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HEALTH AND HAPPINESS

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Ref: SECT: STOC: 44-21

May 24, 2021

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

Scrip Code: 519552

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

Scrip Code: HERITGFOOD

Sub: Transcript of Conference Call with the Investors/Analyst

Dear Sir / Madam,

In Continuation of our letter dated May 06, 2021 the Company had organized a conference call with the Investors/Analysts on Friday, May 21, 2021 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.

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

Enc: a/a

About the Company:

Heritage Foods founded in the year 1992 is one of the fastest growing Private Sector Enterprises in India, with two business divisions' viz., Dairy and Renewable Energy under its flagship company Heritage Foods Limited and Cattle feed business through its subsidiary, Heritage Nutrivet Limited (HNL). Presently Heritage's milk and milk products have market presence in Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Maharashtra, Odisha, NCR Delhi, Haryana, Uttar Pradesh and Uttarakhand. It has total renewable energy generation capacity of 10.39 MW from both Solar and Wind for captive consumption of its dairy factories.

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"Heritage Foods Limited Q4 FY-21 Earnings Conference Call"

May 21, 2021

MANAGEMENT:

DR. M. SAMBASIVA RAO – PRESIDENT

MS. BRAHMANI NARA – EXECUTIVE DIRECTOR

MR. J. SAMBA MURTHY – CHIEF OPERATING OFFICER

MR. A. PRABHAKARA NAIDU – CHIEF FINANCIAL OFFICER

MR. UMAKANTA BARIK - COMPANY SECRETARY & COMPLIANCE OFFICER

IR CONSULTANTS

MR. HIRAL KENIYA – DICKENSON WORLD

MR. VIKASH VERMA– DICKENSON WORLD

Moderator: Ladies and gentlemen good day and welcome to the Heritage Foods Q4 FY21 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this call is being recorded. I would now like to hand the floor over to Mr. Hiral Keniya. Thank you and over to you sir.

Hiral Keniya: Thank you Tanvi. Good evening everyone. I welcome you all to the earnings call of Heritage Foods Limited for Q4 and FY21. Today we have with us the management represented by Dr. Sambasiva Rao – President, Mrs. N. Brahmani – Executive Director, Mr. Umakanta Barik – Company Secretary and Compliance Officer, Mr. A. Prabhakar Naidu – Chief Financial Officer, Mr. J. Samba Murty – Chief Operating Officer.

Before we get started, I would like to remind you that the remarks today might include forward looking statements and actual results may differ materially from those contemplated by forward looking statements. Any statements we make on this call today is based on our assumption as on the date and we have no obligations to update the statement as a result of new information or future events.

I would now invite Dr. M. Samba Siva Rao from Heritage Foods to make his opening remarks. Thank you and over to you sir.

M. Sambasiva Rao: Thank you Mr. Hiral. Very good evening to everyone. I once again welcome you all to this earnings call of Heritage Foods to discuss the performance of Quarter 4 and financial year '21. I do hope all of you are safe and healthy during this challenging pandemic period.

The results presentation has been uploaded on the exchanges and on our website. I hope everyone had an opportunity to look at it by now. Before taking you all through the financial and operational highlights for the quarter and for the full year, I would like to apprise everyone that based on the improved profitability for the year, the board of directors has recommended a final dividend of 100%, that is a dividend of Rs. 5 per equity share as a reward to our esteemed shareholders.

Heritage Foods as you know is amongst India leading value added and branded dairy products companies. It enjoys a strong brand affinity with its consumers. Heritage Foods milk and value-added products such as Paneer, Curd, Flavored milk, Lassi, Ice creams among others are consumed by more than 1.5 million households in 11 States across India and is specially known for its products purity, authenticity, quality, and freshness. The company enjoys long-term relationships with more than 3 lakh farmers and has a wide distribution networks comprising of more than 6000 distributors, agents. Company has 18 state of the art milk processing factories with a processing capacity of 2.7 million liters per day. Heritage through its wholly owned subsidiary called Heritage Nutrivet Limited has a significant presence in the cattle feed business and servs all our farmers across eight States. Demand for nutritionally balanced compound feed is expected to register a 7% CAGR during next 5 years. The company's happy to announce appointment of Mr. Viney Vatal as CEO of Heritage Nutrivet which is a step towards Heritage's increased focus towards the cattle feed and nutrition business. He has over two decades of experience in business leadership roles and has expertise in managing business operations across markets and geographies with a key focus on profitability by ensuring optimal and right utilization of resources.

Now I will take up the financial and operational highlights for the financial year 2021 followed by the Quarter 4 performance of Heritage Foods:

Consolidated revenue for the financial year '21 was at 24,731 million as compared to 27,259 million in FY20. The company was able to achieve EBITDA of 2712 million as compared to 1354 million FY20, registering a significant growth of 100% year-on-year. Just I would like to mention this year we have moved our numbers in the millions. Earlier we used to mention about crores. I do hope you all take note of this change. Aided by lower raw material costs EBITDA margin improved to 11% as against 5% in FY20. The company reported a net profit of 1483 million as compared to a loss of 1694 million in FY20 because that was including the investment related numbers. The adjusted EBITDA excluding other income and finance cost stood at 2669 million in the FY21 registering a growth of 107%. EBITDA margin expanded by 608 basis points to 10.8% as against 4.7% in FY20, previous financial year. The adjusted PAT excluding exceptional items gains due to changes in fair value of derivative liabilities on fair value loss of FVTPL securities and P&L from discontinued operations stood at 1531 million in FY21, growing exponentially by 221% year-on-year.

Coming to consolidated data:

Consolidated revenue for Quarter 4 was at 6194 million as compared to 6526 million in Q4 of FY20. EBITDA was at 470 million as compared to 277 million in Quarter 4 of the previous year, registering a growth of 70% year-on-year. EBITDA margin improved by 334 basis points to 7.6% as against 4.3% in Q4 of FY20, on account of again lower raw material costs. The company reported a net profit of 244 million as compared to loss of 2099 million in Q4. Overall, the profitability of dairy has improved mainly because of the decrease in raw material cost and better selling prices of milk and value-added products compared to previous financial year. The adjusted EBITDA stood at 455 million in Quarter 4 registering a growth of 70% year-on-year. EBITDA margin expanded by 325 basis points. The adjusted PAT stood at 244 million growing by 240% year-on-year.

Coming to Heritage Nutrivet:

Our wholly owned subsidiary, this also adding meaningful contributions now. During FY21 the sales grew by 17% year-on-year to 1215 million, EBITDA grew quite well 1.8 X to the 135 million. EBITDA margin expanded by 646 basis points year-on-year to 11.1% in FY21. PAT stood at 72 million with a PAT margin expanding by 593 basis points year-on-year to 5.9% during the year.

On the balance sheet front, our long-term debt is now at 469 million as on March 31st, 2021. Debt to equity ratio stood at 0.10:1 with the company having a cash and bank balance of 218 million as on March 31st, 2021. Improved operating performance and healthy balance sheet helped in achieving ROC of 32.6% and ROE of 28.9% for the FY21.

Now moving on to volume performance:

The average milk procurement during Quarter 4 was 1.2 million liters per day as compared to 1.3 million liters per day in Q4 of previous year. Average milk sales during Q4 was 1 million liters per day compared to 1.1 million during the Q4 of last year. Curd sales during Q4 was at 278 metric tons per day as compared to 294 metric tons in the Quarter 4 of previous year.

The company continued with the efforts of enhancing value added products portfolio and I'm happy to inform you that company launched during this Quarter 4 Cheese' several variants Mozzarella and processed and fresh cream in tetra packets and cold coffee and also expanded its ice cream variant. Revenue from valuer products was at 1608 million and contribute 26.6% to the overall revenue in the Quarter 4. For the year 2021, it contributed 5825 million which is 24.2% of the annual dairy revenue as against 27% during the previous year. The VAP have clocked the CAGR of 5.8% during 1721. The VAP consumption declined in '21 due to a drop in out of home consumption in view of the COVID pandemic and its regulations. However, the demand for value added products is expected to bounce back in the days to come.

The company's growth mantra is to empower farmers and build a strong product portfolio through its consumer centric approach. Heritage aspires to be a nationally recognized brand for healthy and fresh products with a focus on efficient capital management and maximizing shareholders value. Now we will open the floor for the question-and-answer session. Request all the members to give their feedback or raise any queries and post this call if you have any more issues or information required, you may reach out directly to Dickenson World team which is now our investment relation agency.

Thank you very much for your patience and giving this opportunity.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Aniruddh Joshi from ICICI Securities.

Aniruddh Joshi: Sir 2-3 questions, one, how do you see the impact in Tamil Nadu with Aavin cutting prices by Rs. 3 per liter? So, I guess we also generate around 10% revenue from Tamil Nadu, so what will be the impact on pricing power over there? Also, secondly milk procuring prices which were increasing now probably have again come down. So, if the milk procuring prices again start increasing then how will we see the pricing power and margins particularly in Tamil Nadu? Second impact in terms of Novandie, how is the sales, I agree there has been lockdown in Maharashtra soon as the launch happened. But still any initial feedback that you can share on Novandie? And third now company has almost net cash balance sheet, so any thoughts on buybacks considering the valuation also? That's it from my side.

M. Sambasiva Rao: Coming to your first question on Tamil Nadu sale price issue, we don't see a significant impact as of now. We have taken certain strategic decisions to pass on the part of the gains from the procurement price drop to consumers but as and when possible we will be able to recoup that, that's not going to make a big dent into our margins. We have multiple variants of milk in Tamil Nadu; full cream milk, standardized milk, toned milk, double toned milk, family milk etc. We will be pricing differently on different variants and try to regain our volumes as well as margins as situation improves. Currently because of the rigorous implementation of the curfew related regulations, the trading window for the shops is very minimum and we are facing certain impact on the volumes but things should be normal as soon as the regulations are liberalized. Procurement prices, yes as you said it's gone up towards the Quarter 4 as situation was looking normal as the sales volumes or procurement volumes prices. Dairy sector was moving towards a normal scenario but wave 2 of COVID has again brought down the situation to last year's conditions with procurement volumes and procurement prices, our sales volumes, everything is reflecting like previous year Quarter 1 as of today but as situation normalizes industry will look forward to have the normal operations; we are not very sure whether it takes 1 month or 3 months. Our nation is predicting as you all must have heard; the peak is now over. In the month of May we crossed 4 lakh cases a day and now it is now around 2.5 lakhs. It may slowly come down by June and with vaccination around so it might be under control. Wave 3 is predicted in October again so we are all watching day-to-day developments of the pandemic and control measures and readjusting ourselves to the new situation; week-on-week and trying to cope up with the operations and bring back the normalcy into the business. I request our Executive Director Ms. Brahmani to take the question on Novandie and buyback.

N. Brahmani: When it comes to our operations of JV business, we had commissioned our operations in the Mumbai market through our own facility in the month of March and to be more specific in the end of March. As you all know the Mumbai market has been hit hard by the second wave of COVID so while we are selling our products, we are doing it in a very limited way, through limited retailers, we are waiting for the situation to get better. Sir had mentioned situation seemingly is getting better and we will roll out our full-fledged expansion plan in the Mumbai market and in the other markets where we were also expecting to launch our product in the next couple of weeks or months. This includes potentially the Hyderabad market and several other markets, that is the status of Novandie. Now coming to buyback. The board has not yet taken any conclusive decision on the same. However, I have mentioned earlier given the fact that a significant part of the term loan had been prepaid or repaid and giving the fact that we are as I am sitting on about 58 crores of a term loan as of 31st March 2021; the board had decided to recommend a 100% dividend to the shareholders.

Moderator: The next question is from the line of Rajesh Ranganathan from Doric Capital.

Rajesh Ranganathan: Just wanted to get your sense, when we look at the numbers reported by Hatsun in terms of their sales growth for the March quarter and also, they also had a sequential decline in margin but in both cases their performance was much better than ours. Can you help us understand what is the difference between the performance of the two companies?

M. Sambasiva Rao: Yes, Mr. Rajesh you have put me in a very difficult to talk about competition but I will try to restrict myself to Heritage business. We are focusing mostly on B2C consumer business. We are not having much of the bulk transactions. Secondly, we have also preserved certain stocks of fat during the month of March anticipating good sales in the summer months. We did not sell significant quantity of the fat stocks, we carried forward into the current financial year. We would be consuming them during this period. Had we disposed all the stocks maybe we would have shown the kind of rate of growth you are expecting. Coming to Heritage, that is a stand but coming to competition maybe we can see how to understand their business separately.

Rajesh Ranganathan: Obviously the pandemic creates issues in terms of our growth execution because everything is somewhat in a standstill. But from a point of view of new opportunities, Novandie is one of them. One of the other areas you were focusing on was ice cream in terms of you had planned a big relaunch; you had started that last year. Could you give us an update on where we are with our ice cream strategy?

M. Sambasiva Rao: Of course, you must have noticed ice cream was a washout last year with the COVID pandemic, no sale outside the home, very major sales have happened. This year also we were regaining the volumes towards the Quarter 4 compared to the Quarter 1. Almost I think we doubled or more than doubled our sales in the Quarter 4. While the momentum was picking up again the wave 2 hit us. Again, now the volumes are on a lower side because of the restrictions. Though ice cream is part of the dairy industry but government regulations do not recognize ice cream as part of essential commodities like milk and other dairy products. The movement is an issue, point of sale are closed, point of consumption is an impulse consumption, it doesn't happen outside, all the malls, shops everything is shut, it's only home consumption. Ice cream is not the most home consumed item. So, ice cream business is in doldrums the last year and continues to be this year also. We have very small contribution coming from ice cream as part of our top line. It doesn't show much on us but companies who depend heavily on ice cream would have difficulties during this summer too.

Rajesh Ranganathan: But it's something which we want to grow in our business and so could you help us understand the strategy in terms of we had relaunched with the new brand and so what kind of positioning are we looking at? And I know we don't have much sales to show for it but still from a point of view of preparation where are we in the business?

M. Sambasiva Rao: Of course, we have upgraded our infrastructure in the backend in terms of manufacturing extruded products also in-house. Earlier we used to outsource extruded products, now we have upgraded our infrastructure, created additional more than 100-1000 liters storage capacity, the cold rooms. Geared up for the distribution planning, we put around close to 1000 new outlets got added to our product in terms of retail outlets; all that is ready but market is shut. This is perhaps a right product but season is not co-operating with us in terms of external factors. Till let's say April-May-June this is a quarter for ice cream business and to some extent in July, in some parts of the country. Beyond that ice cream business will not be a significant volume. In essence most of the ice cream season is going through this pandemic related regulations, curfews, lockdowns in various parts. I don't see much benefit of focusing on ice cream during the current financial year except for gearing up for the next summer commencing from March 2022 onwards.

Rajesh Ranganathan: One of the areas where we have seen in other countries, they have managed to register excess growth is on immunity related drinks, haldi milk for instance in India or in other markets ginger milk. We have also launched many products in this area last year. How is the performance of those right now?

M. Sambasiva Rao: Not really significant. We tried to place the products but off takes were quite low not only for us, in general. I think that's a product which is not purchased and consumed. It's more of a home remedy, people believe making those golden milk at home and consuming more than purchasing and consuming. We didn't see much traction on immunity milk too.

Rajesh Ranganathan: In terms of our online efforts, last year we had benefited from it and we are also putting more effort into it. Could you help describe our efforts online both in terms of brand building and in terms of e-commerce?

N. Brahmani: E-com growth and in fact, give you a channel growth has been looking very positive for us and as rightly mentioned more consumers are buying online, myself included and they are looking for not just milk, curd and value-added products and hence strategically we see this channel has been very important. We have seen a significant growth in sales both in terms of volumes as well as revenues through this channel. In fact, talking about volumes, we have grown about 46% year-on-year through just e-com channels, FY20 to FY21. In terms of sales, it was over 55% because of a strong product mix through e-commerce. Similarly, we had also seen a lot of traction when it comes to MRF. So, MRF plus e-com sales put together in relatively newer chains and significant chains there we have started growing. This includes Big basket, Super, Reliance and some of the other local but very significant brick and mortar MRF stores. We have seen an overall growth of over 15% year-on-year. These two channels of MRF and e-com are looking very positive for us for milk, value added products, not just curd but other products such as ghee, paneer etc.

Rajesh Ranganathan: Would you also be able to comment on what our brand building efforts are online, and would you also be able to say within a channel say Big basket in Bangalore or Big basket in Hyderabad; what would be our market share compared to competition and how does that compare to our offline market share?

N. Brahmani: Online volumes are definitely much lower than what it is offline. Since the efforts have been quite recent but in terms of branding, we have been spending a lot more time in resources, on social media and digital media marketing. If you look at our Facebook page, our Instagram pages etc. YouTube page there's been a lot of new content which is engaging. We have been using a lot of influence on marketing, a lot of this content is usable not just on our own platform but third-party platforms, e-commerce platforms etc. and as result of that we had seen a lot of engagement also from consumers especially new age consumers and it's very relevant in the context of value-added products launch as well as R&D going forward and growth. In the past year obviously because of COVID we didn't spend too much, we wanted to be much more efficient. When it came to marketing, we spent about 0.3% of our revenues on marketing especially digital again but this year in order to improve and ramp up our growth and sales we are looking at about a 0.8% to 1% spent on marketing and this will also be primarily focused on a new age digital channel, e-commerce etc.

Moderator: The next question is from the line of Ramakrishnan V from Equity Intelligence.

Ramakrishnan V: We have seen very volatile margins between 4% to 11%-12%. With the value-added product increasing and what is other's strategies there in which you can have a stable margin and what kind of a stable margin you are expecting going forward?

M. Sambasiva Rao: It's a very difficult question because milk prices are heavily dependent on multiple external factors including whether the public policies of state government, central government, foreign trade policy of central government where the duties are adjusted very frequently. Sometimes it is duty-free import, sometimes it is incentivized export, sometimes exports are banned. It will have impact on the pricing in the domestic market. Similarly global availability, surplus demand scenario and global demand, economic conditions or diplomatic relations; number of global factors, government factors within India and whether they are influencing the availability as well as the price trends apart from the current pandemic scenario last year and this year also; it's not an easy scenario to say. We have a stable margin of particular level but going by the performance of the company and sector we can say 8%, 7.5% to 8.5% of EBITDA margins can be a kind of right steady-state margins. Whether we achieve that or not is dependent on multiple factors as I already listed. But that is a threshold factors the sector can deliver except certain companies where the contribution of value-added products is quite high or in certain years they get an advantage due to the windfall gains that happen for various reasons like suddenly milk powder prices crashed to Rs. 130 last year April and it was Rs. 330 1 month before. 2020 March kg milk powder was Rs. 330 and April-May 2020, it fallen down to Rs. 130-140 that kind of fluctuations or windfall gains, they might put certain companies for a period in advantage, certain companies in a disadvantage. There are multiple factors to say why this four, why this is eleven and much of it is external. Very less 80% of the sale realization goes to farmer as a raw material price, remaining 20% you have logistics, you have power, manpower, packaging, depreciation, finance cost and margin. The efficiency factor cannot influence so much of the margins. It is more of a raw material side with greater focus on value-added products. Yes, if our contribution increases like this we have been making efforts, our value- added contribution to the total revenue was 3%, 15 years back. Now last year we went up to 27% and we were trying to move it up to 40% over a period of 5 years but the COVID came in the way and again out-of-home consumption has fallen and our contribution has come down to 24% for full year of 2021 whereas again it was picking up towards the third quarter and fourth quarter, it reached 26.5% by Quarter 4. We thought we will reach 30% soon. Again wave 2 has come and impacted us. If these external factors are under control, we can move up to 40% in next 3-4 years or 5 years and improve our margins. That's the way forward I would see but this is all subject to external factors which are not very clear in terms of predictability.

Moderator: The next question is from the line of Nitin Gosar from Invesco.

Nitin Gosar: If I were to look at the past history the way business has behaved until 2018 and if I were to see the business between 2018 to ’21; I think recent factors have been disappointing versus the past history in terms of growth. Incrementally how should we see this business to shape up? What are the challenges which we have witnessed in last 3 years? Is it more to do with sourcing, execution or is it that the resources got credit across various trades? We were not prepared for those kinds of panning out our resources at that point of time. The track record shows a bit of somewhere something has not been as per the expectations and we have been talking about the volume numbers like milk sales for couple of quarters. Now if I were to reflect back on the numbers, in last 4 years it has not been able to cross 10 lakh liters per day on sustainable basis. The moment it hits 11 lakh and again it starts to fall off. There are certain external factors that we do acknowledge and agree over past 1-2 years that we have seen but what is there, what company can bring on table and can ensure that the growth rate comes back and certainly the external factors are there to challenge you but internally what all we can do from here on?

M. Sambasiva Rao: In terms of volumetric growth if you see, we have exited certain markets as part of our rationalization exercise in Punjab, Rajasthan and parts of Maharashtra, Madhya Pradesh which was there when we acquired Reliance dairy business so that has also impacted in terms of volume. Second factor was scarcity of milk in the year 2019-20, that has also impacted. The prices were very high and milk scarcity was there and subsequently, I was referring to year-on-year ‘18-19-20. Of course, ‘20 was well-known, ‘20-21 is pandemic impact. ‘19-20 was scarcity impact and '18-19 was rationalization and withdrawal of certain operations from certain markets. That's about the past 3 years and coming to the activities, we have now created additional infrastructure for example a 1 lakh liter Greenfield plant has been completed towards the end of March '21 on Mumbai-Surat road which has capacity to supply milk, curd, buttermilk to Mumbai market. We are also trying to add other value-added products to the same plant at the earliest. We have also created infrastructure of 50,000 kgs per day curd in Hyderabad market, a new plant that's been constructed in Hyderabad and another 50,000 kgs per day curd making plant near Visakhapatnam was added. This year itself we have added 1 lakh liter milk packing capacity and another 1 lakh kgs of curd packing production and packing capacity in these two strong markets. The additional infrastructure should help us in building the volume during the current year but currently it is again subject to the pandemic impact right now. We couldn't take advantage of those infrastructures created. We are geared up fully internally in terms of infrastructure, in terms of team and technology, making the pure and fresh product to the consumers with the same commitment on quality. We should be able to take off once the external market conditions improve.

Nitin Gosar: The second question was on Nutrivet business. This business has been growing at 15%-16% run rate for last 5 years. We are trying to bring in new talent who will drive the business from here on. Why 7% growth outlook for next 5 years in that kind of business where we are deploying additional resource as well?

M. Sambasiva Rao: 7% was sectoral growth, I have mentioned in my opening remarks not company growth.

Nitin Gosar: 7% for the Nutrivet business, outlook?

M. Sambasiva Rao: Nutrivet, cattle feed business outlook for the country was projected by the sector. That's not our company growth. I was referring to sectoral growth.

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

Prashant Kutty: Firstly, just want to have a clarification first, don't take this as a question. The liquid milk realization and liquid milk procurement prices that has been missing if you could probably share that data? You always shared that in the past.

M. Sambasiva Rao: We will share it right now, maybe towards the end of the call.

Prashant Kutty: Firstly, just to the previous participant's question in terms of the volume trajectory. Like you highlighted that there has been last 3 years some or the other impact has happened either internally or externally. Just wanting to draw some reference over here to lot of other categories where most of these categories have come back to normalcy or even gone beyond normalcy. I am just drawing references at a national level but if you look at categories like tea and all of them as well, even they have seen fair bit volume increase presuming that large part of the country does have milk tea. I am just trying to understand that why are we probably still falling short in terms of our liquid milk sales volume numbers whereas we are actually seeing in-home consumption is probably superseding maybe even the out-of-home consumption as well. Just wanted to pick your thoughts. What part of the demand has not yet come back you or which is still lagging?

M. Sambasiva Rao: Prashant I understand. We are not catering to entire nation. We are catering to certain select urban markets. Let me explain to you. If you take a case of Hyderabad where we have or Bangalore, lot of people have returned to home because the schools were closed and IT companies have given work from home. The most of them used to consume here in the city of Bangalore or Hyderabad, they have returned home. Their consumption of milk is met by the local farmers who are producing milk in the village and urban consumption has fallen to that extent whereas if you take tea, they consume tea in urban areas, rural area produce the same brands. It's not comparable because people have moved back to their rural areas. Second, they didn't come back even after situation normalized because schools have not open and they vacated their apartments and houses on lease and left them. There is no compulsion for them to come back to city. If I have 1 lakh people in Hyderabad who left this high-end workforce, in office kind of situation they would have taken 4 cups of beverage per day, 4 lakh cups of coffee or tea. That kind of consumption vanished, schools have been closed, the markets are closed. The milk is a related product where it is available in elsewhere; where they went the milk is available locally. Earlier we used to get the milk to city. Now they went to a place where milk is available. There's a big difference with milk and other commodities.

Prashant Kutty: So, you are trying to say that…

M. Sambasiva Rao: That is workforce, workforce migration. Lot of construction sites have been closed and most of the people in our markets have left where we are operating to their states like Orissa, Bihar or Chhattisgarh, Jharkhand the areas from where they come and stay here to work. That force has gone back for long time. They came, again they are returning. The markets where we operate are urban areas where population is dense and this population is getting back to roots. We will not carry the pack there and sell whereas they get local supplies themselves. This is something you have to understand why the milk sales go down during this kind of situations. Maybe some other processed foods may not go down because they have the supply chain there and they are established for the rural areas also. We are not established for rural areas. Rural area is our procurement center, urban area is our sale center whereas the processed foods, both areas are sale points and they have established network. Ours is a perishable product. There’s long shelf life, ambient temperature. How do you compare tea with milk, though they are consumed together?

Prashant Kutty: The second question is on the margin. You just said that obviously procurement went up a bit sequentially as well. If you look at right now our gross margins are closer to the levels what we had around 2000 start of 2019. Fair to say again that the spread which you were enjoying in the last 2-3 quarters of about Rs. 11 to 12 that would have now come back to the Rs. 6-7 level? Is that a fair assumption? Because procurement could have gone up a lot?

M. Sambasiva Rao: Current quarter scenario we will explain later, not now. We have answer you have asked for net realization and procurement price.

Prabhakar Naidu: Milk sales realization for the Quarter 4 of 2021 is Rs. 46.27 paise. Milk procurement cost per liter for the same quarter is Rs. 37.25 paise.

Prashant Kutty: We will be now almost a Rs. 3 increase.

Moderator: The next question is from the line of from Vikrant Kashyap from Kedia Securities Private Limited.

Vikrant Kashyap: Referring to one of your comments in last quarter on our revenue target of Rs. 6000 crores by ’24, you had mentioned that the COVID impact will be less; to recast the time frame and will update on it. So, any comment on that?

M. Sambasiva Rao: I am just thinking what to say.

Vikrant Kashyap: I understand the COVID challenges are still there, its tough time to ask this question again because you just mentioned that if COVID is not there in 3-4-5 years our VAP will be 40%. that you were targeting earlier. In that sense I thought to ask this question.

M. Sambasiva Rao: Can you repeat the last part?

Vikrant Kashyap: Today in the earlier remarks you said that VAP sales could be 40% in 3-4-5 years if COVID is not there. In that context I thought to ask you the question on revenue target of 6000 crores. How long we are deferring it because you are going for CAPEX plans as it was?

M. Sambasiva Rao: We initially decided to put 2024 as the timeframe to achieve that. We lost last financial year and this financial year is also in difficulties as of now. We are yet to see whether you put 2025 or 26 when we can reach that number is subject to the scenario that comes out of this current wave 2 and expected wave 3. Therefore, we are just looking forward to settling down from the current struggle and fight, what happens in the market then regroup our thoughts and put some timeframe on that, it's not done yet. That much I can say today but we are surely having the target of 6000 in mind yet to readjust the timeframe whether it is 2024; looks out of feasibility as of now whether it requires 1 year or 2 years or what kind of timeframe is required. We will go with the time and see as situation becomes normal.

N. Brahmani: I would like to add two points to that. Having said that we are working in that direction; of course it's been a tough year but if you look at our performance in Q3-Q4 versus Q1 of the last financial year; we have shown a growth in volumes of several products. So, Q4 versus Q3 itself we have seen revenue numbers, we have grown in milk, we have grown in curd, ice-cream, and Buttermilk other value-added products such slim milk, lassi etc. The idea and the efforts are towards growing in terms of volumes and adjustment but also in value added products and were going in that direction till the second wave hit us. So, we are hoping that we come out of it very soon and go back on the same trajectory. Secondly, I think there was a point on CAPEX where there was a point made that with spending the same, as of last financial year we spent about 88 crores on dairy CAPEX. But this year of course since we built a lot of capacities 130 metric tons of curd capacity and 1.3 lakh liters per day in terms of milk packing capacity, we will be much more conservative in terms of CAPEX spend this particular year. It will be lower than 50% than what we spent in the previous year. This will be mostly towards frontend freezers, chillers, some IT initiatives, some initiatives of upgrading and replacing our equipment and processing facilities or procurement facilities etc. So, to that extent Ad spends will decrease this year.

Vikrant Kashyap: One thing in the previous calls we had also speak about growing our presence in adjacent market, so it from urban area in Hyderabad, Tier-II, Tier-III or maybe lower covering adjacent area. So, are we working on that, do our plan is on track?

N. Brahmani: Yes. We are strengthening our position in our core markets as well, especially if you look at the numbers, we've seen revenue growth in the Telangana market year-on-year despite an overall revenue decrease in parts of AP also we've seen increase in revenues. So, that continues to be there in terms of focus, this came from milk as well as value added products and at other markets which are in a difficult situation obviously we will continue to focus on revenues to existing as well as new channels.

Vikrant Kashyap: Any product launches planned for 2022?

N. Brahmani: Yes certainly. I will request our CEO to take that question.

J. Samba Murthy: We have launched during last finance year, A2 Milk, probiotic curd, immunity milk, cold coffee, Hi Aroma Ghee, milkshake, fresh cream, cheese in different variants and added few new variants of Ice-creams. We are also working on certain products to launch Paneer Tikka, Spiced Butter, Shrikhand and Amrakhand, particularly for Mumbai market and Badam Milk with real badam nut actually nut pieces. So, these four products actually we are going to launch it in coming quarter.

Moderator: The next question is from the line of Sameer Gupta from IIFL.

Sameer Gupta: Since FY18 we acquired Reliance Dairy our milk procurement has been almost flat and I understand there have been many one of events in this period, but at least in the near future also I understand that things are going to be uncertain. In this context can I ask, what are our milk procurement related plans? I know you have elaborated on the Greenfield projects but this is a question is more specific to our procurement efforts and what different are we going to do in the next 2-3 years versus what we have done in the last 2-3 years so that procurement increases and any target do you have any medium-term target that we have on procurement side? That will be my first question.

M. Sambasiva Rao: Procurement not an issue, we have been procuring the volumes which are required for markets. We have expanded our physical infrastructure in certain States even during 2021 almost 85000 liters additional chilling capacity infrastructure has been created. We have been continuously giving the assurance of 100% powered marketing linkage to the farmers without any single day break of milk holidays etc. That is one of our USBs to farmers. We continue to offer our help to farmers to improve their income in various measures; we are organized bank credit and the MBFC credit to the farmers with ease of delivery of the credit. Almost 125 crores were delivered during the last financial year and this year we are planning to give 150 crores towards the credit linkage to the farmers. Similarly feed as you have heard Heritage Nutrivet is supplying a high-quality feed at a very reasonable price at doorsteps. We don't expect farmers to come and pick up the feed anywhere. We are going to village with milk vehicles every day and milk vehicles goes empty it carries feed bags and delivers in the village. Farmers have an advantage of buying small quantities more frequently delivered at home in the village on credit. The recovery is done through the milk bills. So, that kind of input supply in terms of feed or vitamins or micronutrients, our medicines are delivered by us to the farmers. This approach is now further being strengthened by remote veterinary services. During next month we are already on a pilot model next month we are going to launch exclusive App for the farmers to avail services of veterinarians across the States where we are operating. We have a panel of veterinary doctors who can guide them remotely by taking the WhatsApp pictures on our pic-photographs on the App itself. The farmer can take animal’s picture and posted, our panel will recommend medical veterinary treatment, our nutrition guidance, our reproduction guidance, arrange the insemination type from the nearby centers. The entire veterinary service for improving the productivity of the animal and improving the volume of the farmer, the both ways production and productivity improvement through veterinary remote services through an App dedicated App being launched from the next month. So, we continue our efforts for improving animal health, animal reproduction, animal productivity there by income of farmer goes up without further investments and we also helped them to invest in more animals so that his overall milk quantity will increase income will increase. So, both the ways productivity improvement, production improvement helps and we supply all the inputs and conduct extension programs. The kind of service will do farmers, that is what is helping us in building volumes. If we want to build another 1 lakh liters, we just have to invest in our infrastructure and expand our services to the farmers. We can achieve that volume. That's not an issue at all.

Sameer Gupta: This process is easily replicable in markets that we are not strong in also, let's say you want to expand into Maharashtra it's just about finding the correct demand center and then you can set up the procurement. Is that understanding, correct?

M. Sambasiva Rao: Correct.

Sameer Gupta: The second question is our employee costs; I am seeing that the clever of 13% grown at annual clever of 13% over FY18 to FY21 and especially in a in the sense that this period has seen a flattish performance on sales. So, what really has constituted this kind of increase and going forward what is the outlook here and are we done with any kind of senior hiring plans and now we can expect some moderation and operating leverage on this number?

M. Sambasiva Rao: It's more of a streamlining issue internally, earlier years we had the cost of certain field force was added into other line of account in the sales or marketing or operations etc. For the proper accountability and the productivity measurement we shifted all the expenses on people into HR account that looks like inflated but that is regrouping of the expenditure items into HR. Secondly, we have also spent additional amount during the last pandemic in terms of special allowances to ensure people are safe and that they are being given additional food facility are these precautions much of it is given on the HR front is got added. This is something which we are trying to make internal regrouping of the accounting, plus additional manpower what added with the new plants and new chilling centers added during this period we have created and we have also added one new plant in Maharashtra. We have also added some 10 new chilling centers in different areas. The new manpower got added and there is a performance incentive eligibility which has come because of higher performance that also we have a component of fixed pay, we have a component of variable pay like each employee gets let's say in 2021 one month pay extra instead of 12 months we get 13 months' pay because of the performance in terms of the overall company. So, the additional incentives, additional performance pays also have been shared.

Moderator: The next question is from the line of Sagarika Mukherjee from Elara Capital.

Sagarika Mukherjee: Actually, if you could just give me some color in terms of your state wise performance like AP, Telangana, Karnataka, Tamil Nadu and Maharashtra?

M. Sambasiva Rao: This is broadly same as it was in the earlier months, there is no big change and we are not giving very-very detailed numbers because of the competition disadvantage we have been seeing on that front.

Sagarika Mukherjee: Sure, understood. But you would say that all the trends might not have changed but all the markets are equally declined or sort of is it some market especially?

M. Sambasiva Rao: That we will take care.

Sagarika Mukherjee: Secondly in terms of your mozzarella cheese plans that you have I always thought that Heritage wanted to remain in fresh dairy products and value added but definitely fresh dairy products etc. because they are lighter on the working capital side. So, in terms of your entry into mozzarella cheese if you could just maybe give some color on your plans, CAPEX, where do you want to place, is it more B2B, B2C venture or is it related to the PLI scheme?

M. Sambasiva Rao: This is a very small initiative, small component of our revenue of value-added products. We have not invested in CAPEX; it's a contract manufacturing being done from one of the existing players who have surplus capacities. So, there's no commitment on CAPEX now or in the coming a few years also. Secondly the coming to working capital concerns, it's a small quantity so it will not influence our working capital management. Thirdly this has been initiated because our basket is not full when some consumer comes to Heritage exclusive parlor, they are getting disappointed that you don't have cheese and I have to go to some other store for buying. Our online orders also someone takes Heritage touch App and places orders one or two products and looks for cheese it is not there. So, to minimize the consumer disappointment and also learn more about the cheese operations we have resorted to a co-packing model and introduced recently and next one it is not B2B at all, it will be always B2C. Our focus is to satisfy delight our consumers first. This is basket filler and range management to see our consumers has served properly with all the range of products all these years we are missing cheese, so we wanted to cover that gap also.

Sagarika Mukherjee: Just if I could come for the last question, we distribute our products to 1.3 lakh retail outlets today, the 6000 crores revenue. What's the network size that we are looking at and where all we are planning to add the network?

M. Sambasiva Rao: It'll be in the same markets where we are operating, we are not looking at new States but within the same States same markets we will go as it was referred earlier, Tier-I, Tier-II cities also to say deeper penetration in the existing markets and maybe we have to double our outlet coverage. But the most of this value-added product sales as Brahmani earlier explained growing significantly through modern trade either e-commerce or brick and mortar stores. So, that reduces pressure on network. We can focus more on the high dense networks and format.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: I have two questions. The first question you mentioned that 8.5, 7.5 EBITDA margin, in your thought if you meet to reach say 10% EBITDA margin, what kind of value-add component you think we can take or is that 27% is the sacrosanct to get about 8-8.5 or we need to have more contribution from value add?

M. Sambasiva Rao: Maybe at a stable state once we achieve 40% to 45% of revenue from value added products, we can look at that but while the category is growing there will be spends on marketing, there will be spends on promotions etc. During the growth phase that benefit may not accrue to the business. After you achieve certain level of volumes and then we can expect that additional a 100 basis points or 150 basis points addition to EBITDA. But that's why we are not giving you that a clear number. This is what it is. We have to keep the bottom line in view and also ensure healthy growth both top-lines, bottom-line in a balancing manner we have to achieve. So, we will keep both insight and build the businesses in future with an aspiration of reaching 40% to 45% of value-added products contribution to the overall revenue of the dairy.

Shirish Pardeshi: What I wanted to ask I mean if I do the quick math's rather than achieving 6000 crores you will surprise double digit EBITDA margin very quick. That's what the good understanding?

M. Sambasiva Rao: I leave it to your imagination at this stage.

Shirish Pardeshi: My last question is for Brahmani. I do and really thank you for giving a good, best slide on Novandie and my sincere congratulations and finally the plant is up and running. I have two questions I mean one follow-up and the main question is that to how much CAPEX we have done on Novandie business and how much is further which can happen in the next 2 years and the follow-up is that now we have two products which have gone into the market. What else can happen in the next 3 years and if you can give some revenue color what you can come from the Novandie JV?

N. Brahmani: So, when it comes to the plant of the JV, we spent about 34 crores in CAPEX funded by both partners as well as a component of debt. That facility is actually equipped to be able to manufacture not just the fruit and flavored yogurt, but also fermented drinks which are on a part of our scope of products in the agreement between both the companies. In fact, we'd be able to add many other products also by minor additions of equipment within the product. We'd be able to double the capacity of the plant also from 10 tons per day to 20 tons per day by this minor addition of equipment, packing the equipment etc. It's a highly flexible plant that can double in terms of capacity and into which we can also add other products which are part of the scope of the JV agreement between the both the companies.

As of now we would like to focus on these set of products because the range of products is many the fruit and flavored yogurt of many different kinds of drinkable, scoopable etc. within which we can also look at interesting variants like Probiotic and several other different kinds. It also includes European desserts for which the market is fairly big. For instance, Novandie or Andros as a company the parent company is a market leader when it comes to Italian desserts in the European market. That's going to be our focus in the near future when it comes to this specific JV. However, having said that very opportunistically if we come across any interesting collaborative opportunities either in terms of technology or in terms of products, we are happy to look at it but for now we are really focused on our current set of scope of products and scale it up.

Shirish Pardeshi: Any color on the revenue within next 3-4-5 years?

N. Brahmani: The idea is to build a formidable business out of it. I think it's too early for me to share this Novandie being an unlisted company might have some issues with sharing numbers, but we are looking at some healthy revenue numbers through this one plant itself and that's why we chosen the Mumbai market and other adjoining markets. We also believe that yogurt is the lowest hanging fruit when it comes to any western products to be introduced in the Indian market and very close to our existing portfolio of Indian products such as curd and fermented products.

Moderator: The next question is from the line of Pankaj Prasoon from HNI.

Pankaj Prasoon: My question is on the Nutrivet side. So, we have more than 3 lakh farmers on our kitty and if I do a simple math of Rs. 20000 per farmer per annum which makes to 600 crores which is a low hanging fruit till now and we have not harvested. So, what is the reason that we could not convert it to the revenue and what strategy is going forward? As you had mentioned in your slides that, this cattle feed business will grow to 7% CAGR by 2026. Can you tell me what could be the size of the market by 2026 and what is the current and what kind of EBITDA margin you make right now and what you are aspiring to? And I would like to know what kind of the asset turnover ratio here and what are the CAPEX plans for this vertical since Mr. Viney Vatal appears to be very capable person who has worked CEO with Godrej Agrovet. So, where do you see this business going to reach index 5 years?

M. Sambasiva Rao: We have a large pool of farmers who are in need of a compound feed and we also discovered this quite late. We have built two plants of 6000 tons per month capacity each. We have started utilizing our network delivering our feed to our farmers last 4 years. So, we are ramping up our distribution network utilizing the capacity is created and they have a logistics limitation. We are operating in multiple States; plants are only in 2 places. So, we may have to look at production tie-ups in different markets to scale up and also reach out to all the farmers to utilize our product. We are on the job of reaching out to first our suppliers and also supplying to the other farmers through a general trade network of distributors dealers being appointed in various milk-sheds. That activity is going on now with a new CEO Mr. Viney Vatal as you said is quite experienced, we are looking to finalize our strategy. He joined only six weeks back, so we will be working out on a long-term plan, a medium-term plan, how to expand our capacities with less CAPEX going forward and utilize the existing plants more productively with higher capacity utilization reach out to as many farmers as possible who are spread over in 12000 villages. Currently our farmer base is spread over 12000 plus villages so reaching out to all those farmers with proper logistics planning is another issue. Keeping the consumption quantities being very low at the moment most of the farmers are heavily dependent on the low-cost feed not really compounded feed, it only adds to the feed benefit of the nutritional benefit of the cattle. We are working on various options, details and finalizing our way forward program for the next 5 years, maybe in the coming months, quarters once we are more geared up, we would be uprising you all in course of time.

Pankaj Prasoon: Still some questions remained unanswered; so I ask that what is the market size of this animal feed business currently and what will be by 2026 and what kind of EBITDA margin…

M. Sambasiva Rao: We will share with you in course of time; we are already quite late on the call. We have two other calls waiting. So, I request you to be patient. We will be coming out with clear information and there's a lot of time to share.

Pankaj Prasoon: Just one thing, what will be the asset turnover received in this business?

M. Sambasiva Rao: It could be three times right now.

Pankaj Prasoon: And at the peak what will it be?

M. Sambasiva Rao: It will be five times.

Pankaj Prasoon: Because I see that this cattle feed market itself in more than 1 lakh crore per annum, so we are lacking much behind in this?

M. Sambasiva Rao: Yes it is. The feed value is very low, so the asset versus revenue if you are selling Ghee is a Rs. 500 kg Rs. 400 kg realization; feed is Rs. 15 to Rs. 20 kg realization. So, it won't be comparable with the high value products, it's a very low value product.

Pankaj Prasoon: Because Ghee we are using in a spoon and feeds, we are giving in Kg.

M. Sambasiva Rao: We just hold on this topic; we will take up next time.

Moderator: Thank you. Due to time constraint that was the last question, I now hand the conference over to Dr M. Sambasiva for closing comments.

M. Sambasiva Rao: Thank you very much for actively participating in the today's call in spite of the challenging times outside pandemic prevailing. Once again thank you. I wish you all safe and stay at home during this Government curfew period. Thank you again.

Moderator: I now invite Mr. Hiral Keniya for closing comments from Dickenson World.

Hiral Keniya: Thank you everyone for joining us today for this call. In case of further questions, clarifications, suggestions or feedback, you can connect with the Mr. Umakanta Barik, Company Secretary and Compliance Officer, Heritage Foods or us Dickenson World.

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