



25
YEARS
OF HERITAGE

Ref: SECT: STOC: 93 - 20

November 02, 2020

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

Through: BSE Listing centre
Scrip Code: 519552

Through: NEAPS
Scrip Code: HERITGFOOD

Dear Sir / Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

In Continuation of our letter dated October 08, 2020 the Company had organized a conference call with the Investors/Analysts on Friday, October 30, 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.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 Food Limited Q2 FY-21 Earnings
Conference Call”

October 30, 2020



MANAGEMENT:

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



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Moderator: Ladies and gentlemen good day and welcome to Heritage Foods Limited Q2 FY21 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 – President, Heritage Foods. Thank you and over to you Dr. Rao.

Sambasiva Rao:

Thank you Mr. Nirav. Good afternoon to all the participants and I welcome you to earnings call of Quarter 2 of Heritage Foods. We have achieved, on a standalone basis 593 crores for Quarter 2 which is 10.9% lower than corresponding quarter of last year which was 666 crores. At EBITDA level we have achieved 85.91 crores during the current year's Quarter 2 compared to 27.41 crores of corresponding quarter last year. At PBT level our core business performance is 71 crores compared to 10 crores of the previous year same quarter, at PAT level it is 52 crores compared to 14 crores of the previous year.

For 6 months on standalone basis our company achieved 1213 crores net turnover which is 11.9% lower than the previous year's first half year that is 1376 crores. At EBITDA level it is 139 crores for the current year's first half compared to 78 crores of last year's first half. At PBT level it is core business 107 crores compared to 44 crores of last year. At PAT level it is core business 79 crores versus 36 crores of last year.

Now I present consolidated results of Heritage Foods of the Quarter 2; net turnover achieved is 610 crores which is 10.2% de-growth compared to previous year same quarter that is 680 crores. At EBITDA level it is 89 crores versus 25 crores. At PBT core business 71 crores versus 10 crores of last year, at PAT 54 versus 11 crores last year.

For the first half year consolidated level our turnover is 1249 crores, 10.9% lower than the previous year's first half which was 1401 crores. At EBITDA level it is 146 crores compared to 73 crores, activity level core business 107 crores versus 44 crores. At PAT level 83 crores versus 29 crores, core business.

Coming to the details of dairy business, Quarter 2 of this year; though our performance at the net revenue level is lower compared to last year because of well-known COVID regulations-restrictions and drop in the demand, coupled with the unprecedented rains in the markets where we operate during this quarter. Our profitability is higher, mostly contributed by the better selling prices and the lower raw material cost including milk and milk powder we consumed. Milk procurement from the farmers we have ensured all our farmers milk is



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procured by us in all the locations without any difficulty. Since April, since beginning of the lockdown, post-lockdown during all the un-lockdown period it stands at 12 lakh liters per day versus 13.86 lakh liters last year.

Our sales volume today; milk 9.63 lakh liters per day during Quarter 2 compared to 12.09 lakh liters in the last year second quarter which is 20% degrowth. Value-added product contribution is 22% compared to 24.5% in the last year. There is a degrowth of 21% in revenue terms for value-added products which was 163 crores last year Quarter 2, this year it is 128 crores.

Production capacities remains same, chilling 20.3 lakh liters, processing 23.7 lakh liters, packing 15 lakh liters for the milk. These are broadly the same numbers. Due to the regulations and weather our projects activities have been slowed down. Our capital expense during the first half of this financial year is 27 crores compared to 106 crores of the full financial year during the previous year. So we are far behind in terms of executing our projects and there is no urgency to complete also has capacity utilization has come down compared to last year's due to same problems we are facing.

Coming to the long-term debt status; as on September it is 184.85 crores, long-term loans including 161 for dairy business and 25 for the renewable energy business. The whole presentation related to Quarter 2 was made in detail and uploaded on our website. I'm sure most of you must have got a chance to go through that too. Now I open for the discussion, feedback, suggestions, any queries from all the participant. I once again thank you for your patient hearing and the time.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Sameer Gupta from India Infoline Securities.

Sameer Gupta: I have three questions, first of all on the sales of milk. I noticed that this quarter the liquid milk sales itself have declined 10% even adjusting for the milk price increases and this is a sharper decline than what we saw in the first quarter. So just trying to understand that even things are improving on the demand front and the lockdown situation is easing, the HoReCa channel is slowly coming back. Buyers have declined sharp but instead of moderating this quarter.

Sambasiva Rao: Mr. Sameer I think somewhere we got the data issue. This year Quarter 1 liquid milk sale was 9.18 lakh liters and Quarter 2 it is 9.63 lakh liters, there is a 5% hike.

Sameer Gupta: But the price itself has increased.

Sambasiva Rao: There is no price increase also. it is after lockdown we haven't increased any price of any milk or product, the same prices of Quarter 1 and Quarter 2. But you would see compared to Quarter 2 of last year milk products realization is higher compared to Quarter 2 of last year to



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Quarter 2 of this year. That is because of the price hikes taken during Quarter 3 and Quarter 4 of the last financial year.

Sameer Gupta: Let me check and get back on that query. On the other thing, this milk procurement prices are down to Rs. 32.5 and with the flush season now arriving there should be some more pressure on this milk prices, so first of all is this understanding correct? And second thing is that last time when we saw prices drop down to such levels there were interventions from various state governments but this time with the Kharif season being good and the Rabi season being good the other side of the incomes for the dairy farmers are not under pressure, so is there a possibility that this time around there will be very few interventions from the state governments and we can then retain most of the benefits from lower prices, should it fall down further?

Sambasiva Rao: On the first point, yes prices are lower compared to last year. Weather is good, monsoon is good, availability of green fodder is good, production is expected to go up, so we expect prices to be stable at this level, may not go down further. Second aspect whether the intervention of governments is possible, I mean that is a bit uncertain in the current financial scenario where every government is under stress for the revenues. So we are not very sure how the governments will take it which is very unlikely. Interventions are unlikely.

Sameer Gupta: Thirdly YOY when I look at our milk procurement volumes, these are down 13%. So are we consciously reducing our procurement operations because of drop in demand or is there something else on this and what is the outlook on our procurement? So we are trying to increase our procurement operations in North India and Maharashtra, so where do we stand on that?

Sambasiva Rao: Yeah we haven't reduced the productions or procurement anywhere but we have withdrawn our operations in Punjab, Rajasthan during the beginning of this year as part of our rationalization exercise. That drop is visible.

Sameer Gupta: Going forward will we start to procure again, should the demand situation improve from those areas?

Sambasiva Rao: Procurement is now increasing for last one month. It will continue to increase. As I initially said all our farmers whatever milk they give we have been taking. We haven't denied any supplies from anybody. If there is surplus milk we convert into SMP butter and hold in for our consumption or sale. As a matter of principle we won't deny milk from any of our farmers.

Moderator: Next question is from the line of Prashant Kutty from Sundaram Mutual Fund.



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Prashant Kutty: Just taking a little bit from the earlier question. I also believe probably the context was if we look at the liquid milk sales data while you are right, we have seen a sequential improvement from 9.2 to 9.6. But just trying to understand at a time where you actually being seen lot of the category is kind of coming back to near normalcy from what their pre- COVID level numbers were used to clock about 11 and 12 lakh liters, the reason for probably that not kind of coming back to near normalcy. I think that was the context, so if you could just share some thoughts over here that I can understand value-added probably seeing an impact because of out of home consumption. But milk sales if you could probably throw some light on that part as to why we are not reaching a normalcy.

Sambasiva Rao: One is weather which is unprecedented rains; you must have seen we were floating in the water for a few days in the past. Then second is withdrawn of sales operations from Rajasthan, Punjab where we have left some volume and moved out compared to last year to this year.

Prashant Kutty: How much would have been this impact of Rajasthan and Punjab?

Sambasiva Rao: Around 40,000 liters.

Prashant Kutty: Is there also a case over here that because there used to be a lot of milk supply to HoReCa segment that has not come back, is that also one of the reasons of to why milk volumes would not have come back or there isn't anything like that?

Sambasiva Rao: Generally these are all there weather related issues in the last couple of months. Since August the weather is very-very heavy rainy weather, so we are hoping to come back. Now the weather is normal, more or less all the markets things are stabilizing in the rain point of view.

Prashant Kutty: Just on the monthly run rate perspective, both in terms of the milk volumes and also in terms of value-added product business, are we seeing a month-on-month improvement in terms of September being better than August?

Sambasiva Rao: Except in September where there was lot of disruption due to rains, earlier April to August, yes there was a month on month progressive improvement. But September we had a setback because of the weather. October also it continued though I want deal with much of October now but the September October weather is unprecedented. In these markets they say 100 years back this kind of rains were recorded.

Prashant Kutty: You are saying the disruptions continued in October as well?

Sambasiva Rao: October was much worse. 6-7 days the markets are shut here.



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Prashant Kutty: Second point is about the milk procurement part again, you said that the given the fact that flush season is kind of coming up you should expect the milk procurement price to be stable. Is there any competitive activity building up anywhere which is may be making us to reduce our milk realizations, is there any such thing which might happen or do you think when you are talking about milk prices stability is from both the end, both on procurement as well as on selling price?

Sambasiva Rao: There is no competition activity but every brand is procuring milk and everybody's surplus milk will go into powder plants and the stocks can be help for 1 year and profitability is quite high during this period. So we will not be able to go further down.

Prashant Kutty: So safe to assume that the kind of milk spread which we are enjoying right now or maybe which we are enjoying from the last two quarters; this can last at least for another couple of quarters if not more?

Sambasiva Rao: I'll reserve my comments.

Prashant Kutty: Just last point; we have actually seen good amount of cash flows kind of being generated because of some profitability being driven. Any plans on reducing our debt and also the capital expenditure part what are we now looking at because we hardly spent anything in the first half of the year? You also highlighted that utilization levels also pretty low, so do these plans kind of defer to the next year and would you probably use this opportunity to probably pay back your debt or something, if any thoughts on that part?

Brahmani Nara: I think the thinking right now is obviously to retire some of our debt especially the priority being high cost debt with the initial internal accruals that we will accumulate now. And going forward we will take a decision depending on how things turn out to be. On the question of CAPEX, yes CAPEX has been lower in the first two quarters of the financial year. However going forward we will still have to incur some CAPEX for some ongoing projects which will be commissioned later than expected. However they will be commissioned some part of the second half of this financial year, so there will definitely be some CAPEX expenditure going forward.

Prashant Kutty: Any target on debt reduction, how much we plan to do let's say in few quarters?

Brahmani Nara: This is something that we have to play on the go but definitely that's a focus area that we will be looking at. At this point in time I don't have a specific number but we will keep you posted this current quarter when we have a next call and let you know.

Moderator: Next participant is Shiva Kumar from Unifi Capital.



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Shiva Kumar: Again harp back to the same question on the milk volumes, we had seen a degrowth of about roughly 20% in each quarter Q1 and Q2, should we brace for a similar number in Q3 or Q3 should be better given that there should be some recovery in the HoReCa segment?

Sambasiva Rao: Yeah, Q3 there is a bit of improvement possible. Things are opening up and consumption is increasing. It will be progressively improving only from now onwards and since capabilities improving. I think we started some 8.95 lakh liters in April and now come to 9.6 or so. So we are hoping to catch up in the coming few months.

Shiva Kumar: And the procurement prices can one say that they remain at the same levels at what we saw in Q2?

Sambasiva Rao: Yes, that's what I was earlier clarifying. It's a bit speculative thing to commit for longer time. But if you take a rational analysis the monsoon is very good, agriculture season is good, weather is good, water is available all over the country, green fodder is there and the flush season is setting in. so all are favorable for getting a better milk production and the demand is yet to pick up fully. Therefore the prices may not go up is a rational.

Shiva Kumar: One last question with regards to the future retail shares, what is the plan of action now that the shares are out of lock-in period and also there is some traction in the acquisition of Future Retail by Reliance Group.

Brahmani Nara: You have been following news regarding the proceedings of Future Enterprises and his company's and there are several other news items. Yes you are right, we are out of the lock-in period and in fact in the second quarter we sold around 5 lakh shares of Future Retail at an average of some Rs. 100-150. However subsequent to that whatever progress happens is we have to play it by the year depending on what the conclusion end up being and we will again keep you posted end of the quarter as to how things proceed with respect to Future Retail shares.

Moderator: Next participant is Anirudh Doshi from ICICI Bank Limited.

Anirudh Doshi: Just on this Hyderabad floods that have happened. So the question is what is the indicating loss of revenues due to the flood in AP-Telangana and are we back to normal situation now, normal sales now?

Sambasiva Rao: Yes Anirudh, now sales have become normalized. There is a disruption of one week mostly in terms of curd and other value added products. We would have lost for 10 days maybe a few crores of sales revenue. it is coming back now.

Anirudh Doshi: The question on the project in Mumbai with Novandie, so any update that you can share?



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Brahmani Nara: Yes, I'm really happy to be saying that we are in the final stages of our project despite many external issues such as COVID and we had rains in between in the Mumbai area etc. There have been some delays. There are some international technicians to be able to some equipment but they wasn't been able to travel, so Q3 is when we expect the launch of the product, we are probably a month away from that and our plans are in place and we are very excited about launching our set and stirred yogurt probably in December.

Moderator: The next question is from the line of Rupen from RN Associates.

Rupen: I have a couple of questions. First is regarding dairy cycle like you must have witnessed multiple dairy cycles over last 2-2.5 decades of existence like looking at the global and local cycles and current high spread, where do you see dairy cycle currently and outlook for the next couple of years? the idea is to know the sustainable EBITDA margin I mean I know you have been consistently saying that it is around 7% to 8.5% kind of range but looking at H1 super high margins just wanted a perspective on the dairy cycle. That's question number one.

Sambasiva Rao: Mr. Rupen thank you, the cycle got the data this year by Corona Virus. So the full market was shut down for 2 months and the farmers had difficulties in selling milk. Those who have relationship with companies like us, our cooperatives were better off because we procured, we converted into powder and holding the stocks today. We almost have converted milk and made 2000 tons of SMP during that phase of lockdown. But many people, who could not procure for this conversion and holding the stocks, left the milk in the farmer's hands. So those farmers have suffered a lot and offloaded milk at a lower price. So therefore this crisis kind of situation cannot be a benchmark or cannot be sustained over a long period. This might persist for a while till this economy revives, demand gets rebuild and the sales volume come back. We will perhaps go back to normal levels of business as economies fully recovered, country is fully opened up, normalcy is coming. When that normalcy will come when the prices get back to normal level is a question of speculation. Right now the Corona spread is continuing. Positive cases have come down compared to the first half year, April to September, now the rate is low and fortunately the death rate has come down. Maybe recovery is going to be rapid, whether vaccine or no vaccine. Our margins bread is related to the revival and the normalcy which is not visible clearly.

Rupen: It is more of a suggestion rather than a question, your working capital management, asset turn is quite superior and return ratios is also very healthy, in line with FMCG player. So one humbles addition like dividend payout ratio—I know we are in the CAPEX more currently and around 100-110 crores kind of CAPEX we have been doing in the past couple of years and probably it would continue in future also—but then going forward the humble suggestion to increase the payout ratio and set one dividend payout policy like Rs. 2.5, that is absolute number. But then as a percentage of profit after tax I think it needs to be increased, may not be



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in line with FMCG players but then at a respectable level. That is my humble suggestion. That's it from my side.

Sambasiva Rao: Thank you Rupenji. We will definitely bring it up to the notice of the Directors in the next Board meetings.

Moderator: The next question is from the line of Gokul Maheshwari from Awriga Capital Advisors.

Gokul Maheshwari: The current spreads between the procurement price as well as the realization in obviously at record high levels and you will have very strong cash flows this year. So could you speak about the usage of this cash value, you mentioned about repaying debt as a focus area? But are you finishing your old projects as of now or is this something where you are looking at new areas and avenues for investment also?

Brahmani Nara: As mentioned earlier yes, debt repayment is something that we are seriously considering and specially the higher interest one. CAPEX will have to continue because though like I said projects got delayed. We expect demand to come back in the next couple of months and we have to prepare for the next summer season which is our peak season especially for out of home, higher margin value-added products. Now we are definitely considering newer revenues of growth within the dairy space of course and as always mentioned we want to get to that level of (+40%) contribution of value-added products towards the overall sales, currently even during COVID times we are at about 22% which was about 25% last year same time and some investments will have to go towards R&D, marketing etc. to ensure the same. So we have been investing a lot more time and resources towards digital media, marketing. We have run many campaigns; we have been using this as an avenue for awareness and also sales generation. We have also been spending a lot more time on direct to consumer apps, we came up as one called 'heritage touch' which we are piloting in the Hyderabad market and the response has been quite positive. Similarly we have been spending a lot more time on R&D activities to focus on more nutritious products taking advantage of the current situation that people are looking at more hygienic, more high in nutrition kind of products, we have also launched our line of immunity milk very recently in Tulsi, Ginger and Turmeric flavors. We have also launched A2 Milk; we have also launched milkshakes of course which are generic products. But the idea is to focus more on nutritious products, high margin products and that will require some investment, both on R&D site as well as the marketing side mainly.

Gokul Maheshwari: So the investments are largely extensions of the current product on experiment or curd or any yogurt which is a long planned project and new product launch? But could you be extending this to cheese and other dairy categories also which are more highly capital intensive?

Brahmani Nara: Certainly we will be looking at cheese; it is a category which is attractive. It is fast growing as well even during COVID period. But we are looking at leaner ways of production, so we might



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start with co-packing facilities because there is a lot of idle capacity available for that. If we feel that the quality standards of those facilities that are available are good enough as we might have to invest into our own facility. So depending on the product we will be looking at how we will be investing into CAPEX.

Gokul Maheshwari: Second is on the clearly COVID defined the certain ways of doing business, so in your parlance are you looking at any cost changes which was structural in nature and there is something which these savings which you can continue even after COVID?

Sambasiva Rao: Not very clear, there is some voice issue.

Gokul Maheshwari: Are there any changes in cost structure which you have witnessed post-COVID which is structural in nature and you can retain these benefits even later on.

Sambasiva Rao: Not really, there is a very small cost difference in terms of travels only. There is no other structural change.

Brahmani Nara: However there is a change in deployment of technology and that is something I can talk to you about in terms of field force automation, in terms of agent distributor management, in terms of your time dashboarding, etc. which perhaps not today but going forward will potentially help us in terms of cost optimization and rationalization.

Gokul Maheshwari: When you pursue a new project or in terms of a new investment, is there a particular IRR which you look to invest before you are taking investment decision?

Brahmani Nara: Typically if it's a completely new facility and a completely new product which hasn't happened in the last couple of years but if it's something like that naturally IRR becomes very important and we look at about (+20%) IRRs for those products, so it becomes very important for us to be looking at that.

Moderator: Next participant is Bhargav Buddhadeb from Kotak Mutual Fund.

Bhargav Buddhadeb: First of all you mentioned about the high cost of debt, is it possible to quantify what is this amount?

Sambasiva Rao: Amount of debt you mean or cost?

Bhargav Buddhadeb: Both if possible.

Sambasiva Rao: That I already indicated in the introductory briefing that is (184.8)185 crores is our long-term debt. Our interest rates are hovering between 8.5% to 9.5%. Average will be around 8.9%.



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They are projects taken into different year; the rate of interest is different over a period of time. These are outstanding loans for last 5 years, some are 3-year-old, some are 4-year-old, some are 5-year-old. The average cost of debt is around 8.9 for long-term loans today and within it there are certain 9.5, some of them are 8.5 depending on the time of drawl of the loan. So what our Executive Director was mentioning is those projects which had higher rate of interest they will be sorted out, they will be taken out is on priority while retiring.

Bhargav Buddhadeb: What would be the corresponding loan amount for that 9.5% interest rate?

Sambasiva Rao: We are still working on that. We haven't quantified how much will go how much will be there. But half of it is above 9, half of it is below 9. That's the average has come to 9.

Bhargav Buddhadeb: And the one you mentioned that lot of large dairy companies has stepped up milk procurement. So is it possible to quantify what is the SMP inventory that we are carrying as on September balance sheet and what would it be on a YOY basis?

Sambasiva Rao: In quantitative terms we have 3900 tons of SMP at the end of September.

Bhargav Buddhadeb: And what would be the same number last year?

Sambasiva Rao: 700 tons.

Bhargav Buddhadeb: So that's almost a 5x increase?

Sambasiva Rao: Yeah. That is what we have done during the lockdown. We picked up all the milk from our farmers and converted and holding it. most of it will be for capital consumption only in the coming months.

Bhargav Buddhadeb: And is it possible to sort of project for how many months can this SMP last in the form of liquid milk if you were to convert into liquid milk?

Sambasiva Rao: So we don't typically convert into liquid milk. We use it for products also for enhancing the protein percentage as SNF percentage in the products and small quantity gets into conversion. This will last about coming 7-8 months requirement.

Bhargav Buddhadeb: Is it fair to say that given that the monsoons have been fairly strong this time around, the liquid milk production at least for the next season should continue to remain strong and hence the prices on the procurement front should continue to remain benign?

Sambasiva Rao: Yes.



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- Moderator:** Next question is from Jatin from Alpha Capital Advisors.
- Jatin:** My first would be as we increase our value-added products do we expect some significant change in the working capital because currently working capital is quite good, so that was the first question?
- Sambasiva Rao:** It won't significantly alter our working capital requirements.
- Jatin:** So currently we can expect this thing to continue as it is?
- Sambasiva Rao:** Yes.
- Jatin:** Just one suggestion, this quarter was very good for us but because of Future Retail, mark to market it couldn't visible in the reported numbers. So maybe if we can get rid of it because it is anyways non-core for us now, so if we can get rid of it as quickly as possible that would be great for us and we can use that to retire debt or to reward shareholders with some better dividend. That's my only suggestion.
- Brahmani Nara:** Thank you for your suggestion.
- Sambasiva Rao:** We have taken note of it. Thank you very much
- Moderator:** Next participant is Ashi Anand from Allegro Capital.
- Ashi Anand:** Just wanted to understand historically when milk procurement prices have fallen post the flush season, milk sellers have also reduced kind of milk prices. Now with COVID given an environment where demand is actually weak in supply-side and we are still been able to actually hold on, actually keep our prices fairly high. Just trying to understand what's changed in terms of these dynamic that milk sellers haven't gone out and actually reduced prices in the market.
- Sambasiva Rao:** The unorganized sector could not handle the milk at all first during the lockdown of 7-8 weeks. There was no movement possible, they were not able to process, they were not able to carry. This required herculean effort to get the pass for the people to move, vehicles to move and the fear factor. Most of them didn't want to come out and do the business at that time. Consumers also didn't want to buy from them. They wanted to buy from the well-known packaged brands so that this hygiene issue is addressed. So all factors have contributed for the no operation of the informal businesses, unorganized businesses individuals that is where the brands have continued supplies to the consumers at the same prices.



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Ashi Anand: And how long do you think the situation could kind of continue, has the unorganized sector come back and therefore within a quarter we should get back to some kind of normalcy?

Sambasiva Rao: They are yet to come back because HoReCa is not there to accept this loose milk and low-end brands and consumers are not prepared to lower the guard of immunity at the moment.

Ashi Anand: The second question was in terms of value-added products. Just wanted to understand what percentage of curd is consumed out of home and what's the kind of outlook in terms of how long do we see before we get back to the steady-state volumes we used to have on curd sale?

Sambasiva Rao: Curd is basically consumed at home, outside home consumption is related to caterers who carry small packs of 90 gm cups and all, also the mess where lot of food service happens in the unorganized sector, then weddings, parties, events get-togethers, all these activities are on a low-key now. So that is why the offtakes are low, particularly the weddings where we used to have more than 1000 members participating. It was less than 100 officially and people are also very careful not to eat when they go out. So the outside home consumption happens through these events, parties, get-togethers and mess canteens even offices. Most of the IT offices used to have the milk served; now that is also not there. People are carrying their own home food or working from home, so this is the area where consumption has to come back. It is a function of total normalcy in the market which is anybody's guess in the current pandemic.

Ashi Anand: So if we see this 34% kind of decline we have seen in curd volumes zone here, so is this largely attributable to out of home? Can we say that retail consumption is pretty much on track, would that be a fair statement?

Sambasiva Rao: Yes.

Ashi Anand: Just wanted to check if there is any update as in there were some kind of rumors around the AP government also looking at the subsidies similar to what we have seen in Bangalore and Telangana, any updates with relation to that and just wanted to understand if at all that if the government were to come up with some kind of similar subsidy what are things that we can do to mitigate the impact because it does clearly impact milk procurement for us?

Sambasiva Rao: This is an 18-month-old rumor, so we hope it will reach 18 years soon.

Ashi Anand: But are there any steps as in just wanted to understand if they were to come out or how exactly do we handle this situation given the fact that it will be our largest market?

Sambasiva Rao: We have to adjust our prices both end sales side, procurement side. Everyone has to adjust side. All the people procuring milk have to adjust the sale price, procurement price accordingly and we will also do that.



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- Brahmani Nara:** It's just like how we have coped with it in Telangana.
- Moderator:** Next question is from Puneet Jain from Fair Value Capital.
- Puneet Jain:** In H1 how many shares we have sold of Future Retail and currently how many shares are we holding?
- Brahmani Nara:** We have made a sale of 5 lakh shares of Future Retail Limited at an average price of Rs. 100.50 paise.
- Puneet Jain:** How many are we currently holding after selling 5 lakh?
- Brahmani Nara:** The whole shareholding was 1.78 crores.
- Sambasiva Rao:** As on 30th September it was 1 crores 73 lakhs we were holding after selling 5 lakh shares.
- Moderator:** Next question is from Gokul Maheshwari from Awriga Capital.
- Jinal Sheth:** Actually Jinal Sheth here. Just wanted touch base upon this question that madam raised about on cheese, possible investments in cheese in the future. Just one thought there that if we have observed one thing how Amul is and obviously it's a high working capital business, the ratios are not as high as our existing business and then you did mention about co-packaging. So can you give some thoughts on, for whatever point, negative points are raised, is it really worth while getting into it?
- Sambasiva Rao:** What our Executive Director is saying is an opportunity to enter in the cheese business is being explored preferably asset light route. For example if my quarterly income is, revenue is 590 crores or 600 crores as of now, our cheese expected revenue will be may be around 20 crores the quarter. So it's a 20 crores out of 600 crores. If that is the kind of revenue we are expecting through a kind of co-packing arrangement it will not impact significantly on the working capital. Even if I assume 3 months stock is in our control, inventory is 3 months control, the Rs. 20 crores will be the inventory value for the 3 months and there will be returns and there will be sales and recirculation of the stocks. So it's not going to be a significant share of our revenue therefore it will not have capacity to alter our working capital cycle, our fund requirement etc.
- Brahmani Nara:** I was going to say the same thing that still 80% of our revenues when it comes to value-added products, 75% to 80% will end up coming from curd as we start product going forward. However cheese is something that only becomes important because we need to fill in our overall basket especially for newer channels of growth which are e-com channels and MRF channels which have fairly expanded during COVID time. So if we need to reach out to these



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channels more efficiently through a basket of products, cheese becomes quite important as in additional product.

Jinal Sheth: My only question is that what price M2M hit of the 61 crores of the Future Retail happened this quarter and assuming we don't sell more what will be the kind M2M at the current price?

Sambasiva Rao: Not clear I think we will have to answer separately. We are not able to follow it.

Moderator: Next question is from the line of Rajesh from Doric Capital.

Rajesh: You explained earlier that the volume was down because of the weather and the COVID conditions but it give some additional clarity by segment in terms of daily milk supply to the home, messes, other segments. What would be the drop of estimate by you? I know it's not directly available but from your estimate perspective. Just also to understand that there has have been any market share loss for us because the volume drop on year-on-year basis is higher in 2Q compared to 1Q?

Sambasiva Rao: I don't know how to say that. You are asking drop sector-wise?

Rajesh: Yeah in the sense home use such as HoReCa some understanding that you might have internally?

Sambasiva Rao: We actually don't have direct supplies to HoReCa. What happens is that our distributors, our agents, our representatives in the market do supply milk to their neighborhood, canteens, mess, offices a few packs, a few liters to each outlet. Those are not functional now, so the home consumption is as usual. Wherever we are delivering to home they are taking the same quantities. The MRF outlets are taking as usual. Only thing that consumption that happens in the adjacent to our agents' outlet that is what is not available today so which should come back in the next half years' time, second half year.

Rajesh: But year-on-year drop in the second quarter is more than in the first quarter it seems, ss that correct?

Sambasiva Rao: Yes that is also a pattern of consumption because lose milk will come into market during the flush season, October to January lot of unorganized players introduce milk into market at a lower price. Lower end brands also appear when the surplus milk is available there will be a shift but now they are not operating much in this season because of the COVID issues and consumers are also not preferring such brands or such lose milk. So we do hope...

Brahmani Nara: In addition to that as mentioned earlier we have seen tremendous amounts of rains in our core markets. It is probably the highest in the last couple of decades especially in Hyderabad and



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parts of AP. That is another reason we have seen a Q2 last year to this year decrease in volumes aside from the fact that what President sir had explained. Otherwise home consumptions should be more or less the same.

Moderator: Thank you very much. As there are no further questions I will now hand the conference over to Dr. Sambasiva Rao for closing remarks.

Sambasiva Rao: Thank you very much for participating and continuing interest in Heritage Foods and looking forward to catch up with you in due course of time for the next quarter and present all the details and any of the unanswered queries will be answered next time. Thanks again.

Moderator: Thank you very much. On behalf of Heritage Foods Limited that conclude this conference. Thank you for joining us. You may now disconnect your lines. Thank you.