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29th July, 2024

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

To
The Manager,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, C-1, G Block, Bandra-Kurla
Complex, Bandra (East), Mumbai - 400 051

Scrip Code: 519552

Scrip Code: HERITGFOOD

Dear Sir/Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

In Continuation of our letter dated July 12, 2024 the Company had organized a conference call with the Investors/Analysts on Thursday, July 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.

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

Q1 FY2025 Earnings Conference Call

July 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 Heritage Foods Q1 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 question after the presentation contains.

Should you need assistance during the Conference Call, please signal an operator by pressing "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Anuj Sonpal: Thank you. Good morning, everybody, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent Investor Relations of Heritage Foods Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the 1st Quarter of the 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. We firstly have 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; and Mr. Upendra Pandey – CEO of Heritage Nutrivet Limited; and Mr. Umakanta Barik – Company Secretary and Compliance Officer.

Without any further delay, I request Dr. Rao to start with his Opening Remarks. Thank you and over to you, sir.



Dr. Sambasiva Rao: Thank you, Anuj. Good morning to everyone joining us today on this call. We are pleased to welcome you all to this earnings call for the 1st Quarter of the financial year 2024. The Financial Results and the Earnings Presentations 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 of the quarter under review:

I am delighted to inform you that Heritage Food crossed the Rs. 1,000 crores quarterly revenue for the first time ever in its history, along with a very healthy improvement in EBITDA margins and profitability for the quarter. For the quarter under review, on a consolidated basis, we recorded a revenue of Rs. 1,033 crores, reflecting a 12% year-on-year increase. EBITDA for the quarter reached Rs. 94 crores, which grew by 133% year-on-year, with EBITDA margins at 9.08%. Additionally, net profit for the quarter was Rs. 58 crores, which surged by 249% year-on-year, resulting in PAT margins of 5.66%.

Now, moving on to the Operational Performance:

Our milk sales volumes continued to grow steadily in quarter one, registering a 4.26% year-on-year increase to 1.13 million liters per day. With milk selling prices averaging Rs. 54.81 per litre, up by 0.40%. Average milk procurement for quarter one stood at 1.62 million liters per day, making a 6.66% year-on-year growth. Average milk procurement prices for quarter one decreased by Rs. 3.47 per litre, down by 7.75% compared to Q1 of the previous financial year. Momentum in value-added products continued in quarter one with robust revenue growth of around 20%, reaching Rs. 423 crore, with value-added products contributing 41.5% compared to 38.6% in the Q1 of last financial year.

This revenue includes consumer pack fat products of ghee and butter. Excluding ghee and butter, value-added products revenue was Rs. 382 crores, contributing 37.5% of revenue in quarter one, up from 35.3% in the same period last year, growing at a rate of 18.7%.

This summer we launched three new variants of lassi, that is sweet, mango and strawberry. And three new variants of ball ice creams under Alpenvie brand, cotton candy, banana strawberry and bubblegum. We also introduced long shelf-life milk in UHT cartons of various sizes. Ahead of the festive season, we also launched a range of healthy at indulgent laddus under Heritage Truly Good brand in three variants, that is ghee besan, ghee jawar and ghee millet laddus.

Lastly, Heritage Nutrivet Limited, our wholly owned subsidiary achieved a robust top line growth of 29% year-on-year to Rs. 42 crores, and an exponential bottom line growth of 363% to approximately Rs. 3 crores. Heritage Novandie Foods Private Limited, our joint venture company, reduced its losses by Rs. 23 lakhs year-on-year from Rs. 3.34 crores to Rs. 3.11 crores.

Now the floor is open for question-and-answers session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Avinash Roy from Nuvama. Please go ahead.

Abneesh Roy: Yes. This is Abneesh Roy. My first question is, given good monsoons expected and that will lead to higher fodder crop, what is your expectation on milk prices over the next two to three quarters? And till now how much would be the price cut you have already taken given your gross margins have expanded? In Maharashtra, for example, we do see that milk cost has come down in the last two quarters. So, in your state if you could tell us what has been the price cut in the last one year?

Dr. Sambasiva Rao: Samba Murthy, would you like to take the first question on price outlook?

J. Samba Murthy: Going forward there will not be much big spring in the procurement prices. The fluctuations will be region wise, but there will not be any much change by the way. So, compared to last quarter to this quarter, there's a drop of Rs. 0.47 per liter actually, overall procurement cost. So, looking forward, there will not be much change looking at the current recruitment actually and the current commodity available in the country.

Abneesh Roy: Sir, what was the price cut till now, I did not get that?

J. Samba Murthy: Last quarter to this quarter there is a Rs. 0.47 paisa per liter.

Abneesh Roy: That is the cut?

J. Samba Murthy: Yes.

Abneesh Roy: And are you seeing the increase in competition? We do see whenever the margins expand in dairy and FMCG companies, local players become more aggressive. So, local smaller unorganized players become more aggressive. So, would you comment on how the competitive intensity is in your market?

Srideep M Kesavan: This is Srideep here. See, these quarterly variances is nothing new to the dairy industry, because there is always a lean season and a flood season, and there is also inter-year cyclicality that we have seen happen once in three or four years. So, I do not think there is anything unusual. After a very bad 2023 this was bound to happen. So, I guess the industry expected it. And because of this temporary phenomenon, I do not think that we are seeing any significant change in terms of the comparative intensity, we continue to compete.

And in fact, actually quite on the contrary, we are seeing consolidation happening in the industry at a very rapid pace, both on the procurement side as well as on the sales side. On the sales side, consumers are preferring known high-quality brands, which is helping all branded dairy companies like ours. And on the procurement side, because of the growing demand with the branded players, we are able to procure strongly with the farmers.

Moderator: Thank you. Next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Hi, Sir. Good morning and thanks for taking my question. Firstly, on the milk prices front, on the selling milk prices, so we have seen some pricing actions from industry leaders like Amul and Mother Dairy post the General Election result announcement. Have we also taken any price hikes following them or we continue to remain? And if so, do we have plans to take price hikes in line with the industry?

Srideep M Kesavan: Yes. Thank you, Sameer. This is Srideep here. See, the front price hike that Amul and Mother Dairy have done is in the northern part of India where even farmer milk prices were slightly subdued. So, we, alongside the increase of the consumer milk prices, also took up the farmer milk prices. For our business in the north of the country, we have also done similar, as in, in line with what Amul and Mother Dairy have done.

But the dynamic in the southern part of the country, that is Maharashtra and southwards is a little different. We had a good milk production period from last October till now, which means that there is sufficient milk available, there is stability on the procurement side in terms of milk prices are concerned. As we explained before, the raw milk procurement prices are lower by about Rs. 3.5 rupees in the southern part of the country per liter compared to same period last year. So, there has been no need, as in there is no justification for us to increase the consumer prices at this point in time. And we do not anticipate taking up the prices immediately.



Abneesh Roy: Got it. So, that is very clear. Secondly, on the EBITDA margin, now the company has done a 9% EBITDA margin this quarter, and this is a benefit of lower milk procurement prices, also the value-added contribution supposed to be the highest in 1st Quarter of the year. So, if, let us say, milk prices remain where they are, would it be fair to assume that this is the peak, at least for the time being, and sequentially margins should start tending downwards? More importantly, where do you see this settling on a full year basis, the margins? Assuming that prices remain where they are and there is no bumper flush or subdued flush.

Srideep M Kesavan: Yes. Thank you, Abneesh. This is a million-dollar question. You are asking us to predict future profitability. But if I can say that, see, in the last many quarters we have always mentioned and ensured that our objective is to stay in the corridor of 7% to 8% EBITDA, and we have worked hard to get here. Yes, at this point in time, we have a slight advantage as far as the milk price is concerned, and which may or may not remain, we do not know. And you also know that the dynamics of quarter two and quarter three are very different, both on the procurement side as well as on the sales side.

On the procurement side, usually the flush season starts from the month of October, November post-Diwali, which means that there could be a further downside to the pricing, we do not know that yet. On the sales side, usually the fat sales go up with the festive period, whereas some of the profitable value-added products like ice creams and all come down. So, there is dynamics on both sides. We will have to see; it will be our effort to sustain the margins. But then it depends on many other factors.

Moderator: Thank you. Next question is from the line of Aniruddha Joshi from ICICI Securities. Please proceed.

Aniruddha Joshi: Sir, just on the ice cream business, how was this season? Because we have seen across the board a strong growth in the ice cream business. So, for Heritage as well as Alpenvie, both the brands, how was the season? And then secondly, we have seen multiple product launches from Heritage, and some of these products are actually competing with Novandie products also, so how should we read this? And any update on Novandie business as well?

N. Brahmani: Yes. This is Brahmani here. I can take the second question first, Mr. Joshi. Novandie's seen, I am happy to say that we have seen strong growth not just year-on-year but quarter-on-quarter. And we have seen a significant growth in our existing markets itself across existing channels, as well as relatively newer channels such as general trade as well as e-



commerce. So, we are seeing really good consumer acceptance, consumer loyalty and customer confidence when it comes to our Novandie set of products.

In addition to that, as President sir has mentioned, we have seen improvement in bottom line, so lower losses this year. And we are seeing that given the fact that we are scaling and increasing in terms of volume, our costs are also getting better optimized, for instance, with the fixed costs, etc. So, strong growth over there and improvements in bottom line when it comes to Novandie business, which we expect to continue in the coming couple of quarters.

In addition to that, there is no competition between Novandie and Heritage Foods when it comes to product portfolio. The joint venture company is into the business currently of making yogurts, stirred as well as set yogurts, drinkable yogurts. So, there's absolutely no overlap of products between the two.

Srideep M Kesavan:

Thank you, Brahmani. This is Srideep. Aniruddha, on the first part of the question which is regarding ice cream business, ice cream business has grown at a strong 18%, 19% in the 1st Quarter in terms of volumes. In terms of revenue, it is close to the 20% growth that we have seen. And the growth, it's very, very strong in the first part of the quarter one, and we are right as far as maybe national average is concerned, quarter one was excellent as far as ice creams are concerned. But in the southern part of India, we had exceptionally high levels of rainfalls in the second part of quarter one, which actually played a little bit of a spoilsport, and which softened the numbers a little bit, otherwise the numbers would have been even more higher.

Aniruddha Joshi:

Understood. Very helpful. Just the last question, just a quick update required on the subsidies. So, as we understand, there is Rs. 6 subsidy in Karnataka, I guess Rs. 3 subsidy in Andhra Pradesh, and now Maharashtra Government has also announced I guess Rs. 5 subsidy per liter. Is this understanding correct or please suggest if any changes are in this? And any other state if any subsidy is there? Yes. Thanks. That's it from my side.

Dr. Sambasiva Rao:

Aniruddha, this is Sambasiva here. There is a support price in Karnataka at the rate of Rs. 6 per litre if the milk is supplied to cooperative. In Andhra Pradesh, there is no subsidy. But in Telangana they have the same support price of Rs. 4 per litre. Maharashtra has announced very recently this additional Rs. 6 or Rs. 5 I think it's Rs. 5, subject to the milk procuring companies paying Rs. 30 per litre for a particular quality of milk. Over and above that, Rs. 5 government would offer to the same farmers, and there is no other state as of now giving such supports.



- Aniruddha Joshi:** Understood. So, Maharashtra subsidy is not just for cooperating, even Heritage or for that matter any private company can also avail subject to they fulfill the required conditions, correct?
- Dr. Sambasiva Rao:** Absolutely correct.
- Aniruddha Joshi:** And so, is there any subsidy from central government? Because in the last first cycle we had seen there was a subsidy of around Rs. 50 per kg on SMP export. So, now I guess even more cooperatives are also full of huge amount of SMP, so do you see any such possibility in the sector? Or it would be a bit premature to say?
- Dr. Sambasiva Rao:** As of now there is no such support. We are not sure whether something is in the line.
- Srideep M Kesavan:** And it is an incentive and not subsidy, export incentive.
- Aniruddha Joshi:** Yes, export incentive was there, correct. So, as of now, there is no such incentive?
- Dr. Sambasiva Rao:** Right now, no. Yes, you are right.
- Moderator:** Thank you. Next question is from the line of Vandit Dharamshi from Alpha Invesco. Please proceed.
- Vandit Dharamshi:** Congratulations on a great set of numbers. I think this is what you have been speaking about, and finally we are seeing that happen in numbers. The first question is towards I think some of our competitors and peers have taken some sort of price cut in our core Telangana, Hyderabad market. While we continue to sell our products at the same price. So, any thoughts in terms of market share gain/loss, or how do we think of this?
- Dr. Sambasiva Rao:** Thank you, Vandit. Yes, we have seen that certain brands have dropped prices actually, this has never happened. And for the last 45 days since this happened, we have not seen any change in market share at all for us. So, we have sustained the prices. We continue to sustain the prices; we have no plans to drop prices. Secondly, we have put in place several strategies to ensure that the damage because of any price disparity is to the minimum.
- Vandit Dharamshi:** Got it. And sir my second question is, as we see, say, some competition coming up and maybe we might not lose market share, but as more and more local competition comes up, would you think that our volume growth might take some kind of a softer hit in terms of how you have been doing right now versus what we have done historically? Do you think that can happen because of more competition?



Dr. Sambasiva Rao: So, Vandit, let me just break down the growth numbers or rather growth potential opportunity for you. Even today off the total industry, roughly around 40% is what the organized players contribute. 60% is still in the unorganized sector, right? So, it's not like unorganized players have just come in or they are taking an opportunistic fund. It's largely an unorganized market. And the level of organization varies from, for example, the highest level of organization is in the milk segment where 50% of the volume is in organized, whereas the lowest would be in categories like paneer and all where only 5% is organized.

The growth that we are seeing is primarily because of consumers moving from unorganized to organized, not the other way around, right, because consumers are demanding better and higher quality. They are also discovering their affinity towards brands. So, for example, we are seeing very clearly that consumers who used to buy only Heritage milk are now buying Heritage curd, Heritage paneer and even Heritage ghee as well. So, people are buying into the idea of the brand and that is what is helping us drive our growth.

Thirdly, the growth is not just because of milk, because milk as a category will always grow at the rate of population growth or urbanization. Because milk, I would presume that everybody is already having as much milk as they have. The growth we will differentially see will be in the value-added products where we do not have, the dynamics that you just mentioned do not come into play at all.

Vandit Dharamshi: And sir, last question from my end. I think the entire industry, I think, including cooperatives and the entire industry is having good amount of SMP inventory with them. And looking at the kind of range that we are seeing in Maharashtra, Telangana, Karnataka and the further flush season that we see coming, what would be your view on SMP? Because I think most of the balance sheets are fairly loaded up with SNP, so how do you see that play out for the industry and for us? Thank you.

Srideep M Kesavan: This is Srideep here. I will request our CFO – Prabhakara Naidu to give a comment on our SMP stock, and then I will answer the second question.

Prabhakara Naidu: Good morning, sir. We have SMP stock as on 30th June of 4,586 tons. Value is Rs. 117 crores.

Srideep M Kesavan: Thank you, Mr. Prabhakara. And this 4,500 tons is the stock that we will require for the rest of the year. And there is nothing special for us because every year we cover ourselves for the commodities that we require till the end of the year, end of the year in the sense



calendar year which is November, December. So, the stocks that we currently have should sufficiently cover us till the beginning of the next flash cycle. And this is just a usual phenomenon.

As far as the industry is concerned, you said there has been several reports that the industry is holding high stocks of SMP and butter. How the dynamics will play on this will depend on how the milk production will go in Q2 and Q3. The good news is that on the production side so far we are getting signals of stability. So, at this point in time at least we do not see any cause for concern.

Vandit Dharamshi: Got it. Thank you so much and wishing you all the very best for this great performance. Thank you.

Moderator: Thank you. Next question is from the line of Rishabh Gang from Sancheti Family Office. Please proceed.

Rishabh Gang: So, I have been seeing your products, I think you are doing very good on branding and the marketing of them. I wanted to understand what have been the initiatives that we have been taking on creating a key brand differentiator? And how much of our initiatives are in-house and how much external help are we taking on the branding and marketing side in the last five years and maybe going forward also?

Srideep M Kesavan: Thank you, Rishabh. This is Srideep here. Thank you for your nice comments. In terms of marketing, I think our differentiation story starts with our product itself. I think what makes Heritage very unique is our distributed network of procurement as well as sales. So, on the procurement side, we are closest to the farmer, we procure from over 10,000 villages. We have 198 chilling centers which allows us to keep the milk as fresh as possible. And on the sales side, we have 18 factory locations which are again closest to the consumer, which means that both on the raw milk side or on the finished goods side we do not transport the goods long distance. This is the biggest differentiator. So, when you taste any of our products, you will see that it is far superior to anything else that is available in the market.

Further, in the last several years, our marketing team and R&D team have worked closely in improving our product superiority even further. So, we spend a lot of effort, time and money in terms of improving our products. So, a good amount of investment goes into that as well. Apart from all of that is communicating the superior to the consumer. And for that we work with multiple partners in this. On the creative side we work with Leo Burnett as



the agency, and on the digital side we work with LS Media, which helps us with all our digital campaigns. And we also work with several top of the game packaging design firms, which help us really create clutter breaking packaging designs.

Rishabh Gang: Which packaging design firm, just curious to know?

Srideep M Kesavan: I think I can tell you on one-on-one, but this is not the forum for it.

Rishabh Gang: Absolutely fine. No, because your packaging is very beautiful. The second thing I wanted to understand is, how much has been marketing spend as a percentage of revenue?

Srideep M Kesavan: Currently we are tracking around 0.9%.

Rishabh Gang: Two points on the distribution and the procurement side, what has been the key initiatives or practices which we have which are different from the competitors which has helped us across the procurement and distribution side? Because I think you are doing very well procurement as well, we want to know on that.

Srideep M Kesavan: Rishabh, this is Srideep again. I do not know as in if your question is to differentiate with competition. Because we have a very wide variety of competition, we compete with so many companies in so many states. You must be familiar that we procure from nine states, and we sell in 12 states. So, the competition for us is like such a huge spectrum. So, I would not want to differentiate versus any of our competitors. I can tell you what makes us tick.

On the farm side it's the same principles that Heritage had established 32 years ago, we continue to follow that. First and foremost is the transparency in terms of measurement. So, when a farmer pours milk to Heritage, they realize that the measurement that we give to the farmer is accurate. And for somebody who has been pouring milk to an unorganized vendor collecting milk in the villages, the difference is so obvious instantly.

Secondly is a fair price, fair price in the sense that our pricing is always in any of the procurement regions that we operate, our pricing is on par or better than anybody else's offering in that particular region. In fact, we give a lot of stability, which gives our farmers comfort and confidence in pouring milk to Heritage.

And the third is the most important part, which is payment on payday. Which means that on 11th, 21st and 31st of the month, three times in a month, money will be in the bank account of the farmer, irrespective of anything, like if there is a bank holiday the money



will be paid the day before, even if there is a cyclone the money gets into their bank. And this is not for one year, two years, this we have been doing it for the last 32 years, that's more than thousand payment cycles. This is actually what is the secret mantra of ours on the procurement side.

And the another most important aspect is the assured marketing of the surplus milk as far as the farmers are concerned. 365 days, they do not have to worry will somebody buy the milk. There's a concept in our industry called milk holiday. Heritage has had not even one milk holiday. Even during COVID pandemic when there was a lockdown, when many of the cooperatives also did not procure milk, Heritage went and procured milk, not even one day we stopped procuring milk. So, as far as the farmer is concerned, this is one assured bank, Heritage, right, so that's clearly the strength we have.

Similarly, on the distribution side, we have a very clear omni-channel strategy, and this is something that we had spoken in the previous quarterly calls as well. We do not depend on only one channel, we are very strong in the traditional channels of distribution, which is what we call as milk agents. We also have roughly 50% of our business revenue come from milk agents. We continue to grow on that. Like for example, in quarter one we added about 150 milk agents. So, it's not just traditional and strong, but we also continue to expand in that. But we also have milk parlors, we have about 859 Heritage parlors which service our consumers.

We have a new concept called as Heritage Happiness Centers. We have close to 300 Heritage Happiness Points now. We are also very strong on the product side with close to 400 product distributors who are typically FMCG distributors, right, who take our products to grocery stores across the country. And we also are very strong with our modern trade and e-commerce partners. We work with each and every one of the modern trade partners. In fact, we contribute a good percentage of their revenue, so they consider us as a key vendor as well. So, we have strategic partnership with all the modern trade and e-commerce partners. So, it's not just one. So, we have an omni-channel approach and that's what gives us strength.

Rishabh Gang:

Thank you. I really appreciate the kind of clarity you have, and you have given to me, thank you so much. Just one question if I can ask more. So, what do you think about the competition from cooperative societies, right? Because these players like Amul do not have a target of profitability, they can just make a breaking one and they are fine with it. So, about how do we think about that?



Srideep M Kesavan: So, Rishabh, this is Srideep here. I will just say that, maybe you are asking this question for the first time. Every quarter we get asked this and I am sure Heritage has been asked this question for the last 30 years. All I can say is that in 1992 when the industry was liberalized, the private organizations' contribution to the daily industry was zero. Today, off the total organized play, private plans like Heritage contribute 55%, whereas all the cooperatives put together contribute only 45%. And you have our revenue report in front of you, you will see that our growth is always ahead of cooperatives. So, how we do it? I just explained to you on the procurement side as well as on the sales side, and the product. I cannot say anything more than that on the product.

N. Brahmani: Just to add to what Srideep has beautifully articulated, which is very close to our heart. It's also the fact that we are always listening to the consumer in the different markets that we are operating in. And we are heavily quantitatively, not just qualitatively, but quantitatively driven in that direction. So, we are listening to the consumers, we get brand insights through internal as well as external teams.

And what we are seeing consistently quarter-on-quarter is that our brand, Heritage as a brand, top of mind or in terms of trials or in terms of repeat purchases, not just for milk and curd but also for other value-added products has been significantly increasing. Now, you know it's not me talking from my heart to my mind, but numbers show that to us. So, I am really happy to be sharing that.

And also, qualitatively what comes out is people trust us as a brand. And we are seen as a very hygienically produced set of portfolio of product. And this is what drives them towards purchasing Heritage products. Also, our DNA is very effective, we have a large S&D team that across channels keeps growing the number of touch points in terms of retail stores as well as other channel sort of outlets that we touch. So, that's been supremely effective for us in the last couple of quarters.

Rishabh Gang: Thank you so much. Excellent insights. Very grateful. Thank you.

Moderator: Thank you. Next question is from the line of Kiran Kumar from Investwise. Please proceed.

Kiran Kumar: I have a couple of questions. How are we trending on curd, since Q1 will be our biggest quarter for curd, what is our growth rates of curd versus last year same quarter?

Dr. Sambasiva Rao: Kiran, our growth is 13% in terms of volumes.



- Kiran Kumar:** And my second question is on procurement. From last year to this year, it is Rs. 3.47 you have dropped your prices. Can I just know the same number for Q4 to Q1, how much we have dropped?
- Srideep M Kesavan:** We will come back to you, Kieran, on that. Meanwhile, we can take another one.
- Kiran Kumar:** And my last question is on uh SMP, you said you have some around 4,500 tons of SMP. Can we know the mix of buffalo/cow, because I presume our buffalo BMCMP ratio, referring to our previous investor calls, it is some 80%, 20% or something. So, is the SMP also in a similar ratio 80:20 or is buffalo more than cow, is it something like that?
- Dr. Sambasiva Rao:** Yes, it will be more or less 50:50.
- Kiran Kumar:** And our last thing is on sales distribution. So, how are the sales mix in the geography like agents, distributors, we have our partners, how are we distributed among it, rough percentage mix, can we have that numbers?
- Dr. Sambasiva Rao:** Sorry Kiran, could you please repeat that question?
- Kiran Kumar:** So, what I was saying is, the sales mix in the geography what we sell, among distributors, agents we sell in modern trade, and we sell to our own parlours, do we have a specific percentage, means rough percentages, how much percentage of our sale is going to agent, how much percentage of our parlour? Is there a rough percentage?
- Dr. Sambasiva Rao:** See, we can give you very high-level numbers. So, the traditional channels as we call it are primarily agents and parlors, they contribute close to about 70%. And the rest is all the newer channels that we have opened.
- Kiran Kumar:** And are we coming on big firm also?
- Dr. Sambasiva Rao:** We of course are. Where are you based, which is your city of residence?
- Kiran Kumar:** I stay in Bangalore.
- Dr. Sambasiva Rao:** Please order Heritage on Swiggy, Zepto, Big Basket. In fact, our presence in e-commerce in Bangalore is far stronger than in many other cities. Request you to buy and try our products today.
- Kiran Kumar:** Definitely. I will do it.



Srideep M Kesavan: Yes. You asked the question as far as the landed cost. Rs. 0.24 it has increased compared to Q4.

Moderator: Thank you. Next question is from the line of Vicky Punjabi from UTI Mutual Funds. Please go ahead.

Vicky Punjabi: Just, I mean, two questions from my side. I think one is, in the past we have alluded to the fact that there are margin expansion levers that we have, like cost efficiencies, the gain in share of value-added products. How far have these, I mean, how much of more juice can you extract from these aspects going forward? I believe currently we are being helped by procurement prices being lower, but once inflation returns, how much of juice can be extracted from these levers going forward?

Srideep M Kesavan: Sure. So, you hit upon a point which we have been discussing over the last several quarterly calls. So, one of the biggest lever that we spoke about is the shift from milk towards value-added products. And you can pretty much imagine that we still have a long way to go, right? Last year we closed with our value-added product contribution of close to about 29.6-odd-percent, so we can say roughly 30%. This year, it is our aim to improve it by another 3%. We still have some way to go before we reach the 40% target that we have set for ourselves. And hopefully we should reach there in the next two years.

The second is, as far as operational excellence is concerned, we had mentioned in the previous calls as well that some part of the CAPEX is allocated towards replacement CAPEX. And the replacement CAPEX is done with a very clear automation and operational cost reduction perspective, which we still have some good way to go. Last financial year was a year where we were able to reduce operating cost by close to about Rs. 0.50 per litre, which is actually significant. And we think that we can further reduce it going into this year as well. So, there's still a long way to go.

There are many other operational efficiency parameters, efficiency initiatives that we are working on. For example, logistics, on a single metric of liters of milk per kilometre as a metric is something that we are trying to improve through better vehicle organization, better route planning, conversion of fossil fuel vehicles to electric vehicles. We still have a long way to go in all of these things. We are making good progress. We are seeing those efficiencies kick in. But we are encouraged by the fact that we still have a long way to go.



- Vicky Punjabi:** Sure. Thanks. And just last thing, I wanted to understand with the realizations in milk kind of falling off, would the growth actually trend down going forward? I mean, because I do not think we can, I mean, more than a mid-single digit volume growth is actually possible in the liquid milk segment. So, from the expectations of possibly around 6% to 7%, would the actual growth in liquid milk segment going forward be a little lower than what we generally, and what would we be targeting?
- Srideep M Kesavan:** See, this quarter we grew milk by 4.6%, and almost all of it came from volume growth, because we did not increase the prices at all, right. But that need not be the case forever. We do not anticipate any price increase in the coming three to four months. But usually cost increase, inflation, it's not just the procurement price cost increase, right, there is fuel cost increase, there is employee benefit cost increase. The general inflation that is happening in the country, overall consumers' grocery basket inflation increases.
- So, in line with this we expect before next quarter one, there will be an increase in milk prices as well. So, which means that we should be able to sustain either through volume expansion or through pricing initiatives sustained a mid-single digit or a high single digit kind of growth rate as far as milk is concerned. Plus, you will also know that we are expanding into newer geographies, so that will also help us grow our business.
- Moderator:** Thank you. Next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.
- Pratik Kothari:** Sir, first question on the bulk fat loss, anything that we recorded this quarter?
- Dr. Sambasiva Rao:** One second, the CFO will be answering this in a minute.
- Pratik Kothari:** Sir, in the meantime, there were a couple of initiatives that we are working on to bring this down, I mean, increase our cow milk procurement, do more value-added or do more consumer fats, any update, any progress on that?
- Prabhakara Naidu:** Bulk fat loss is minimum. Actually only 3 lakhs, 4 lakhs, and only coming up at losses Rs. 6.4 crores has been taken.
- Pratik Kothari:** Bulk fat loss is 0 and consumer is Rs. 6.5 crores?
- Prabhakara Naidu:** Yes, Rs. 6.4 crores.



Srideep M Kesavan: Yep. So, as far as the milk procurement expansion is concerned, it's an ongoing process and every year we keep adding, every quarter, in fact every month we keep adding our, what we call as like, village level collection centers. And that work is ongoing. So, we expect by the end of the year we would enter another 1,500-odd villages, which will keep the milk flowing.

More importantly, in these villages what we are also trying to expand to other access, one is the number of farmers in each of the villages is something that consciously we are trying to increase. So, on average you might have 15 farmers in a center, we are trying to increase it to 20, let us say. I am just giving some hypothetical numbers, please do not hang on to those specific numbers. But increasing and expanding farmers in each of the centers is also something that we are consciously working on.

Pratik Kothari: Correct. And sir the margins that we did now or maybe even in the future, it is higher than what our aspiration band is. So, how do we intend to use these margins? I mean, do we pass it on to, I mean, show more growth, use it to spend on our advertising? How are we thinking about this additional windfall that You are making, maybe even for time being at least?

Srideep M Kesavan: Pratik, this is Srideep here. See, we have a very clearly defined strategy. We are sticking to our plan. So, these things should not deter us and suddenly change the plans. So, we are not doing anything which we have not said before. So, even when times were hard, we stuck to our plan and it helped us recover faster than others, and we will continue to stick to our plan.

Pratik Kothari: And how long, I mean, can you hold on to this spread that we are making between the procurement and the final price? I mean, at some point I believe you would have to pass it along.

Srideep M Kesavan: No. See, this is very speculative. I would not be in a position to answer it. I would not know, as in whatever I say would be purely speculative.

Pratik Kothari: I am asking because we have seen multiple such cycles in the past. So, I mean, like you said every three, four, five years this comes along.

Srideep M Kesavan: See, listen, usually what happens, if this kind of margin sustains, let us say, for example 10% EBITDA margin is a given for ever and ever and ever, right. If that's the case, then I think all dairy players, not just Heritage, forget Heritage, all private players have a serious

job of expanding the category itself. Like I mentioned some time back, only 5% of the paneer consumption in this country is from organized branded play, only 9% to 10% percentage of the curd consumption in the country is organized play, people still make curd at home. Only 20% of the ghee consumption in the country is organized play, people still make it here at home.

So, if this kind of margin is given, then naturally this is purely hypothetical, Pratik, that when dairy will become like every other FMCG company the advertising-to-sales ratio will go to 2%, 3%, etc. So, the category momentum will increase. That's all I can say. But this is a very hypothetical question and purely speculative.

Moderator: Next question is from the line of Resha Mehta from GreenEdge Wealth. Please go ahead.

Resha Mehta: Congratulations to the entire team for a very strong set of numbers. So, my first question is on the, I am sorry for hopping on this again, is on the Maharashtra subsidy bit. So, a two-part question here. So, I understand that I think we have around 4% to 5% procurement from Maharashtra. So, with this Rs. 5 subsidy, does this apply to us? Because I think you mentioned that only if we pay Rs. 30 to the farmer, then the government will pay them Rs. 5 additional. So, which effectively means the farmer gets a net realization of Rs. 35. So, how does this affect our Maharashtra operations and the procurement price there? The first part.

And second, the farmer is demanding at least Rs. 40 in Maharashtra and procurement prices have been subdued. So, do you think that this farmer disenchantment is probably spreading in the South as well? And how are you reading that? And that very soon while the commentary is that procurement prices are expected to remain stable, but if they remain stable for so long, then the farmer disenchantment increases and it also affects the South part of the operation. So, that's the first question.

Srideep M Kesavan: Resha, thank you. We do not see the spread effect, as you visualized. There is an event coming up in Maharashtra, I am sure you are aware, that is why the aggression on ground. But the price of Rs. 35 is quite reasonable. The government policy says, the procurement organization should pay Rs. 30 per litre, over and above that Rs. 5 government will give us the support, that's the Rs. 35. The milk prices went as low as Rs. 20 during COVID. Subsequently it reached Rs. 40 during the last years when production was not so good. So, now it has come to Rs. 30 plus Rs. 5.

And we do not have much impact. We are already paying Rs. 28, Rs 29 per litre in that area. So, for us it is Rs. 1 or Rs. 2 on the volume we procure in that zone. So, it is good, farmers are getting reasonable price, Rs. 30 plus Rs. 5, which keeps them interested in the dairy sector and production will not fall in the following year. Whenever there is a low price, the following year had a production problem. This would ensure production remains at the normal level in the coming year also, and there is no such indication in any other state, all states are quite normal. It's only in that state that this is happening.

Moderator: Thank you. The next question is from the line of Ankit from Adhesive Ventures. Please go ahead.

Ankit: Congratulations on the great set of numbers. Well, my question is taking more of a medium term view. Say, maybe if I look three years forward till FY '28 for the entirety of the business, if I was to take a three of you, how do you see our growth profile whether it's volume and value trending over these three years?

And also with the VIP business piece growing, how do we see our EBITDA margin profile evolving maybe by FY '28? The idea being that, obviously, milk prices will fluctuate and that will affect it, but kind of just assuming some sort of constancy there. Overall, what should be our goal profile three years and margin profile after three years?

Srideep M Kesavan: Yes. Ankit, Srideep here. See, it is our intention to sustain the growth momentum. And part of the growth will come because of volumes expansion, as primarily more number of consumers consuming more of our products, more number of times. That's what we are working on those three axis. And part of our growth will happen because of revenue. So, roughly you can say, if we aim to grow in high teens, let us say, 17%, 18% year-on-year, 5% or 6% should happen because of price increases. Price increase actually partly because of MRP increase, partly because of mix change with more and more value-added products the weighted average revenue also goes up. That should contribute about 5%, 6%, 12% to 13% should come from volume growth. That's what we aim to achieve, right? And as far as the EBITDA is concerned, we would like to have the business sustainably deliver in the corridor of 7% to 8%, that will be our aim.

Ankit: And the 17% to 18% that we talk about, is this for the value-added product or is it for the entire piece, including the milk?



- Srideep M Kesavan:** No, overall business we are hoping that it will grow in the 17% to 18% range. That's what our aim is right now. I am not giving any guidance, like, I have no ability to predict future. But that's what we are aiming to achieve.
- Moderator:** Thank you. Next follow-up question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Hi, just a follow-up. So, cow and buffalo milk share, just wanted some clarity over there. So, 80% is cow milk, is that correct?
- Srideep M Kesavan:** Yes, that is right.
- Moderator:** Thank you. Next question is from the line of Raj from Ourjob Partners. Please go ahead.
- Raj:** I just skipped a point on the growth part. So, you are intending to grow 17% to 18% on the sales side for FY '25 and FY '26, and with 7% to 8% EBITDA, am I right?
- Srideep M Kesavan:** Yes, that is the intention.
- Raj:** All right. How much is the fat sales for Q1 FY '25?
- Srideep M Kesavan:** Are you asking in terms of revenue?
- Raj:** In terms of volume.
- Srideep M Kesavan:** So, volumes would be roughly around 700 plus tons.
- Moderator:** Next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.
- Pradeep Rawat:** I have one bookkeeping question. So, what is the average procurement price for this
- Prabhakara Naidu:** That is Rs. 41.31.
- Srideep M Kesavan:** There was a question on what is the total fat sale during this quarter? The exact number is 1,084 tons.
- Moderator:** Thank you. Next question is from the line of Pradeep, an Individual Investor. Please go ahead.
- Pradeep:** Congratulations for the good set of numbers. And I am from Orissa, that's why last six months I could see your products in Bhubaneswar and the interiors of Orissa. And congratulations for coming into Orissa also, that's great news. First point, first thing is, what is the differentiation in the ghee part? If you see the competitors, they clearly write that they make it a slow cook process for 3.5 hours or 4 hours. And the aroma of love, all



those things will be there. But in your website it is not mentioned anything. That's my first question.

And second part is when will you do e-commerce in Orissa? These are the two questions. Thank you.

Srideep M Kesavan: Thank you very much, Pradeep, for appreciating our products and consuming our range as well, thank you very much. The question on differentiation, as far as our ghee is concerned, our ghee is made from milk. Most of the ghee that you buy in the market may not be. That's I think that is a very big differentiation. Most of the very well-known brands also may have one of that.

Pradeep: I just wanted to say that ITC brand, if you see here, it is the most prevalent here –

Srideep M Kesavan: Yes. See, there is one thing that our Executive Director mentioned some time back when Ms. Brahmani spoke. She said that we listen to consumers. So, we understand that, for example, ghee, we understand that the requirement or the consumer expectation of ghee varies from state to state from region to region. And we tried to formulate our ghee in terms of the boiling point and consistency, granularity, color, all these things we try to get it as close to the consumers' expectation as possible. So, there's a lot of work that goes in making sure that it meets your expectations. So, that's one.

And as far as e-commerce is concerned, we are working with our partners. We are figuring out some back-end logistics, etc. Once we have a solution for all of that, we will be launching an e-commerce as well.

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

Dr. Sambasiva Rao: Thank you all for participating in the Earnings Concall. 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 Valorem Advisors. Thank you.

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

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