Ref: SECT: STOC: 69-20

3rd August, 2020

To
The Secretary,
The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

Scrip Code: 519552

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

Scrip Code: HERITGFOOD

Dear Sir / Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

In Continuation of our letter dated July 20, 2020 the Company had organized a conference call with the Investors/Analysts on Friday, July 31, 2020 at 16.00 PM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been put up on the Company's Website at www.heritagefods.in

This is for your information and records.

Thanks & Regards

For HERITAGE FOODS LIMITED

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

Encl: a/a

HERITAGE FOODS LIMITED
CIN : L15209TG1992PLC014332
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“Heritage Foods Limited
Q1 FY2021 Earnings Conference Call”

July 31, 2020

<u>MANAGEMENT:</u>

DR. M. SAMBASIVA RAO – PRESIDENT

MS. BRAHMANI NARA – EXECUTIVE DIRECTOR

MR. J. SAMBA MURTHY - HEAD (DAIRY DIVISION)

MR. A. PRABHAKARA NAIDU – CHIEF FINANCIAL OFFICER

MR. UMAKANTA BARIK - COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Heritage Foods Q1 FY2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Sambasiva Rao. Thank you and over to you Sir!

Sambasiva Rao: Thank you very much. Good evening all. I welcome all the participants to Heritage Food Q1 earnings call and specially thank you all to join on your holiday and during the restrictions period.

I now will take you through standalone results of Heritage Foods, Q1. Our turnover is Rs.620 Crores down by 13% compared to previous year same quarter Rs.711 Crores. You are all aware there is a significant fall in the demand post lockdown which has resulted in lower turnover. We have achieved Rs.53 Crores EBITDA compared to Rs.50 Crores of Q1 last year 5% growth. Core business profit before tax is Rs.36 Crores compared to Rs.33.27 Crores for last Q1. PAT for core business is Rs.27 Crores versus Rs.21.7 Crores during the Q1 last year.

Now I compare Q1 performance with Q4 on standalone basis. Turnover same Rs.620 Crores versus Rs.643 Crores of Q4, is a fall of 4%. EBITDA was Rs.53 Crores versus Rs.26 Crores of Q4. Core business PBT is Rs.36 Crores versus Rs.9.72 Crores of Q4. PAT is Rs.27 Crores versus Rs.6.79 Crores of Q4.

Moving onto consolidated results for Q1, the turnover is Rs.639 Crores versus Rs.721 Crores, is an 11% degrowth. EBITDA Rs.57 Crores versus Rs.48 Crores of last year's Q1. Core business profit before tax is Rs.36 Crores versus Rs.33.27 Crores, PAT of core business is Rs.29.23 Crores versus Rs.18.85 Crores Q1 last year.

Again, consolidated level I compared now Q1 performance with Q4 of FY2020, net turnover Rs.629 Crores versus Rs.653 Crores, there is a 2% degrowth. EBITDA Rs.57 Crores versus Rs.28 Crores of Q4, profit before tax core business Rs.36 Crores versus Rs.9.72 Crores of Q4 and PAT core business Rs.29.23 Crores versus Rs.7.20 Crores.

Now I will highlight certain features of dairy business on its whole. Q1, there is a small increase of profit before tax of around 10%, Rs.32.4 Crores to Rs.36 Crores compared to last year. This is essentially attributed to better realization sale price through sale prices of milk and value-added products. Volumetric data, milk procurement volume during the current Q1 14.5 lakh liters compared to 15 lakh liters of Q1 last year. Milk sale volumes 9.19 lakh liters during the current quarter number to 11.6 lakh liters of last year's Q1. Curd 253 tonnes per day versus 462 tonnes of last year's Q1. The contribution of value added products to the total revenue has come down to 25% compared to 33% of last year's Q1 again essentially the fall in the sale of value added product which are essentially impulse products and consumed outside home, there is an impact on the wrap sale.

During the current year's Q1, our expenditure under capex is lower at Rs.8 Crores compared to Rs.107 Crores of the full financial year during FY2020, so it is a lower expense because most of the projects got stalled, no construction happened though projects at very final stages of completion, but most of the works could not be completed and projects were not commissioned, no capitalization happened though we have incurred certain expenses on the final stages of the projects. Now the works revised in this month slowly we will recoup the speed and complete the projects which are ongoing.

The debt position if I explain this is at HF level, Heritage Foods level long-term debt is Rs.185 Crores and short term is Rs.38 Crores as on June 2020. We have 100% wholly owned subsidiary, long-term loan is Rs.14 Crores and short-term working capital is Rs.4 Crores.

These are broadly the details of Q1 performance. Situation continues to be same despite unlock down, demand in the active pickup outside own demand, we are looking forward to rebuilding our sale volumes in the coming months, the situation improves.

Thank you very much for the patient hearing. I am now opening it for discussion, suggestions, feedback, clarifications from any of the participants. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Good afternoon. I basically wanted to understand the liquid milk sales which is down 7%, so I just wanted to understand the out of home component of your liquid milk portfolio, because my understanding is that the in-home liquid milk sales demand has actually gone up and despite that if we have 7%, 8% kind of decline is it because of our out of home portfolio was large and there was significant decline in that?

Sambasiva Rao: Mainly the liquid milk growth out of home reduced because of the reverse migration of the people, in most of the cities where we operate at Bengaluru, Chennai, Hyderabad, lot of employees have vacated the city and left home because of the lockdown and the consumption has fallen because they would have consumed at home only, but they are not here anymore, lot of them have migrated, one. Two, the office based consumption daily four to five cups of coffee, tea consumption also fallen for every working person in the office, so offices and the factories and wherever shops, so this consumption has to come back once the activities move forward and people also come back to urban areas again.

Percy Panthaki: It was a demand problem, right? There was no supply issue that you could not supply the extent of demand.

Sambasiva Rao: Absolutely. It is only demand issue, demand has fallen post lockdown and even after unlock down has not come back mainly because of migration of people and change of work habits, working place etc., and the shops have not yet opened, the outside home consumption is yet to come back.

Percy Panthaki: Okay, so even in July we have not seen a normalization of that?

Sambasiva Rao: Of course, June, July it had another set of issues of monsoons and severe restrictions in Bengaluru and Chennai though it was unlock down at national level, these two cities have been facing the lockdown restrictions more than April, May hence the impact.

Percy Panthaki: Understood, secondly on you had very handsome margin in this quarter I think because the milk procurement prices were very low because again the milk demand being low affected the prices, but now as the demand comes back, I am here the milk prices will also go up and therefore your margins may not sustain at these levels. Would you give us some flavour on both have you see the milk procurement prices trending for the next few months and at EBITDA level what is the kind of comfort you have on margin delivery?

Sambasiva Rao: Of course, the situation is quite unclear as of now. This is a very uncertain, unpredictable kind of scenario we are going through. Two, three aspects; one, when the economic activity revise, when the workforce will come back to urban areas where our demand depends on the return of the people to urban markets, because our sales are mostly in urban areas, very small quantities are in the Tier-2, Tier-3, so the return of people, return of normalcy in economic activities is one. It is connected to that and the second is the monsoon. Right now, monsoon is quite active and good this year in the month June, July. Rainfall is normally higher in most of the parts of the country, so the expectation in milk production like last year, lactation cycle was delayed which normally should have come in October, it came in January, so this year we are expecting lactation cycle to be normal, so we are only left with two months August and September before the lactation cycle begins, the flush season begins, so if flush season starts in a normal mode, the milk availability will be higher and the third aspect is inventory. Entire financial year last year from July to March, we were crying for nonavailability of milk scarcity, high price of procurement milk, high price of SNP, nonavailability of SNP, we all most of the industries have asked Government of India to import duty free or with reduced duty and distribute powder in the country that situation is suddenly changed after lockdown. The milk availability improved and inventory increase most of us have some fall in the demand so that balance will be converted into milk powder and butter, every company, every cooperatives holding these stocks, so in view of the increased inventory of commodities and onset of flush season in two months away, we do not expect significant change in the procurement prices unless demand overshoots which is not looking so as of now so we have to watch every month, every quarter and see how the margin structure will change, how prices will move, how the demand will come back, it is a kind of premature for me to comment on situation may be we have to wait and see and navigate the business carefully through this crisis period.

Percy Panthaki: Right and the other thing which happened this quarter apart from input cost deflation, your margins were also helped by controllable on your overhead costs, so can you give us some idea on what part of these costs which have been controlled, is sustainable and what part is sort of only temporary or exceptional because of the lockdown and those cost will come back again very quickly?

Sambasiva Rao: The costs were down because volumes are less, number of vehicles deployed reduced, so the hirer charges have come down, because we have all outsourced vehicles. Of course there is significant fall is a travel almost no travel everything is run through Zoom calls and audio calls, so travels and stay allowances all that movement costs every employee gets travel allowance, movement allowance, stay allowance, entire workforce is not able to move, so these are things which will come back. These are all reduced because of the volume issue.

Percy Panthaki: Generally you give some idea and typically we have not guided more than 7% EBITDA margins, but this quarter we have done 9% in spite of such adverse circumstances, so can we basically consider that this 7% benchmark is broken and for the rest of the nine months we will at least give more than 7% benchmark?

Sambasiva Rao: That is what I try to attempt that this is very unpredictable, uncertain situation, this is unfair and premature to commit anything at this stage, we must run the store.

Percy Panthaki: Understood and my last question is given that procurement prices down so much and there is some amount of farmer distress, do you see any kind of government intervention in terms of subsidies etc., and if so is that something that can be negative for a company like you?

Sambasiva Rao: Governments are being approached by farmers association, industry association for export incentive like last time they have given one-and-a-half year ago, Rs.50 a kg kind of subsidy for evacuating the stocks from country and reducing this glut scenario, which might happen that would help in liquidating and disposing the accumulated inventories and it may have some impact on the procurement prices also.

Percy Panthaki: Okay, but you are expecting more of a subsidiary on SNP and other products rather than subsidy on liquid milk?

Sambasiva Rao: Definitely, because they have never given subsidy on liquid milk except Maharashtra for a limited period that too for the milk that is used for converting as powder.

Percy Panthaki: But Sir Telangana and Karnataka is giving subsidy to milk code into cooperatives, right?

Sambasiva Rao: That is going on further years.

Percy Panthaki: Okay, but you do not expect that quantum could increase or may be some other states could follow suite or something like that?

Sambasiva Rao: All their money is going to Corona management Fund.

Percy Panthaki: That is all from me. Thanks. All the best Sir.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good afternoon and congratulations for a good set of numbers. Sir, my first question is on inventories. Is it possible it to know what is the inventory as on June 30, 2020?

Sambasiva Rao: Can you repeat, not able to hear, your voice is blurring?

Bhargav Buddhadev: I was referring to what is the inventory outstanding as on June 30, 2020 on the balance sheet?

Prabhakara Naidu: Rs.140 Crores.

Bhargav Buddhadev: So, it was about Rs.145 Crores in March 2020, so there is no increase in inventory, is that correct?

Prabhakara Naidu: Rs.140 Crores as on June 30, 2020 on standalone basis, as on March 31, 2020 it is Rs.136 Crores.

Bhargav Buddhadev: So, there is no change as per the inventory, right?

Prabhakara Naidu: There is a change individually, butter we used to have 1049 tonnes and now the butter has come down to 381 tonnes, disposed in this quarter.

Sambasiva Rao: Typically we store butter during the Q4 for consumption during the Q1 that normal year where the Q1 we find milk scarcity and we used the butter for the business and also for ghee, so that butter could not be consumed this year, because of the change in circumstances that we felt it is better to dispose up and we sold up a butter, but this how the butter inventory has come down.

Prabhakara Naidu: Similarly, SNP on March 31, 2020 we used to have 1868 tonnes, now it has gone up 3822 tonnes.

Bhargav Buddhadev: It is almost doubled.

Sambasiva Rao: Inventory values have changed. For SNP price in March was very high, now it is low, so even the quantitative increase is there, you would not see that in the value, because of per kg price has come down.

Bhargav Buddhadev: Essentially in the earlier question you are referring to that given that SNP prices have fallen, there could be a probability that the government might give an export subsidy or something like that right?

Sambasiva Rao: Yes.

Bhargav Buddhadev: Given this significant decline in milk procurement, is there any chance of any price cuts being done or as of now there is no chance, because the last one-and-a-half to two years, there was a big decline in profitability?

Sambasiva Rao: As of now there is no proposal to cut.

Bhargav Buddhadev: My last question was the subsidy, sorry to repeat it, but there are some news flows we suggest that Andhra Pradesh is thinking of increasing the milk subsidy, any truth in these rumors or nothing much to sort of worry on that part?

Sambasiva Rao: I have been hearing it since more than one year and mainly we will get some more time.

Bhargav Buddhadev: Thank you and I will come back in the queue.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir. Three questions, but firstly one clarification, the milk procurement prices in the month of July would have also been like what the June average would have been?

Sambasiva Rao: We will discuss July next month.

Prashant Kutty: Another clarification was about the liquid milk realization. This would be the full price, which is reflecting in the first quarter, right? Usually when institution and all of them come up you would be having some discounts or when the modern trade of full active, you have some discount, so will this liquid realization typically kind of come out as a demand keep increasing?

Sambasiva Rao: Realizations will be same even in the other channels when they come back.

Prashant Kutty: This is pretty much the number as far as liquid milk realization is? The second question is basically on you said that the demand was impacted because you spoke about that office is missing and out of home is missing. What could be the out of home demand for as far as our overall dairy business is concerned and specifically for liquid milk and similarly what would be the retail proportion? I am saying what is the out of home consumption in milk as well as the value-added product.

Sambasiva Rao: It is different for different companies and different cities.

Prashant Kutty: How much would it be on a consolidated basis for us?

Sambasiva Rao: Milk could be around 15% to 20% for us which is going towards the office level consumption or the canteens and restaurants end of consumption and value added products it could be 30% and there is something impulse that happens all over the places where people move railway station, bus stations and the shopping areas they are not institutional, but they are impulse purchases like lassi, buttermilk, flavored milk, milk shake, ice cream, frozen dessert these are all the items which are consumed particularly in the summer season and we had summer gone by because those demands, but it is different for different companies.

Prashant Kutty: Sir, the third and the last question is basically if we look at our overall performance, if we look at spread, this will be pretty sharply high in this particular quarter, while you are saying that the milk procurement might not change given the flush season coming up and also that the liquid prices might remain the same, so suffice to say even if the demand is how it was in the first quarter. Ideally the spread should largely sustain, is that a right assumption to make?

Sambasiva Rao: I will try to clarify earlier, this is it uncertain, unpredictable scenario, so we must watch out every month, every quarter, we will give updating you though situation looks same.

Prashant Kutty: Last bit Sir, on a month-on-month basis, have your consumption been improving by any chance like was June better than May or July trending better than June, is there any such corrections?

Sambasiva Rao: It is not impacted by the monsoon. The value-added product consumption also fluctuates with the monsoon activity if there is continuous rainfall in this market, it is not coming up, so once the rain subsides then demand will come back. Second is, this is a normal festive season, festival celebrations and the marriage celebration both are not happening, the way it used to happen, so the expected demand because of weddings and festivals is also not coming, which used to offset the monsoon impact. Now monsoon impact is there, and the celebrations are not there, so we are not seeing that spike which should have come normally.

Prashant Kutty: But monsoon would have been there last year, so now Y-o-Y basis it should not be…

Sambasiva Rao: Monsoon impact would have been set off by the celebrations. Celebrations are also not there; it is a double disadvantage scenario.

Prashant Kutty: Thank you so much and all the very best.

Moderator: Thank you. The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: Thank you. One very quick question the price that you will pay per liter of acquisition of milk, what was the average for the whole last year and what was it for this quarter?

Sambasiva Rao: Milk procurement price?

Vivek Ganguly: Yes.

Sambasiva Rao: Last year it was Rs.33.4, this year it is Rs.35.

Vivek Ganguly: Whole last year was Rs.33 and now it is?

Sambasiva Rao: Last year Q1 Rs.33.4, this year Q1 Rs.35, there is an increase of Rs.1.60 paise that is Q1 to Q1, but Q4 is a major drop.

Vivek Ganguly: On the demand side you are all not getting enough traction there and the price can fluctuate, but from the acquisition perspective while, so you all are not able to pass that on, it is not that seamless and process, is that what we should understand?

Sambasiva Rao: I am not able to comprehend what you said.

Vivek Ganguly: What I mean to say that on the demand side, you all are facing some pressure, but on the procurement side, you said that it is actually for this particular quarter it is up by about Rs.1.5, so what similar quarter last year?

Sambasiva Rao: Yes.

Vivek Ganguly: So that means that on the supply side, you all did not get any benefit of a lower demand?

Sambasiva Rao: Q1 of last year, there is no advantage, but compared to rest of the quarters of year, there is a drop in the prices. Last financial year I explained in the beginning we went through scarcity of milk, milk prices went up every month in the last year from July to March and milk power prices moved from Rs.230 a kg to Rs.330 a kg in seven months' time, so that peak price scenario aggravated by scarcity continued up to lockdown date and post lockdown there is a significant change in the milk powder availability and prices were lower, but Q1-on-Q1 we do not see much advantage.

Vivek Ganguly: Right Sir and for the full year, FY2020 what was the average procurement side?

Sambasiva Rao: Rs.35.55 full year.

Vivek Ganguly: Thank you Sir.

Moderator: Thank you. We will move onto the next question that is from the line of SivaKumar from Unifi Capital. Please go ahead.

SivaKumar: Congrats for a good set of number. Can you revisit the procurement price for Q1, I did not get that number, you said it is Rs.35?

Brahmani Nara: Rs.35.55.

Sambasiva Rao: That is for full year.

SivaKumar: What will be for Q1 FY2021, the latest quarter?

Sambasiva Rao: Rs.35.

SivaKumar: And the selling price for the latest quarter?

Sambasiva Rao: Rs.46.39.

SivaKumar: This is an increase from Rs.44.26 that we got to see in Q4, so were price hikes done across geography Sir?

Sambasiva Rao: No price hike. It was done at the end of the month, let us say price hikes were done in March and February also, full value of the quarter has come in this quarter not in the previous quarter. Any price increase that was taken in the month of March would not be reflected in the Q4 fully.

SivaKumar: So now you got to see the full benefit, right?

Sambasiva Rao: Correct.

SivaKumar: On the milk volumes which you were sold 9.19, you got to this number in spite of April being full lockdown month, will you be able to hold on to this volume in the subsequent quarters, what is your own sense?

Sambasiva Rao: We will be able to.

SivaKumar: Great. One last question on the margins, you said you had disposed of butter inventory during the quarter and typically the butter inventory's margins are little lower than the other products, should we say the margin would have been better if not for that disposed of butter?

Sambasiva Rao: Margins of butter will not be better, because the significant part of this butter was made during the Q4 when the milk prices were high and this in normal course of business in any year, we would have consumed in summer during the lean season when milk availability was low we would have used it for various requirements. Because of the changed circumstances that butter which was carrying at a higher cost got sold in this quarter when the prices were low, so the margins were certainly not better, it is lower only. We have taken a sale decision because this summer is going to be having surplus milk than required and there will be surplus availability of milk powder and butter in this year, prices are expected to go southwards so having taken that conscious call, we quickly liquidated because butter has to be stored at -18 degrees temperature cold stores because carrying cost were high instead we preferred to hold the milk powder which is in the dry form and stored in MDM temperature, so we significantly decreased our butter stocks and increased our milk powder stocks that was the move we made in the lockdown period.

SivaKumar: Fair enough Sir. Basically, I am trying to say that if not for that your margin would have been higher than what you reported, is that a correct assumption?

Sambasiva Rao: Yes.

SivaKumar: Thanks a lot Sir. That is, it from my side.

Moderator: Thank you. The next question is from the line of Rupen Masalia from RN Associate. Please go ahead.

Rupen Masalia: Good afternoon Sir. Thanks for the opportunity and congrats on a good set of numbers. Sir, I have a couple of questions. One is just want to know the breakup of revenue geography wise and competitive intensity that is number one for Q1 FY2021 as well as FY2024 full year that is first question and second is due to ongoing COVID pandemic, is there any delay in our yogurt launch program through Joint Venture Company? That is, it.

Sambasiva Rao: The first question, we stopped sharing territory wise sales data because it is getting into the hands of our competitors and there are certain business disadvantages that are built in, so it is not for transparency reasons, but this is for the business competition reasons we stopped sharing that in public domain, but in case if it is beneficial for you for making any decisions, we can give you offline for anyone, that is the understanding that you will use it for our benefit.

Rupen Masalia: That is perfect Sir.

Sambasiva Rao: Rupen, I know you are our well-wisher and you will use it for our benefit. I will share with you later. I request Brahmani to respond to you.

Brahmani Nara: With respect to the second question, an update on the JV Project which is Heritage Novandie Foods Private Limited. The project is progressing smoothly at this point in time, although in between given the fact that the plant is coming up in Maharashtra which was the initial epicenter of COVID, there was some delays and in addition to that we had rains so that also delayed the project; however, now the project is moving in full swing. Our teams are ready. Our marketing plan is underway right now and given the fact that the plant side everything is moving smoothly, we expect to be launching the products end of October, beginning of November.

Rupen Masalia: That is great Madam and on the competitive intensity in AP, Telangana and other geographies, if you can throw some light? Competitive intensity in AP, Telangana and other geographies?

Sambasiva Rao: It is intensive everywhere. There is nowhere market is open exclusively for us, it is intense everywhere and everybody is trying to grow, and everybody is getting investments also there are no issues about it.

Brahmani Nara: While we cannot speak too much of it competitors, we can seek about our own operations during this COVID time, so one of the good thing was that all our operations especially logistics for normal during this time both on the procurement side as well as on the distribution side. All our processing facilities were operational during these tough times, we were able to work with the farmers and support our farmers and did not reject any milk from them and protect their livelihood. In fact, we went about doing a lot of empowerment and input activities also including subsidized cattle feed, providing them the loans in fact they got high loan to our farmers all of that. Our R&D activities are in full swing. In fact, we have launched new products in the market during the last four months including A2 Milk which is good for immunity, better for digestion and good when it comes to functional benefit. We also launched milkshakes during this time hoping to get the benefit of the summer season and we have a basket of more products, we will be launching in this coming couple of weeks and we were also able to actually effectively use technology during this time, given our integrated ERP system we were able to transact with the digital payments for very smooth during this time. We were able to use IoT to be able to monitor our operations including GPS in vehicle tracking system, we have applications for intense and that is how we were not able to miss out on any market related opportunities that we had. In fact, we have also been thinking about go-to-market strategy and we have significantly focused on newer channels, which have picked up during COVID such as e-commerce. We have doubled our throughput through e-commerce, we have improved our sales through MRF, where we were under serving to certain chains and most importantly I guess our employee safety became very paramount and at every levels we ensured that our employees are safe and everyone has been thoroughly covered under insurance program etc., so on our side our logistics were very efficient, we were able to launch new product, we were able to use technology and be available through innovative channels.

Rupen Masalia: That is helpful. That is, it from my side and all the very best for future.

Moderator: Thank you. The next question is from the line of Anirudh Joshi from ICICI Securities. Please go ahead.

Anirudh Joshi: Thank for the opportunity. Sir, one now that some of the cost is probably structurally going to reduce even if the lockdown is over or COVID impact reduces still probably people will take so much or there will be reduction in general the other costs also probably spend also may also reduce, so do you see some structural savings coming considering this disruption. Point number two, what is the capex that you are looking at because probably this year there may not be rather there will be volume declined most likely, so is there any need to go aggressively for capex or do you see some savings on that front also?

Sambasiva Rao: On the first one in terms of costs, there is no significant change in the cost structure except that our sales volumes have come down thereby the logistics cost have come down in absolute value. When two lakh liters of milk is left to that extent my transport cost will come down because we are all outsourced vehicles and we reduced number of vehicles and power consumption also comes down because of quantity pack is lesser, so these are related to variable costs that have come down, so I do not see a big difference in the cost structure, some of the cost may come back like travel cost etc., instead of cost structure, we are looking at efficiency and regaining the volumes, so that we can come back to pre-lockdown levels. The second question of capex, yes you are right. We have enough capacities to meet the requirement, we do not have to create new facilities now, but we have initiated certain projects earlier. They are all in different stages of completion. They require funding. So far we have incurred Rs.8 Crores in this Q1, but going forward we have to spend those money and complete the projects which will be commissioned towards the end of the financial year for the next summer requirements, but relatively speaking it will be lower than previous two financial years spending by 20%, 30% at least.

Anirudh Joshi: Can we roughly assume capex to be around Rs.80 Crores odd in FY2021?

Sambasiva Rao: Yes.

Anirudh Joshi: Sir last question, what was the average milk procurement price you said in Q1, I missed that number.

Sambasiva Rao: Rs.35.

Anirudh Joshi: Rs.35, average milk procurement price in Q1?

Sambasiva Rao: Yes.

Anirudh Joshi: Thank you.

Moderator: Thank you. The next question is from the line of Sagarika Mukherjee from Elara Capital. Please go ahead.

Sagarika Mukherjee: Thanks for taking my question. Just wanted to know what was your curd sales in value terms that is first?

Sambasiva Rao: 253 tonnes per day.

Sagarika Mukherjee: In value term Sir?

Sambasiva Rao: Rs.125 Crores.

Sagarika Mukherjee: Sir fat and SNP sales during the quarter if you could give?

Samba Murthy: SNP we have not sold. We have accumulated the inventory. Fat we have sold Rs.60 Crores.

Sagarika Mukherjee: Okay and any chances procurement milk prices in July are lower than Rs.35 that you procured at in the first quarter?

Sambasiva Rao: Can you repeat, Sagarika?

Sagarika Mukherjee: Your milk procurement prices in July are they lower compared to first quarter average price of Rs.35?

Sambasiva Rao: Maybe it is fair we will discuss it in the next call.

Sagarika Mukherjee: Okay, fine, but Sir in the glut situation, when production is expected to be high and demand is low chances are it can be trending downwards unless the subsidy etc., comes up right?

Sambasiva Rao: We are also entering a bit of lean season in buffalo milk area typically July, August are the lean season months for buffalo milk areas. Production comes down, so there would not be such a change in the production or sale. It is almost stabilized now for last two months whatever surplus is there it has been converted into milk powder and reserved for the future news. It is not that there is a change in this month or next month either way, it may be stable for the time being, particularly because we are entering the low production season for buffalos.

Sagarika Mukherjee: Sir, could you please share your selling price stock curd for the quarter?

Samba Murthy: 54.46 per kg.

Brahmani Nara: That is our realization.

Sagarika Mukherjee: In terms of milk prices, in terms of MRP etc., for liquid milk and curd, are there any pressures in terms of anybody like market leader wanting to take price cuts now and passing it on, any such talks?

Sambasiva Rao: Not as of now.

Sagarika Mukherjee: Thank you a lot Sir.

Moderator: Thank you. We will move on to the next question that is from the line of Shradha Seth from Edelweiss. Please go ahead.

Shradha Seth: Good evening Sir. Hope all of you are doing well. Most of my questions are answered, just one question, I wanted to understand our capex requirement annually and what is the kind of capacities we have currently to cater to the kind of volume growth that we are seeing because this year clearly seems a washout year so even if we reduce our capex, 20% to 30% if you could just explain the breakdown of the capex. I think you had explained two quarters back in terms of the chilling centre costs and all, but if you could just breakdown annually what is the kind of capex requirement in the current scenario we need?

Sambasiva Rao: We currently have installed capacities of 20.28 lakh liters of chilling. We have distributed in milk procurement areas and we have 23.7 lakh liters of the processing capacity which are in the factories where the milk comes for packing and pasteurization, etc. We are now at 15.35 lakhs liters of milk packing capacity and we also have 6 lakh kgs of curd packing capacities. We have major installed capacities. These are enough for meeting the current business requirements, but what we do is every year we add certain facilities for meeting the next year's production requirements. Another aspect in certain markets where our capacities are available, but the sale is not there to the full capacity level, but in certain markets our capacities are limited, and the sales are growing. There is a kind of mismatch in terms of installed capacity versus current sale growth. That happens in the planning. We expect certain things to grow but it does not grow, but it grows somewhere else. Though we have overall 15 lakhs liters of milk packing capacity we still add 1 lakhs liter in the market where our growth is faster than capacity or we aspire to grow in that area. That is how sales volumes and the packing capacities do not match. Procurement capacities in the low seasons like summer months, our procurement go down in popular areas by 60%, 50%. So, I make now 1 lakhs liter capacity, but I will be getting only 50000 liters in summer in the same locations, in winter months, I will get 90000 liters. So, the capacity utilization of chilling, I have 20 lakh liters, but we handle only 15 lakhs liters. It looks like I have 5 lakh liters idle capacity. In winter months, I will be doing closer to capacities, in summer months, I will be doing lower and in certain market, I have almost reached my chilling capacities in winter months in certain procurement areas and therefore it will not be very clearly straightforward business requirements versus installed capacity. There will be some gap. That is about the need for further investments. Next when we invest typically 100 Crores in a year about 15 Crores go for non-project issues like infrastructure development, for IT, either licenses for SAP or new developments, etc. Similarly, some amount goes to front end infrastructure like milk freezers, chillers, ice cream freezers, then the crates to be deployed in the market etc., so there is a front-end investment in the markets and the IT backend investments. They also are part of this 100 Crores investment we make and then core dairy investments are there, four types of investments are there in the core dairy. One, wheeled loving milk collection centres. When villagers come to give milk, we have to put it, analyze in the village, we have to give weighing scale, cans, etc., that will cost approximately Rs.1 lakhs per village and chilling centres are bulk coolers to bring this milk to a place and chill them. That is again an investment of 15 Crores, 20 Crores going to the chilling capacity creation. Then we have packing stations for processing and packing milk and milk products, another 30, 40 Crores will go into the new capacities. Every year renewal of the outdated machinery, old machinery etc., there is a replacement cost of 10 Crores to 15 Crores in replacement. Then there are the adultery conservation programs that we take up and replacement of the inefficient motors and conducting lines, so that will be another 5 Crores, 6 Crores of energy management. Then there are safety requirements where certain boilers or chimneys or condensers, compressors, these are all prone for certain hassles so safety activities we do. It is not that absolutely go for capacity creation in the lines and chilling centres. We must create village infrastructure, chilling tender level infrastructure, packing stations, and the existing packing stations, upgrading them or replacing the equipment, then the front-end marketing investments and backend IT investments. All these put together is annual capital budget, but we have typical 100 Crores model we have taken in the past few years. This year we definitely do not require immediate capacities because our volumes are down, but we have committee certain projects, already building the constructed equipments have arrived so those projects have to be completed, so for that purpose we will utilize certain capex in the current year and obviously our IT backend marketing infrastructure they are handled. So, this year maybe 75 Crores, 80 Crores kind of capex we will invest and the preparations for the next year. Current year business, capacities are available. There is no problem at all. Hope I have answer Shradha your question, because you have been raising this a couple of times earlier and Anand also told me that you are seeking more details. I thought I will give you full view of what is capex for us. In addition to this, whenever we want to create new projects of next year, we are going to acquire some land, keep them as a land ready for the next year or following year, plant expansions for new locations. The line admission cost also comes into picture in this capex.

Shradha Seth: Very helpful Sir. Sir, this entire capex that you spoke about this leads to additional capacity of about 1 lakh to 2 lakhs liter per year, is it a fair assumption?

Sambasiva Rao: Not only additional capacities, this is also for backend, IT infrastructure, frontend market infrastructure. In the market, we require new freezers and chillers in the selling points, and we must supply the milk and products to crates, plastic crates. They get damaged every two years in a life of one and a half years we have to change the crates, transit movement of this materials, so the market infrastructure is there, backend infrastructure is there, then the land acquisitions are there, then the village level milk procurement. I may have a chilling centre, but I have not provided the village level electronic milk analyzer, so we must keep on adding this in the village level. It is an annual exercise. Every year we could, even we could 1000 villages is otherwise 10 Crores. That is the kind of capex requirement spread over village to packing station to market and the backend.

Shradha Seth: Fair enough Sir. That was very detail and very helpful. Thank you very much. All the very best.

Moderator: Thank you. The next question is from the line of Rajesh Ranganathan from Doric Capital Corporation. Please go ahead.

Rajesh Ranganathan: Thanks a lot for the opportunity. A couple of questions; You have mentioned in your presentation that your strategy now is going to focus on expanding to rural areas and Tier II, Tier III towns and Brahmani you also mentioned earlier that you are doing a lot on the new channels such as e-commerce and so forth. Could you help us understand a little more detail on what exactly are you doing and what are your targets in terms of where you are and where you want to be with respect to your Tier 2, Tier III locations and what do you need to do differently for that? And for e-commerce how do you benchmark your own performance which is what your competition maybe doing and what new opportunities that will open up for you in terms of products, you mentioned you are bringing your products late, could you please talk about that as well?

Brahmani Nara: So, basically one small correction here. Tier II, Tier III cities is not something that we are currently looking at and selling our products, because we believe in urban markets where we are present already. There is a big opportunity especially when it comes to value added products. Today, if you look at majority of our value-added product sales, it comes from curd, right? There are other products also maybe we would like to penetrate our channel much better which is beverages and ice creams and the new introductions in terms of slightly more functional value added products, which contextually we feel come at the right time because of COVID immunity, etc. So that adds focus when it comes to market. We will stick with that existing market and opportunistically look at those markets which are in and around our existing markets, which work out well in terms of logistics and which are developing, a city of Hyderabad for instance has been growing in terms of size and certain pockets of the districts are becoming more and more a part of the city itself. So, in such cases, we will be looking at expanding our market size within our existing regions. So that is where we are. Of course when it comes to vision of the company by 2024 we want to double our contribution of value added products with our revenues to about 45% to 50% and that will come from both existing products, as a result of a huge opportunity and from the new products that we are talking about that is where we are. Of course, when it comes to e-commerce that is another huge opportunity and dairy products become a very important part of the basket even for consumers and that is where we are looking at penetrating and increasing our volumes through the major channels. Another thing is we are looking at direct to consumers go-to-market strategy, like I mentioned before we just introduced our own Touch in Hyderabad as a pilot, it is called Heritage Touch through which we are already servicing close to 600 consumers and the backend being the same, it is very cost efficient for us, our existing channel partners or agents distribute these products to the consumer directly whereas the orders are taken through the Heritage platform. We are also just start to introduce value added products and not just milk and curd through that platform. So, yes there is higher focus on technology driven channels and through modern retail format stores especially for value added products going forward.

Rajesh Ranganathan: Madam, you mentioned in the presentation that you want to focus on rural areas in Tier II, Tier III locations. What does that mean exactly Madam?

Brahmani Nara: Like I said, what it exactly means is in and around our existing markets, we will look at logistically improving our efficiencies by looking at those areas, which were underserved in the past and can be opportunity for us. We are not looking at going into newer stage, newer parts of the existing states where we service.

Rajesh Ranganathan: From the point of view of Mr. Rao, you already answered regarding the subsidy risk has not yet fructified in Andhra Pradesh in the past one year, but two days ago, Andhra CM signed an MoU with Amul, is that important?

Sambasiva Rao: No, we have our own farmer base, we have our own consumer base. Amul has come to Telangana also with a similar model and they will go everywhere. They have been going to Odisha, they have been going to West Bengal, they are going to Bihar, so Amul will be there everywhere in the country. So, we will continue to do our business and they will do their business. I do not see any issues for us.

Rajesh Ranganathan: Ultimately as you correctly pointed out we have to conduct volume growth and margins, we love it, but it has to be a combination of both and from your decision, to launch new products, new channels, all of that obviously helps, but is there anything else in terms of M&A that has opened up, because of the current environment?

Sambasiva Rao: We are trying to build.

Rajesh Ranganathan: The future if you can share any top products and how are you going to execute this year?

Sambasiva Rao: That is in the public domain last few weeks, some transactions are being discussed about the company. So, we are also eagerly waiting to see the outcome. As far as Heritage is concerned, the lock in period is over, and Heritage has now right to take its own decision on the shares, but we will watch and respond to the situation as it improves.

Rajesh Ranganathan: Thank you so much. Wish you best of luck.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the followup. Just a couple of questions from my end; one is about on the cost side. Anything that we can do on the employee front which you can probably do because we have actually seen sequential jump in our employee cost and also if we try to compare it with any other let us say another player in the south it seems to be higher. So, anything in this period, which we can try to reduce the employee cost as such?

Sambasiva Rao: We have not cut any jobs. We have not cut any pay rather we paid incentives for those who have come to work during the trying times particularly the casual workers, contract workers, security people, drivers and we had to provide them food because there was no food available. Imagine a truck moving from one place to other place, enroute all the Dhabas are closed down, restaurant, hotels nothing was there, we had to pack food for everyone of them in our canteens luckily most of our factories have good canteens, where they made food, they were provided for drivers, loaders, cleaners, workers, so food costs have gone up, in addition to that the sanitization, disinfecting, we have purchased 70000 face masks so everybody carrying the mask and hand gloves, and tonnes of sanitizers and additional incentives we paid 20%, 25% extra for the workforce in the initial period when the people were reluctant to come out, post the lockdown then we had to give them additional support of transport because no transports were available, buses were stopped, autos were stopped, we had to hire some vehicles and transport them to their homes and pick them up. So, a significant cost was incurred for the worker's safety and motivation for this. So, if it continues employee side will not be reduced. So, we will have to continue and sustain the workforce attention. 100% people are working for us and not a single employee has created a difference that they were all safe guarded by our actions. So, I do not see the employee side we should cut any costs and save money and they are very important elements for sustaining the business in these difficult times.

Prashant Kutty: Certainly. Just one more point if I, I missed that out. You just spoke about the institutional milk, like you said is about 15%, 20% which is out-of-home?

Sambasiva Rao: Institutional is different.

Prashant Kutty: Sorry not institutional. It is out of home, my apologies. Out of home is about 15%, 20% and you said for milk and for value added products it is about 30%. What was the decline in the quarter for this 15% and the value-added product of 30%?

Sambasiva Rao: It is the same.

Prashant Kutty: I am sorry, I did not get it.

Sambasiva Rao: They are different for different companies. These are the numbers for all the companies and they are also different in different markets which is not saving every marketing, so some markets are 10%, some markets, are 20%, so it varies with dense urban areas like Hyderabad city, 1 lakhs employees have stopped coming to office and they have started working from home, all these 1 lakhs employees are in various IT companies would have consumed at least 5 lakh tonnes of beverage, TR copy, that is a fall, and that milk would have gone for a month.

Prashant Kutty: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Dr. Samba Siva Rao for his closing comments.

Sambasiva Rao: Thank you very much for us sustained interest in Heritage Foods. We are very glad to share these details with you and we had also an opportunity to highlight our investors the potential matters, the activities they have taken in safeguarding our employees and safely deliver our products to our consumers without any disruptions and we take this as a responsibility today in our job, in our business, the nutrition in times of necessity and income to the farmers when all those income dried up, the milk was the only source of income for sustaining their families and we were able to procure all the milk and we were able to pay on time punctually without any delays through our digital payment systems so they were very glad in the difficult times in the country we as a sector and as a company supported farmers for their income and consumers for their nutrition, safeguarding our own team of employees and presented some reasonable numbers for investors. Thank you for associating with us. We are looking forward to interacting with you again during October month. Thank you and wish you all a safe stay and take all precautions.

Moderator: Thank you. Ladies and gentlemen on behalf of Heritage Foods that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.