever you look at our revenue, and this we have consistently maintained in the past as well, that you need to look at our revenue in 3 or 4 buckets, right?

Let me just break it down for you. One, of course, is the question that you asked of Heritage Nutrivet Limited, which is the feeds business that is one part of our business. Apart from that, on the stand-alone basis, when you look at the revenue, you will find our numbers reported as milk, value-added products and bulk fat, right? And bulk fat is something that we do not take position in commodity.

So as and when we accumulate the butter because of excess raw milk and lower sales, we liquidate that as bulk fat, which is usually a loss-making proposition, right, for -- not just for Heritage, but for the industry. Now apart from that, there is milk and value-added products. I request you as investors to stay sharply focused on the milk and value-added products growth as far as we are concerned.

So last year, if you recall, in quarter 2, we had reported that our profitability was much lower because we had booked a large quantum of bulk fat sale, which helped, of course, in the top line growth, but did not help much in terms of bottom line growth. This year, we have very little of bulk fat growth, whereas a year of -- what is of interest to you is that the milk revenue growth is upwards of 5%, primarily driven by volume growth. In fact, actually, volume growth is ahead of revenue growth as far as milk is concerned.

And similarly, in value-added products, without consumer Ghee, we are at 16 percentage growth, including consumer ghee, if I consider, value-added products is growing at 19% -- and in our investor presentation, we have shown a graph which shows the milk and value-added products growth, which is consistent in terms of high teens in terms of value-added products and seeing high single digits as far as milk is concerned.

The core of the business remains strong and robust. There is nothing that needs to be of concern. And there is a small concern for us, which is the value-added product growth has come down by about 3 to 4 percentage. Primarily, this is on account of adverse weather we have seen.

In fact, in the first half of the year, we have seen roughly around 60 percentage increase in rainfall in absolute millimeters of rainfall. And you must have read about this in all news articles. and rainfall impacts at least 3 of our value-added product categories, which is primarily curd, drinkables and ice creams. All 3 of that get impacted because of



rains. And everybody is aware of the floods and the cyclones and the repeated climatic calamities we have seen in the last quarter.

So your company has delivered 19 percentage value-added products of growth despite of all these adverse conditions. And I request you to compare our numbers with any comparable competition on this parameter. And before I hand over to the CFO, I would like to comment on the human capital cost, whereas in our case, we capture all the human capital cost, whether it is direct or indirect cost, our competitors might be booking it as other operating expense. So the 2 are not comparable. I'll request our CFO to talk about those numbers.

**A. Prabhakara Naidu:** Actually, as compared to Q2 to Q4, there is actually around INR55 crores of employee cost last year, INR59 crores. Now it has gone up to INR75 crores because the profitability has gone up by more than 100%. Variable components of the employee cost has been provided accordingly. So that is the main reason.

And over a period of 12 months, actually, there is a new employees also when the business is expanding. In new geographies new employees are also joined. So these are the two reasons. And the top line growth, it has come down as compared to the previous year. That is also another contributor as the percentage has gone up actually by 1.3% as compared to Q2 to Q2. Thank you.

**Upendra Pandey:** We have realizing the market scenario, we have taken a couple of new initiatives a few months/quarters back, and that has started having this result. One is that we have launched high-protein and high-fat product in multiple geographies, and products are very well accepted by farmers. They have seen a significant improvement in their milk production as well as patent SNF improvement, and that led to growth of the cattle feed volume.

Also seeing the market trend that price has come down and farmers were struggling, what we did is that further we improvised the quality of our product without changing the price. And that led to increase in the improvement in the fat and SNF of milk, which is giving a better realization to farmers. So farmer continuing our feed and helping us to grow our cattle feed volume.

**Moderator:** The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.





**Sameer Gupta:** Firstly, sir, outlook on net procurement, given we are at the cusp of the flush season, do you expect the prices to soften further? Usually that happens with a healthy flush. Or -- and I'm asking this question because there has been a persistence in food inflation over the last few months. And generally, what we see is that it lingers into other categories sooner or later. Do you see that risk currently? Or whatever is information we have on the ground, any suggestions on the procurement/how it is going to be?

**J. Samba Murthy:** This is Samba Murthy. So procurement run rate now currently, it is stable. Then going forward, it may a little bit some changes will be there, but there won't be again major changes in the procurement prices, a little bit here and there. And now currently, it is going stable actually. Now consistently it is.

**Srideep Kesavan:** I'd like to address the question on inflationary trends. See, there are 2 parts to the business, right? One is on the procurement side. We are actually -- we have actually seen solid good monsoon and the crops and crop season is looking -- crops are looking much better. MSP from the government is also looking good, which means actually the rural economy is actually looking very good positively. We have had some setbacks because of -- we might have lost a 3 or 4 percentage growth in value-added products because of the negative impact of the weather on the sales side.

So that -- these are 2 different aspects, right? You can't take the rural economy robustness and apply to the inflationary trends in the urban India. So I don't think the 2 go hand in hand. At this point in time, you must have seen that our prices have remained stable for the last 5 quarters. In fact, milk prices as well as the value-added product prices have not gone up in the last 15 months. So if you look at our net revenue per liter on milk or in value-added products, it's roughly the same as what we had in Q1 of last financial year. So without -- so we haven't seen any revenue increase -- sorry, a price increase as far as the market products are concerned.

**Sameer Gupta:** Got it. Secondly, on ice cream. So we have a major player Hindustan Unilever, who had just announced that as part of their overall strategy, they will be exiting the segment. Do you think this is a good opportunity for Heritage? And if so, any plans to capitalize on this opportunity? Your thoughts?

**Srideep Kesavan:** Yes, this is Srideep here, Samit. First of all, I'm not sure if Unilever said that they're exiting the ice cream. They said they are restructuring the business is my understanding, which could be probably in the way the company is structured. Yes, ice cream, Unilever



is a last player. I believe they are the #2 player in India. And I think their business will continue is my understanding.

But see, the opportunity that we are looking at in ice cream is the industry itself waiting to explode. It's in a very nascent stage, if you ask me. The per capita consumption in India is quite low. The category penetration, whether it is at a retail level or household level is still very insignificant compared to many of the other indulgent categories like carbonated beverages on juices and all of that.

So I feel that there is a huge headroom to grow. And this is the reason why we are bullish on it, and we very recently announced our capital investment to create a new greenfield facility as well.

**Sameer Gupta:** Just a follow-up there. So let's say, they do divest it. I understand that they might not have finalized that plan. But let's say, they do divest it. Will we look at that as an opportunity to accelerate whatever we are doing or we'll stay where we are like in a normal way? That was actually my question.

**Srideep Kesavan:** Yes. Of course, that's what I'm saying, Sameer. See, whether they divest are now diverse, We are anyway looking at capturing all possible opportunities, which is why we have gone ahead with the capital investment of INR200-plus crores in this particular category. So we are going to set up an ice cream plant which will come up roughly around the same time next year, maybe towards the end of 2025 we'll see that. And we are putting in all efforts to accelerate our growth in ice creams.

**Sameer Gupta:** Got it, sir. The last bookkeeping question. Can you quantify the bulk fat sales during the quarter, which is apart from the -- which is included in the INR76 crores that you have reported but unbranded?

**Srideep Kesavan:** Yes. Just give us a minute. Yes. INR26 crores is the revenue from bulk fat in this quarter.

**Sameer Gupta:** And the corresponding figure in the base quarter?

**Management:** INR72 crores.

**Moderator:** The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.



**Ankit Gupta:**

Congratulations for a good set of numbers. Sir, my question was on the Milk sales growth. Last few quarters, we have been doing very well on that. But over the medium term, how do you see the Milk sales growth for us over the next year or 2? And in correlation with that, on our target of achieving INR6,000 crores, how do you see Milk growth panning out from -- for us?

**Srideep Kesavan:**

Yes. So thank you. This is Srideep again. There are two components to it. One is the volume growth and then there is the revenue growth, right? See -- and while quarter-to-quarter or year-on-year it might change because of dynamics of the business of the market, on a continuing basis, you should expect that about 50% to 60% is the growth to come from volume growth, and 40% of it to come from revenue, which is revenue price increases, right?

What is missed at this point in time is only the price increase because the price increases have not happened for the last 5 quarters, which is why the top line at this point in time is primarily driven only by volume growth, right? And as far as volume growth are concerned, the industry grows at around 2% or 2.5%, 3%, whereas we are growing at double that rate as we speak. And we have maintained this growth level for quite some time now as far as Milk is concerned. So our objective will be to keep it at this level, 5 to 6 percentage range, for the near future.

What we are hoping is probably a couple of quarters down the line, we are able to take price increases as well so that we are able to push the revenue growth on Milk towards a double-digit kind of thing or high single digit.

As far as revenue growth on Value Added Products is concerned, it will be similar. We are currently growing at about 16%. Earlier this year, this is used to be at 18%, 19%. Again, here also, what is missing is the 4 percentage or 5 percentage of revenue top-up, which is supposed to come through price increases which has not happened. We hope to maintain the growth momentum as far as the volumes are concerned.

And we are hoping that maybe a couple of quarters down the line, we were able to take the price increases so that the revenue growth on Value Added Products goes to high teens or even 20%, 21% as it used to be earlier. So that's -- so as far as we are concerned, the underlying volume growth is what is keeping us all really excited. And that continues. That momentum is sustained.



- Ankit Gupta:** Sure, sir. And sir, second question was on the milk procurement. Last few quarters, we have seen surplus availability of milk from farmers. And how do you see the next few quarters? And any indication how the next flush season is looking like? I know it's a bit immature to talk about it, but any indications that you can give how the next season is expected to pan out?
- M. Sambasiva Rao:** Procurement side, whatever we just planned and we are getting it. And even Q3 also, whatever we have planned actually, we are going to get it. And there's no problem in getting the procurement. As we mentioned, the prices are stable and a little bit changes in the prices, but we are going to make procurement.
- Ankit Gupta:** So you expect...
- Srideep Kesavan:** In terms of volumes, in Q2 also, we reported 11.4% growth in procurement volume. It's looking pretty good for us.
- Ankit Gupta:** And on the pricing front, the prices continue to remain a big tap in on the procurement side?
- M. Sambasiva Rao:** Yes. As of today, it's stable, but there won't be much changes in that maybe a little bit fluctuations here and there, the upside or downside. But overall, it is a stable.
- Ankit Gupta:** And any indication that you're getting for next flush season, how is that expected to pan out?
- M. Sambasiva Rao:** Yes. Already, we have planned increase in the procurement, but we are also going to get that whatever we planned it. But in Q3, yes, we are going to get more procurement than Q2.
- Srideep Kesavan:** We know that we are currently entering flush, right? So the numbers that he -- when he mentioned Q3, he's talking about flush.
- Moderator:** The next question is from the line of Resha Mehta from GreenEdge Wealth. Please go ahead.
- Resha Mehta:** So first one is a suggestion. So actually, if you also put out the revenue growth clarification even as a part of the press release, it would have been great because I think we had to wait for the investor presentation to figure out that your revenue growth ex of bulk products was 10%. So that's a suggestion. My first question is on the PAT part.



So, in a bit to kind of reduce the PAT losses or provisions that we have, one of the measures that we had outlined was that we try and increase our cow milk procurement savings. So can you just talk about the progress there? And related bookkeeping question, any PAT losses for the current quarter? So that's my first question

**M. Sambasiva Rao:** This is Samba Rao again. We are actually procurement of our cow milk contribution is going is up. Yes so it is about -- currently, it is about -- Q3 is about 85%. H1, it is 83% cow milk ratio. And compared to the previous year, the cow milk contribution is going up. And as you know, also you know that cow milk, the fat will be less compared to baffle milk. So that is why we are not generating surplus butter to the extent of our...

**Srideep Kesavan:** See, I don't think that this is something that -- because the cow and buffalo both have different flush season. So sometimes, you will see that the buffalo milk has gone up. So unless -- there are so many dynamics in the business. Like, for example, in Q3, buffalo milk goes up, right? In Q2, cow milk goes up.

So I don't think that this is something that we should be very much worried about at this point in time. The company has a very clear action plan on exactly how the butter is sold in consumer pack. And our -- what is encouraging for us is our consumer fat business, whether it is ghee or butter, is all strongly growing upwards of 50%. So -- which means actually that, that means that the quantities that we have left with to liquidate and B2B bulk is coming down quarter-on-quarter, right?

So strategically speaking, we will maintain a certain ratio of cow milk and buffalo milk, but I think that we should leave that -- it's a very business call.

**Resha Mehta:** Understood. And the PAT losses for Q2?

**M. Sambasiva Rao:** Q2 PAT loss is INR7 crores, 68 lakhs.

**Resha Mehta:** INR7.75 crores, right, roughly?

**M. Sambasiva Rao:** Breakeven, including bulk.

**Resha Mehta:** Sorry, I did not get that number.

**Srideep Kesavan:** It is about INR7.5 crores to INR8 crores, yes. That's right.

**Resha Mehta:** Got it. Got it. The second question is on the feed business. So what is the revenue potential here with our existing capacity? And what kind of margin improvement can we



see over, let's say, over the next 2 to 3 years in this business? And because if you see our peer is doing around 13% EBITDA margins in the feed business with a slightly lower revenue profile. So is this because the raw material basket in our feed would be different from theirs? Or just some color on the feed business' growth potential and the margin potential with current capacity?

**Upendra Pandey:** So what I can say right now is that we will continue to sustain the growth momentum. We will not give any indicative number. But we'll continue to sustain the growth momentum in terms of top line. Bottom line, we are continuously improving, and we'll keep targeting this 7% to 8% of EBIT. What we had done in the previous 2 quarters, we'll continue with. Focus will be on top line growth in next few quarters, and we are taking several new initiatives to ensure that we continue on the top 10 growth part.

**Resha Mehta:** Got it. And raw materials -- can you just outline what would be a raw material mix year for the feed business?

**Upendra Pandey:** So feed business, critical raw materials are like BRB, maize, molasses, rice TDGS, rapeseed, these are the critical raw materials. And we keep some of the raw materials do the strategic purchase. We buy at the right time when the prices are extremely low and we stock it in our warehouses. So we gain some advantage because of that. and that helps in improving our profitability.

**Resha Mehta:** Got it. And lastly, any pricing actions or grammage actions we took in Q2? Because I think Q1, we held steady despite competition kind of increasing grammage or reducing prices, we will not go ahead with that.

**Upendra Pandey:** No, we are not taking any pricing corrections. And we don't think that in next quarter also we are going to take any pricing conditions.

**Resha Mehta:** No, this is for the daily business, I'm asking, sorry. not the feed business.

**Srideep Kesavan:** Okay. Could you please repeat the question?

**Resha Mehta:** Yes. So I was just asking that in Q1, in line with competition, if I recall correctly, we have not restored grammage or increased grammage or taken any pricing actions. So just wanted to check in Q2, have you taken any pricing action for the dairy business?



**Srideep Kesavan:** No, I already addressed this question earlier to someone else who had a similar. The last 5 quarters, our prices are stabilized, and we have not increased prices. Here and there, that might happen. But overall, our revenue per liter is same, flat.

**Resha Mehta:** And nor have we increased the grammage? Is that understanding, right?

**Srideep Kesavan:** No, there's no change. Yes, it's -- overall, there's nothing much to talk.

**Moderator:** The next question is from the line of Kiran Kumar from Edelweiss. Please go ahead.

**Kiran Kumar:** So, I have one question. How much is our curd growth?

**Srideep Kesavan:** We are growing curd at around 11%.

**Kiran Kumar:** Is this volume or revenue growth? Is it same for the both...

**Srideep Kesavan:** Volume. Volumes and revenue is all the same because price per liter is the same.

**Kiran Kumar:** Got it. And one other thing, actually the previous one of the participant was asking. So it's on the employee cost. So, I heard the answer of our CFO, what he had said. It's around 16% if I compare both the Dodla and Heritage. Do we have any plans for optimizing some cost of any cost, like outbound costs and all, selling and distribution to have an edge? Because we are concentrated in certain areas. So do we have an edge over competitor? Or is it the same with other competitors?

**Srideep Kesavan:** Okay. So first of all, Kiran, I don't think that -- this is Srideep here. I don't think the numbers are comparable because I don't think other people report the employee cost in the same way as we do. right? So I do not want to compare versus anyone. I can give you the commentary as far as we are concerned.

We are investing at this point in time on 3 things as we continue to drive growth in the long term, right? Because that's the single-minded objective -- long-term profitable growth is a single-minded objective that we are working with. The 3 things are: number one, we are investing in human assets. So we are increasing the quality of people. We are increasing feet on street, which will keep our growth momentum trajectory ahead of the industry and ahead of our competition, right? That's something that we are focused on.

Secondly, we are investing in our marketing assets. You will see that our brand investments have gone up. We are currently investing about 0.8, 0.9 percentage of our



revenue in marketing, advertising and marketing and promotions, which is also another thing that is driving significant growth as far as Value Added Products are concerned. And we keep updating you, we must be seeing our brand more and more.

And the third is we're investing in capital assets for increasing the capacity of production as well as Value Added Products are concerned. So most of the capacity increase is going either in Value Added Products or in terms of increasing our procurement capability or in terms of like there is some replacement CapEx that keeps happening. So these are 3 things that we are continuously investing on. And it's our endeavor to ensure that the revenue growth is ahead of the growth of cost on any of these 3 line items so that the overall profitability is looking good.

In this particular quarter, because we haven't had any price increases. So our revenue would have been probably 3 or 4 percentage lower than what we would have wanted it to be because of -- because price is remaining flat and the top line only driven by volume growth. That is the reason why your percentage of any of this cost to the revenue would look slightly higher than what we would like. But we are absolutely on track as far as our long-term growth plan is concerned, and there is nothing that there is of any concern.

**Kiran Kumar:** Thanks for the detailed answer. And one last thing. Do we exhaust our entire provisioning on -- which we made last year on fat? Or -- will continuing in our provision?

**M. Sambasiva Rao:** I think almost except INR1 crores, or INR1.5 crores everything has been taken.

**Moderator:** The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

**Pratik Kothari:** Sir, on the INR7.5 crores, INR8 crores fat loss, can you break it between bulk and consumer?

**Srideep Kesavan:** You could say it's roughly equal. Of course, the consumer fat loss will be marginal. Bulk fat losses would be there, which will be a large part of it. Yes. If you need further information, we can speak to you on one-on-one.

**Pratik Kothari:** Correct, correct. My question that was so our understanding was, as we keep growing our consumer fat business, which is the retail, butter, ghee, you will run down on our bulk fat losses, right? So, if you look at our quarter 1, we did some INR6 crores, INR7 crores of loss on our consumer fats. Again, we did some -- like this quarter, INR3 crores, INR4 crores of loss there.





So if you can explain, I mean, so how do we solve for this fat loss? Well our assumption was that we do more of consumer fats and that will get sold. But if you're making losses in consumer fats also...

**Srideep Kesavan:** Pratik, do you see that this quarter, our overall profitability is far better than last year's same quarter profitability?

**Pratik Kothari:** 100%.

**Srideep Kesavan:** Yes. So Pratik, this year's quarter 2 profitability is roughly 117 percentage higher than last year same quarter without any revenue increase. And primarily, this is because of 2 aspects. One is milk prices having come down by about 6%, which has contributed to it. The second thing is the bulk fat sales having significantly come down about INR50 crores to INR52 crores of bulk sale is less. That's the top line, that's the highlight that you need to look at.

Beyond that, actually, there is -- when we look at the -- at a PBT level, there is a way we apportion and allocate our overhead costs and stuff like that, marketing costs and all of that. I think that there will be like unnecessary details to get into. Eventually, if we move from bulk fat to consumer fat, which is had and all of that, which ideally is what we desire to have, this particular loss over a period in time will come down.

But even in this quarter, even though we had a much lower bulk fat sale, we had bulk fat sales in this quarter. So there will be a little bit of a loss, which will continue to incur over a period in time, which will become negligible.

**Pratik Kothari:** Correct. Fair. Actually, my question was more on consumer fat loss, not bulk fat loss. But we can take another. And second, I mean, in respect to what our margin guidance, etcetera, is we are currently higher than where we are. So any plans to utilize this excess margin? I mean, it may not be passing in terms of price, but accelerating our distribution, be it something on the procurement side. Anything that you can highlight, how are we using this extra margin that we have currently from our intended band to kind of drive growth faster?

**Srideep Kesavan:** So see milk prices are down by about 6.5%, 6.8% or so. 6.8%, milk prices are lower. But you also know that revenue is flat, flat since I'm talking about revenue per kg, which means that we have not increased prices at all, Whereas ideally, if you consider cost inflation, whether it is human capital, somebody asked -- there were lots of questions



about people costs. Like every year, there is increment and incentives and variable pay and stuff like that, right? The costs are going up. Operating cost, electricity cost has gone up. Fuel cost has gone up. Correspondingly, the revenue price increases have not happened.

So a large part of it has -- of the procurement price drop has been compensated by the loss of revenue increase in terms of prices remaining stable. In a way, you can say that, yes, that's an investment that we've made into building the business over a long period in time. We hope we can recoup that in the next couple of quarters. Maybe after a couple of quarters, we hope we can recoup that. We don't see any price increase immediately.

**Pratik Kothari:** Fair enough. Point taken. And the last comment, in the last call we had spoken about some competitor entering our home market and cutting -- slashing prices, but we were able to maintain our ground. 90 days has passed since then, and do we still hold on to that?

**Srideep Kesavan:** Milk volumes are growing at 5.1%. Value-added products are growing at 16%. So I don't need to. The volumes are going strong.

**Moderator:** The next question is from the line of Jayvansh Mehta from Care PMS. Please go ahead.

**Jayvansh Mehta:** I just had one question. What is our outlook on the dairy industry for the full year and also in the coming quarters?

**M. Sambasiva Rao:** Can you repeat, please?

**Jayvansh Mehta:** Yes. So I was asking like what is your outlook on the dairy industry for the full year and also in the coming quarters?

**Srideep Kesavan:** I think, see, outlook of the industry is something that is so good. I can -- I'll first start with what is the fundamental drivers of the industry, right? In India, the per capita consumption of dairy is still very low, at about 350 grams per person. So there is tremendous potential for the per capita consumption to grow.

In terms of population, roughly 40, 45 percentage of our population are vegetarian population, for who the primary nutrition comes from milk and milk products. So it's the primary source of protein as far as 1 out of 2 Indians are concerned. And even the balance 50, 60 percentage who would eat nonvegetarian foods are all flexitarians, so



who will 5 days vegetarian and 2 days on nonvegetarian. So dairy has got a huge potential.

And the second biggest driver as far as the -- this is as far as dairy in the larger scope of things, right? And out of the 350 grams consumption or the paneer consumption and all that I think about, 65 percentage of the consumption even today is in the unorganized sector. The organized sector contribution is at best about 35% or 40%, which is highest in milk, which is about 50 percentage organized. But if you take any category paneer, paneer, for example, 5 percentage is organized. 95% is unorganized.

If you look at curd, 20 percentage is organized, 80% is unorganized. Moving from unorganized to organized because of -- either because of hygiene, because of availability, because of brand consciousness, because of urbanization, primarily multiple reasons are driving this growth. So one, dairy, as such, is growing. Then within dairy, there is move from unorganized to organized.

And the third, there is consolidation within the industry, either in terms of retail. For example, more and more growth coming from e-commerce, quick commerce, modern trade and all of that, where branded play is most important. That is where your company is getting stronger because even with an organized play, this play gets limited to a fewer companies who have stronger brand and access to these organized channels. So overall, we are actually sitting at the pinnacle of all this growth momentum.

**Jayvansh Mehta:** Yes. Just one last question. Have we seen a good amount of demand in the -- for the full year and also in the coming quarters?

**Srideep Kesavan:** Yes, yes, yes. Demand-wise, there is no problem. I'm reiterating. We might hit air pocket in the middle sometime due to weather because -- at least 3 of our value-added product categories are weather-dependent, curd drinkables, primarily, whether it is butter milk, flavored milk and all, milk shakes and ice creams. If it continuously rains and if there is flood and all of that, we might have a little bit of a slowdown in growth rate. But otherwise, the underlying demand is very strong.

**Moderator:** The next question is from the line of Neha Jain from SKS Capital. Please go ahead.

**Neha Jain:** I just have one question. Recently in Bengal, particularly Kolkata and the Durga Pooja. I saw many like branding of Heritage being done on a large scale, but I do not see any like retail presence there. So are we thinking of expanding or is there any plan?



**Srideep Kesavan:** Okay. Thank you, Neha. This is Srideep here. Thank you for that feedback. So I'm happy that you noticed our brand but not our product. So yes, this feedback we'll take. We launched in Bengal in the -- not Bengal, Kolkata, you could say, and Southern part of Bengal in August. So it's been 2 months. We have appointed a certain number of distributors and we are expanding distribution. So just like you already saw the brand, I'm sure that you will see our products also everywhere now.

**Moderator:** The next question is from the line of Parikshit Gupta from Fair Value Capital. Please go ahead.

**Parikshit Gupta:** I just have one question. This is more to do with the festive sales at this point. I wanted to understand how was the performance of the sweets segment or any related products that are more privy to being purchased during the festive period? Just that question.

**Srideep Kesavan:** Yes. Thank you Parikshit. We are actually having a very good festive sale. The demand is good. So your question was specifically about sweets. Our sweets for the first 6 months has grown -- it's almost like pretty much grown in line with our expectation. We are growing about 40% or so. So that's -- and even in quarter 2 also, we have grown at -- yes, we have about 40 percentage of the growth that we are seeing in our sweets in quarter 2.

So it's quite strong. And we are currently running a very innovative QR code promotion as well for consumers, which is actually giving us further traction.

**Parikshit Gupta:** Understood. Just a follow-up on this. I believe the sweets segment would be across channels, retailing as well as e-commerce. Do you have a high level demarcation of the split among the 2?

**Srideep Kesavan:** Okay. So for us, e-commerce and modern trade roughly contributes about 15 to 16 percentage of sales, and same would be in sweets as well.

**Moderator:** The next question is from the line of Govind Lal, who is an individual investor.

**Govind Lal:** I have 2 questions, sir. First one is in first half, we have done around 8% top line growth. Generally, we are guiding around 15%, 18%. So second half of is looking -- will we make up the shortfall of 7%, 8%? So to catch up with 18%, 15%, we have to do 20% in second half? Just your views on that.



**Srideep Kesavan:** Sir, thank you very much for the question. See, I'll just repeat again, we have to look at growth in two parts. One is the volume growth and the other is revenue growth. Volume growth, we are aiming to keep mid-single digits for milk and mid-teens for value-added products. And this is what we are aiming consistently. And in quarter 2 also, it was same, 5.1 percentage of milk and about 16 percentage of value-added products.

There is also another component, which is a price-led growth, which is the MRPs and the revenues increase, right, which is about -- usually every year, there is a 3percentage, 4 percentage price increase that happens because of inflation. This year, we have not seen any price increase at all. So that 3 percentage, 4 percentage is what is being missed as far as the top line is concerned. We hope maybe after -- towards the end of this financial year, maybe we'll be able to take those price increases, and that will also add in. Otherwise, the momentum of growth in volumes, we'll make every effort to sustain the current growth.

**Govind Lal:** No, no, your netted we -- generally volume and price for the top line growth, what we guide on that, I was asking. So another thing, sir, the standalone, the quarter-on-quarter 9% growth as we have not done anything. It is flat. In the year-on-year, the have 26% growth, our competitor. So any view on that, sir?

**Srideep Kesavan:** Maybe, sir, you joined a little late. Initially, there was a lot of discussion on the same. What we were trying to say was that we are cycling much higher growth because last year same quarter, which is quarter 2 of FY '24, there was about INR72 crores, INR73 crores of revenue, which came through bulk fat disposal, which is a B2B sale, which is not something that we -- it's not our focus, right? And that's not something that the company is building.

It's not -- it's something that we were liquidating excess inventory that was sitting with us. So that is absent now. Now if you remove that, the core business that you should look at is the milk, value-added products and the feed sale. Milk is growing at about 5-plus percentage. Value-added products is growing at about 16 to 19 percentage and feeds is growing at about 18%. So everything is strong. It's just that the bulk fat has degrown at about 80%. That is the reason why overall top line is looking like 4.5%. Otherwise, we are in double-digit growth.

**Govind Lal:** Got it, sir. So coming back to again, just second half, how it is looking, sir, I am asking top line, how we should look whole year top line this first half, we have done around



8%. So how should we look is another 8% second half also better we can do and overall, it can improve net-net.

**Srideep Kesavan:** We'll work hard, sir.

**Govind Lal:** Okay. Then last few questions, sir. This -- I'm new to this industry and your company investment by investor. So just I want to understand, sir, how seasonal factor plays in quarter-to-quarter? In 4 quarters, how we should distribute our revenue of INR1 in Milk and Value-added products, which are the good quarters, which are the good quarters? So should I presume that the second quarter is the biggest one?

**Srideep Kesavan:** It's a good question. And I don't know if we have time. But I'll Just quickly, maybe take one minute. See quarter on quarter...

**Govind Lal:** Please, sir. I got sufficient time.

**Srideep Kesavan:** So I'll just take one minute to explain. Every quarter, the shape of the business changes. Quarter 1, the summer months usually is heavy on many of the value-added product categories such as curd and drinkables and ice cream. Quarter 2 usually is slightly heavy on milk. Quarter 3 is slightly heavy on festive sales, which is sweets and ghee and all of that. Quarter 4 is also very similar to quarter 1.

So roughly, something or the other is always growing as far as this industry is concerned. So overall, revenue growth will remain robust. But yes, the shape of the business categories will keep shifting as we move from quarter-to-quarter.

**Govind Lal:** Okay, sir. net-net, again, you can summarize. just I wanted to INR1 revenue, how we should split the quarter 1, 2, 3, 4. seasonality, how it plays. Overall revenue, I'm asking INR1. So quarter 1 will be 25%, 27%, equal, how it is your view, if possible on that?

**Srideep Kesavan:** My request is, sir, if you could connect to us on one-on-one, we'll be more than happy to explain you. But overall, like I said because we are a growth company and milk is growing at 5% and value-added products are growing at 14%, 15%. Over a period in time, the Value-added products product share will keep growing, okay?

So which means, let's say, for example, if -- but still in quarter 2, the ratio of Milk to value-added products will again tilt towards Milk. In quarter 1, it will tilt towards value-added products. That ratio will always remain like that. But expect that the size of value-added products will keep growing over a period in time. I hope I'm able to answer.



**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Dr. Rao for closing comments.

**M. Sambasiva Rao:** Thank you 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 and would like to know more about the company, please reach out to our Investor Relations manager at Valorem Advisors. Thank you.

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

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