Ref: SECT: STOC: 67 – 21

August 2, 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 July 19, 2021 the Company had organized a conference call with the Investors/Analysts on Friday, July 30, 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.

Yours Faithfully

For Heritage Foods Limited

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

Encl: 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.

HERITAGE FOODS LIMITED
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AN ISO: 22000 CERTIFIED COMPANY
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"Heritage Foods Q1 FY22 Earnings Conference Call"

July 30, 2021

MANAGEMENT:

MS. BRAHMANI NARA – EXECUTIVE DIRECTOR

DR. M. SAMBASIVA RAO – PRESIDENT

MR. J. SAMBA MURTHY – CHIEF OPERATING OFFICER

MR. A. PRABHAKARA NAIDU – CHIEF FINANCIAL OFFICER

MR. UMAKANTA BARIK - COMPANY SECRETARY & COMPLIANCE OFFICER

MR. VINEY VATAL – CHIEF EXECUTIVE OFFICER, HERITAGE NUTRIVET LIMITED

IR CONSULTANTS

MR. HIRAL KENIYA – DICKENSON WORLD

MR. VIKASH VERMA– DICKENSON WORLD

Moderator: Ladies and gentlemen, good day and welcome to the Heritage Foods Q1 FY22 earnings conference call.

As a reminder, all the participants' 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 the conference call, please signal for an operator by pressing '*' then '0' on your touch-tone telephone. 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: Good afternoon everyone. I welcome you all to the earnings call of Heritage Foods Limited for Q1 FY22. Today, we have with us the management represented by Mrs. N. Brahmani – Executive Director, Dr. M. Sambasiva Rao – President, Mr. A. Prabhakara Naidu – Chief Financial Officer, Mr. J. Samba Murthy – Chief Operating Officer, Mr. Umakanta Barik – Company Secretary and Compliance Officer, and Mr. Viney Vatal – CEO, Heritage Nutrivet.

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 statement we make on this call today is based on our assumptions as on date, and we have no obligations to update these statements as a result of new information or future events. I would now like to invite Dr. M. Sambasiva Rao from Heritage Foods to make his opening remarks.

Dr. M Sambasiva Rao: A very good evening to all the participants today on this call. We are happy to welcome you all to this earnings call of Heritage Foods to discuss the financial and operating performance for the Q1 of FY22. I hope all of you are safe and healthy during this pandemic time. A detailed presentation has been uploaded on the exchanges and on our website. I do hope everyone had an opportunity to look at it.

Now, let me take you through the highlights on the financial and operational aspects of quarter 1 of FY22. Consolidated revenue for Q1 was at Rs. 6481 million as compared to Rs. 6388 million in previous year's Q1. EBITDA was at Rs. 588 million as compared to Rs. 520 million in Q1 FY21. EBITDA margins stood at 8% now as against 8.7% in the previous year same quarter. Adjust PAT grew by 3.7% year on year to Rs. 303 million. Overall, the profitability of dairy has improved during Q1, i.e., if you take standalone performance net turnover was Rs. 638 crores versus Rs. 606 crores registering 5% growth. EBITDA of standalone is 53 crores versus 46 crores, registered 15.6% growth. PBT of standalone is 40.41 versus 33 of last year.

Now, I take up Heritage Nutrivet, our wholly-owned subsidiary. Sales stood at Rs. 241 million in Q1 as against Rs. 345 million in the last year Q1. EBITDA stood at Rs. 23 million as against Rs. 52 million in the last year. PBT stood at Rs. 14.9 million versus Rs. 42.7 million. On the balance sheet front, the long-term debt stood at Rs. 36.4 crores, i.e., 364 million at consolidated level as on 30th June 2021. The company has a strong balance sheet with debt/equity ratio at 0.04:1 and cash and bank balance of Rs. 700 million as on 30th June 2021.

Moving on to the volume performance, the average milk procurement during this quarter was at 1.2 million liters per day as compared to 1.4 million liters in the last year same quarter. Average milk sales – the liquid milk sales – during the current year's Q1 was at 0.95 million liters per day compared to 0.92 million liters during last year. While curd sales during quarter 1 was at 292 metric tons per day compared to 253 metric tons per day during the last year registering 15% growth year on year. During this quarter, value-added products' revenue surged by 11% year on year to Rs. 1,746 million. The contribution of value-added product revenue also increased to 27.4% versus 25.3% during the last year same quarter.

There are a few other developments which I would like to share with you all, which is already in the public domain. Our senior management team is now strengthened with on-boarding of Mr. Srideep Nair Kesavan as the company CEO. Prior to joining Heritage Foods, Mr. Kesavan held over 2 decades of leadership positions at Coca-Cola and Olam International as an innovative marketer and enterprising business leader with deep domain expertise across sales and distribution, marketing, category management, and P&L.

The company continued with its efforts of enhancing value-added product portfolio, and I am happy to inform you that the company during this Q1 forayed into new ready-to-eat segment, i.e., heat-and-eat tikka paneer. Additionally, we also launched spice butter and cup curd in Mumbai market during this quarter. Heritage Novandie is delighted to bring Mamie Yova branded Deliciously French Yogurt along with our unique offering the Yo Pop drinkable yogurt in Hyderabad market through Heritage Foods distribution network. The company expects to grow its value-added product share in the coming years by consistently launching new healthy value-added products. The company's growth mantra is to empower farmers and build strong product portfolio through its consumer-centric approach. Heritage aspires to be a nationally recognized brand – brand for healthy and fresh products with a focus on efficient capital management and maximizing shareholders' value.

Now, the floor is open for question-answers. If any of you have any queries or feedback post this call, you may please connect to Dickenson World, our new investor relations agency. Thank you for the time and patience. Now it's open for discussion.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta: The first question is regarding this new development of Mr. Srideep joining. Any color you can give, sir, on the broad strategy of getting a new CEO on board, any revised targets for the company, what exactly in the thought process, broadening portfolio, going aggressive on marketing, changing of modifying organizational structure, revenue growth, anything related to broad strategy behind this appointment?

N Brahmani: Basically the targets for the company remain more or less the same that we want to grow at over 20% when it comes to revenue to be able to reach our target of increasing value-added products from the current 29% contribution of revenue to 45% to 50%. In order to be doing that, I think there are several things that we realize we need to be focusing on as an organization – one importantly being consumer-centric focus to bring about the transformation and to bring about high growth as we move from being just a dairy company to an FMCG sort of approach. That is where we believe Mr. Srideep's experience cross functionally would be helpful – be it in the domain of marketing where he has a rich experience and operations and as a result of handling several other functions such as HR and being responsible for P&L, etc., he will bring in value. He is just joining the organization this month. I think he will be able to co-create more specific strategies post to his formal joining in the organization and give you more light on the same during our next call.

Sameer Gupta: I look forward to that, Brahmani. Thanks for this. Second question is more on the quarter. Last year, we saw the lockdown affecting the HoReCa channels and the milk procurement prices saw a dip. This quarter again, the restrictions were imposed but we don’t see any gross margin advantage. What differently happened this time?

Dr. M Sambasiva Rao: Compared to the previous year's same quarter, this year, procurement prices were higher than the last financial year. That's the major difference and to some extent, the logistics costs also were higher with the increased fuel prices.

Sameer Gupta: Sir, sequentially there was a drop in milk procurement prices?

Dr. M Sambasiva Rao: No, I am talking about comparative data of last year same quarter. Compared to last year same quarter, this year, milk prices were higher. As you know, the markets are almost restored in the Q4 of last year, all markets were open and milk prices went up with an increased demand. That has not come down to as low as last financial year's quarter 1 this year. That is the significant difference from last year Q1 to this year Q1 in terms of farm gate prices.

Sameer Gupta: Sir, one request. You used to share the liquid milk prices and milk procurement prices every quarter. Just request if you could give it for this quarter?

Dr. M Sambasiva Rao: Last year quarter 1 to this year quarter 1, there was an increase of 3% in terms of milk price per liter.

Sameer Gupta: This is procurement?

Management: Yeah, last year, the average procurement price of buffalo and cow milk was Rs. 34.49 per liter and this year the average price of cow and buffalo milk is Rs. 33.45 per liter. So, there is an increase of 3%.

Sameer Gupta: The selling price, sir?

Dr. M Sambasiva Rao: Selling prices remained more or less the same except for the variant mix and market mix. There was no price increase in terms of sale prices of milk last year quarter 1 to this year quarter 1.

Moderator: The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Sir, my first question is it seems that more or less, our cattle feed business has kind of attained scale. So, if you could guide us as to what kind of sustainable EBITDA margins we can expect from this business once we expand our footprints in other locations?

Viney Vatal: The margins are subdued in quarter 1, yes, because the raw material prices have been high. As you must be aware, the soya prices are competing with diesel prices now, and in fact, today they have overtaken diesel prices. Given that, the margins are subdued, but we expect that going forward, specifically as we approach H2 which is traditionally when the new crop arises, the margins would come back to the expected and the last year's level.

Swechha Jain: Sir, my second question actually pertains to a followup on the earlier participant's question. If you could quantify the current milk procurement price, what are they now in July and what were they in Q1 FY21 and also if you could throw some light on the current skimmed milk prices because I believe they have softened a bit. Would it impact our margins?

Dr. M Sambasiva Rao: We are constrained not to talk about current quarter prices. We will explain to you later.

Swechha Jain: But how about the skimmed milk prices? Do you think they would impact our margins?

Dr. M Sambasiva Rao: We don't deal with normally skimmed milk for our day-to-day requirements. We buy the whole milk from the farmers.

Moderator: The next question is from the line of Esha Sheth from Anvil Shares & Stock Broking. Please go ahead.

Esha Sheth: Sir, we procured around 1.2 in this quarter and we sold 0.95. The difference between procurement and sold milk, why is the difference?

Dr. M Sambasiva Rao: The difference is the rest of the milk is used for other products like curd, paneer, butter milk, flavored milk, and all other value-added products. The 9.5 million is the sale of liquid milk.

Rest of the milk is used for other products. That's where the revenue of value-added products is getting reported.

Esha Sheth: Sir, I wanted to check, you mentioned that procurement price is Rs. 34.49 in this quarter right?

Dr. M Sambasiva Rao: Yes.

Esha Sheth: And selling price is similar to last quarter?

Dr. M Sambasiva Rao: Correct.

Esha Sheth: Sir, I wanted to ask that when we just do the simple math of selling price minus procurement price, then in FY21, it was Rs. 11 per liter. But in FY18, it was Rs. 5 per liter. Do we have some minimum profit in our mind to keep between procurement and selling price?

Dr. M Sambasiva Rao: It's not that simple straightforward difference to be arrived at. There is a mix of value-added products, there is a mix of milk powder, surplus fat generated and sold as butter and ghee. It's a function of multiple activities. I don’t think we will be able to explain as a straight line difference between buy price and sell price because it is just not milk sold like that. The cream is separated from the full cream milk and reduced and sold as double-toned milk. Multiple complexities are there. You need to perhaps understand the costing and selling prices separately, may not be feasible on this call.

Esha Sheth: Sir, I wanted to check which is the focus area in value-added products? Which product is major contribution? Curd is major, but going forward, it would be?

Dr. M Sambasiva Rao: Curd continues to be the lead product keeping the consumer habits in mind. It will be a kind of flagship lead product. The rest will follow, because curd has lion's share. No other product can beat that kind of numbers. That's essentially a function of consumer habit.

Esha Sheth: 45% of our sales to value-added products to the overall sales and right now it is at 29%. That requires a compounded growth of around 30% to 35% in value-added products. Is it possible? What are the strategies to achieve that 45% to 50% of sales? because the growth rate would itself become 35% growing value-added products at 35%. If you can elaborate, please.

N Brahmani: Definitely, I think the growth rate will have to be higher in value-added products versus liquid milk itself, which is the trend we have been seeing in the past couple of years. In fact, despite several headwinds, in Q1 also, we have seen that the growth rate of PAT was higher than that of milk and now given the current situation that things are getting better. Economies are opening up, states are opening up. We believe that consumer demand should come back for value-added products and we should grow in the positive direction. Added to that, I think bringing in more focus into marketing and bringing in this consumer-centric approach is something that will further reiterate and penetrate the brand in value-added products much better going forward.

Esha Sheth: Just the last question. Salaries of MD and Executive Director have increased. Is it in proportion to the profits? because the increase is more than the other companies. Or is it only for this year?

Dr. M Sambasiva Rao: Basically, the remuneration is structured in our company as a fixed pay and variable pay. There is a fixed pay approved for the period of 5 years by the board and AGM. That remains constant for 5 years without any annual increase. It is fixed for 5 years. Every month, every year, the pay is same for 5 years. There is a second element of remuneration called variable pay based on the performance. Basically, performance factor is the profitability. When the profit is low, the variable pay take home will be low. When it is high, it will be higher. That is how it is structured to encourage or incentivize the high-performing year. It moves along with the performance. The significant part of the pay is performance pay.

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

Bhargav Buddhadev: We have seen about a double-digit decline in milk procurement in this particular quarter. Anything to read through this? because 17 odd percent decline I think has happened after many quarters.

J Samba Murthy: Actually there is no drop in our own milk procurement. Last year we purchased skimmed milk and converted into SMP. Because the skimmed milk prices are low, we bought it and converted into SMP and that SMP now we are using it in this year. That is the difference. Otherwise, there is no decline.

Bhargav Buddhadev: So, is there a lot of SMP inventory still lying with us?

J Samba Murthy: 3500 tons of SMP is available and which is meant for internal consumption only in the coming months.

Bhargav Buddhadev: Secondly, sir, when we are looking at a significant growth in our value-added product portfolio – ma'am mentioned close to about 50% of revenue – are we looking at upgrading our advertising & marketing budget? because without that it is difficult to sort of achieve such higher targets. With the new team coming in place, like we hired a professional CEO from Nutrivet and now for Foods as well, is there a sort of DNA change where we will be aggressive in terms of marketing spends also and sort of look at achieving this 50% maybe in the next 3 years' time – the share of value-added?

J Samba Murthy: Yes, we are going to increase our spends in future as we are going to focus more on value-added products and the spends also mainly through this online marketing activity – social and digital media and also on-ground visibility activity.

Bhargav Buddhadev: Any budgets which you can share – what percentage of revenue will be spent on advertising?

J Samba Murthy: Spends were actually like if you take last few years, it was at about 0.5% and 0.3% and 0.24% previous years, then it is going to be actually more in this financial year onwards.

Bhargav Buddhadev: So, will we be doubling it or more than that?

J Samba Murthy: Based on the need actually it is going to be more.

Moderator: The next question is from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain: Sir, my question is on Mrs. Brahmani's answer to one of the earlier participant's question regarding the 20% type of revenue growth and more consumer-centric approach and becoming an FMCG type of company. Question here is, to achieve that and such a decent revenue growth target, what approach are you going to follow this time? because in the past, you have done sort of some acquisitions which were not successful. So, is it going to be organic this time? This is one question. Secondly, instead of doing acquisition and chasing just the revenue, will the company be investing more in Heritage brand and using the same distribution network which is quite strong in my view, how do you think that for the next 5 years?

N Brahmani: Of course, this is the strategy which is ongoing, but your question on acquisition I think that's something we look at opportunistically as we speak today. There is no strong compelling candidate that we are looking at right now, especially because we are so focused on the quality of our raw material and we want to have control over it which is something that has helped us as a brand significantly.

Next question on distribution, yes, the dynamic of distribution today is quite strong for us and in fact what made us grow to the level we are today over the last close to 3 decades is the strength of our distribution network. That will continue for a certain set of products, especially fresh products, but as we look at the existing sort of ambient products, longer shelf life products and any other featured products, it will sort of have to be a combination of what we have today and an FMCG type of distribution network including focusing more on modern retail format stores as well as e-com. We have seen a growth in e-com sales within our company itself as mentioned during our last con-call. So, distribution channels and distribution mix will have to change.

Nitesh Jain: My second question is on this JV with Novandie for yogurt business. Not for any particular year, but what is the potential revenue possible from this JV, say in 3 years' time? Any estimate, any internal numbers we are working with?

N Brahmani: I think I will come back with more clarity going forward. The product has just been launched in the market. We launched the product, to be more specific, on the 16th of February in the Maharashtra market. Quite recently, we launched a product also in the Hyderabad market. And feedback and the response to the product are very encouraging for us.

Secondly, we have a partner which is a private company, so I can't share too much information at this point in time, but offline I can share more information about the same. But to just give an example, I think among the western products which are generally doing well, in the Indian market, yogurts is one space which is very attractive and it is a logical sort of extension to curd or dahi in the Indian market. So, we are really excited about the growth potential this time.

Nitesh Jain: Lastly, to achieve this 45% to 50% value-added proportion in line with the recent launches, be it yogurt or the ready-to-eat paneer, can we expect more such launches in the coming months?

N Brahmani: We have launched several different products in the past 1 year. For instance, we launched a line of cheeses, be it slices, cubes, blocks, spreads, mozzarella. We have also launched probiotic curd, we launched immunity milks, we have launched cold coffee which has taken off quite interestingly, and we also very recently introduced tikka paneer which is a ready-to-eat ready-to-cook sort of product making at our convenience because we believe in the future of paneer. Similarly, in the current quarter, we will be launching shrikhand and amrakhand in relevant markets – Maharashtra, etc. Going forward, yes, there are products in the pipeline. However, we believe our place is quite full and penetration within existing products itself is a huge opportunity for us. So, we don’t want to spread ourselves too thin either. Again, taking the consumer-centric marketing approach going forward, we will penetrate more in the existing products, be it curd – there we are already a leader, be it paneer, be it drinkables, be it ice creams, etc.

Moderator: The next question is from the line of Sivakumar K from Unifi Capital. Please go ahead.

Sivakumar K: Sir, I had one question on the increase in revenue that we are targeting around 20%. What will be the key geographies that we will be targeting when you want to grow the revenue at 20%? Is there more scope to grow in our current core market or do we need to expand into new regions?

Dr. M Sambasiva Rao: We will be operating in the same markets. For example, if you take AP, Telangana, Karnataka, Tamil Nadu, these are the markets where we go down into tier 2 and tier 3 suburbs, etc. When we go to recently entered markets like Delhi or Mumbai, we will be focusing on the urban areas in those 2 markets. Beyond this, we are not looking at any new territories as such.

Sivakumar K: I just wanted to pick your brain on the milk cycle per se, because currently sitting in Q1, how do you see the milk prices behaving in the flush season which is closer to Q3? Because in FY19, we have seen the prices being at a very low level because there was plenty of milk and then in FY20, we saw very high prices because of scarcity situation. How do you see FY21 panning out during the peak season?

Dr. M Sambasiva Rao: Sivakumar, this is a very peculiar scenario of dairy. We used to have 2 cycles in the earlier year – October to March – called flush season where production of milk is very high, prices are the lowest in December-January period. And the second season – April to September – called a lean season where the milk production will be lowest, prices will be highest during July-August kind of months. That used to be a very standard kind of production cycle connected to price trend, but of late, let us say a 10-year cycle if you take, there were certain years where this rhythm is not regular. It is getting irregular, uncertain, unpredictable, and it was more so after 2015. There was no such flush, there was no such lean. Some years, full year was on lean only. There was no price drop. It has become very unpredictable and erratic attributed to multiple factors, mainly climate change – the rainfall, drought, floods – have disturbed the cycle. Secondly, global price trends and global economies. One year, the Chinese economy went into recession. They didn't buy much of the stocks in the global market. One year, there was a tension between Europe and Russia. There was a diplomatic tension and there was embargo on the trade between Europe and Russia. So, the stocks moved from different continents. And one year, there was a problem in New Zealand with drought. There was a production fall and it impacted. So, global factors, diplomatic relations, the climate changes coupled with certain export-import policy decisions of our central government and the incentives related to state governments, they are all not letting this cycle to be on its natural course of flush, lean, high-price summer, low-price winter. The cycle got disturbed. And this got further aggravated with the pandemic last year. Once the national lockdown was imposed, there was so much of fall in the demand. Out-of-home consumption collapsed, market got closed. So, the milk supply continued from the farmers, every company has picked up milk to protect the livelihoods of farmers and the relationship with farmers, and we also picked up and converted into powder and butter, sold or consuming internally. So, the prices have fallen in the 1st quarter and slowly it picked up by end of the financial year in Q4. Again, the wave-2 hit in end of March and April-May, the prices have gone down but not as low as last year. And now we are going through a lean season. The lowest production happens in August in the year normally in buffalo milk area. Now we are going through that lower production and higher prices, and if everything goes well and there is no wave-3 hitting India, the prices may again get impacted one way. If wave-3 comes and again markets get impacted, then the prices will fluctuate. We are going through a very challenging and difficult phase in the dairy's system. No one can tell you what exactly is going to happen in the next 6 months. One, from the cycle of the pandemic, the vaccination, and its impact or wave-3 and its impact; other, from the climate – where it is raining, when it is raining, why it is raining, and what is its impact on the dairy – and the lockdowns and regulations also impacted artificial insemination cycle. Normally, artificial insemination happens during certain months leading to conceiving and deliveries, the lactation, and milk availability. The veterinarians were unable to travel through the villages during this last 1.5 years. Everyone had their own issues of public health, personal health, and difficulties. So, the artificial insemination also didn't happen as expected. That will also impact on the rate of deliveries and lactation. It's very difficult to predict and clearly say but if the natural trend comes, come October, production should improve and prices should soften.

Sivakumar K: Sir, just one last question. Of course, you can't give a number but qualitatively from July, can we say that the core South Indian markets where you are operating are now closer to normalcy? When I say normalcy, the HoReCa segment should also be doing much better than what we saw last year, right?

Dr. M Sambasiva Rao: Yes, markets are open and demand is rising. There is one more factor just to keep in mind is the work-from-home option given to a large number of IT companies and schools being closed. Those who have migrated out of urban areas to their native places are yet to come back. Though the offices are open, they are still operating on the work-from-home front. And only the opening of schools will bring the parents back to urban areas. We operate mostly in urban areas. Our consumption is in urban areas. So, the full-fledged recovery in the demand will happen once all the workforce returns to urban areas.

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

Aniruddha Joshi: Can you indicate the procurement price again in Q1 FY21 and Q1 FY22 both the quarters?

Dr. M Sambasiva Rao: 34.49 current year, last year 33.45 per liter of average of cow and buffalo.

Aniruddha Joshi: If you can indicate curd sales in rupee terms, not the quantity.

Dr. M Sambasiva Rao: Revenue from curd sales?

Aniruddha Joshi: Correct.

Dr. M Sambasiva Rao: Aniruddha, Rs. 141 crores is the current year quarter 1 curd revenue.

Aniruddha Joshi: This is June 2021 quarter revenues. And if possible June 2020 quarter as well?

Dr. M Sambasiva Rao: It was Rs. 126 crores last year.

Aniruddha Joshi: With now induction of multiple professionals in Nutrivet business as well as the dairy business also, just a question for Brahmani madam – how do you see the family's participation in the actual management role? We have seen in many consumer companies like Asian Paints or even Berger or Dabur, etc., over a period of time, the family has taken a kind of backseat in actual management of the business and professionals have taken over completely the day-to-day running or even the strategic decisions of the business also. Do we see such similar trend in case of Heritage too? Do you see over a period of next 5-odd years, entirely the business run by professionals or will the family continue to have a majority say in the management?

Dr. M Sambasiva Rao: Aniruddha, she just joined the business. You are asking her to retire?

Aniruddha Joshi: No, sir. What will be the role then? That is the only question.

Dr. M Sambasiva Rao: We all do this business well. I don't expect retirement so early.

Aniruddha Joshi: No, sir, not at all about retirement. I am sorry if I have asked the question wrongly. But what will be the role? That is the only question.

Dr. M Sambasiva Rao: …. you take my answer rightly.

Moderator: The next question is from the line of Rohit from Samatva Investments. Please go ahead.

Rohit: I just have a couple of questions. My first question is on the additional curd capacity that's coming up in the next few quarters. What is the capacity comes in and what will be the peak revenues you can achieve from those curd capacities in the next 2-3 years?

N Brahmani: In the past 1 year, we have added about 125 tonnes in curd capacities to our existing capacity and 50 tonnes in Telangana, 50 in AP, and another 25 in Maharashtra. This year, we don't intend to increase our capacities because this is suffice for the next financial year. That's where we are at when it comes to curd capacities.

Rohit: My second question is just a small data point. What possibly be the mix between cow milk and buffalo milk?

Dr. M Sambasiva Rao: Mr. Rohit, it keeps fluctuating again, because cow milk production cycle, and buffalo milk production cycles are different in terms of lactation start time and end time. We average out to 60:40 (60% cow and 40% buffalo) at an annual level, but month level and quarter level, it keeps fluctuating depending on the seasonality.

Rohit: Two years back, was that similar range, or was it like pre-Covid?

Dr. M Sambasiva Rao: It was a little more on the buffalo side. It would have been let us say 43% to 44% buffalo and 56% to 57% cow. During this period, buffalo milk has come down a bit.

Moderator: The next question is from the line of Dipen Sheth from Crystal Investment Advisors. Please go ahead.

Dipen Sheth: My question is perhaps driven by my inadequate understanding of the company. So, please forgive me if this sounds a little bit repetitive but I am just looking at your stated chilling capacity which is at 21 lakh liters per day and you have procured about 12 lakh liters per day in the last quarter and I think the peak that you would have done has also been about 14-15 lakh but I am not sure. The question is we have a much larger chilling capacity to chill primary milk which is procured and we are just about maybe 60% or 70% of the way there. Is there a constraint in our ability to distribute and sell or is there a constraint in our ability to procure?

Dr. M Sambasiva Rao: There are multiple ways this could be understood. (1) In terms of chilling capacity 21 lakh and procurement 12 or 14; in the peak months, we might be procuring 15-16 lakhs. In the lean season, it will go to 11 lakhs, 10 lakhs. So, averages keep changing – year average. (2) It's a legacy issue. Our company started 29 years ago. At that time, there were very few players in a particular locality, the company has built 50,000 liters chilling center per day capacity in a particular location anticipating that kind of milk and that kind of milk has come 20 years back, 25 years back. Over a period of 3 decades, the number of players have come and set up their facilities around that location. In the same location, several people have come. The milk shed or milk pool remained same or there is a marginal increase. The sharing of the milk reduced the ability for chilling centers to procure 50,000. So, over a period of time what happened was we had to set up smaller units of 5,000 to 10,000 liter capacities deeper in the milk collection areas. There used to be 1 chilling center at let us say taluk level, tehsil level, block level – these are the administrative units in the government – and now we have gone below the block levels and set up the smaller units. So, the larger units have become redundant over a period of time. Therefore, the capacity remains underutilized in those locations as the milk got shared – same milk pool divided by more people, and we started expanding into the deeper areas to pool up the milk from the distant places. That's how, certain capacities are underutilized. That is one way. Second is, the procurement volumes and sale volumes typically go hand in hand. Whatever is the market demand, we try to catch up by setting up back-end infrastructure. Certain markets, we may be going faster. For example, X market, we were doing 50,000 liters and now it has gone to 1 lakh liters. In that area, there will be a procurement shortage. That area's potential is low. Milk availability is low in a particular territory but demand is high. Take the case of Hyderabad. Hyderabad demand is far superior to milk availability in 300 km around Hyderabad. Similarly, if you take Bengaluru, milk availability is far higher than milk requirement in Bengaluru. These mismatches are there. In certain areas, we need to add capacity, though in some other area, capacity is underutilized. In Karnataka, my capacity is underutilized, I cannot stop growing in Telangana or milk required for Hyderabad. So, the growth of demand and supply area's imbalance is there. That is how this looks higher. It doesn’t answer directly why the differences are there. You have to really understand the milk production areas, milk consumption areas, logistics cost involved, perishability of the product, and we have another commitment to offer fresh milk to consumers. We do not carry Pune milk to Delhi or Tirupati milk to Delhi. We try to procure milk within the nearby areas and fresh milk we want to deliver next day to the consumer unlike certain brands who will have milk transit distance itself 3 days, 4 days. It can also be done. I can create limited capacity but transport long distance over 2-3 days and give stale milk to consumers, which is against our principle of quality standards.

Dipen Sheth: The milk powder that we are carrying in the inventory, how do we value this, since it's probably a substantial part of inventory as we speak?

Dr. M Sambasiva Rao: We have conservative accounting – cost of production versus current market prices. Comparing both, the lowest of the two we take.

Moderator: The next question is from the line of Deepak Madhavdas from LSA Securities. Please go ahead.

Deepak Madhavdas: Sir, ma'am was speaking about shifting more towards the FMCG business. What is the bouquet we would see in the future? One product what we launched is this ready-to-eat tikka and what are the similar products which we can see in that?

N Brahmani: We have several products that already appeal to the FMCG space. All are products are fast moving. All our products are consumer goods products. Be it our existing value-added products – curd, existing paneer, beverages, drinkables, fat products ghee and butter, all of them appeal to FMCG.

Deepak Madhavdas: I just wanted to know like since we have launched this product, paneer tikka, what are the similar products are we going to launch and which are the main targets for us? Will it be the hospitality sector directly or it will directly hit the consumers?

N Brahmani: No, we have been very clear since the beginning that we are a purely B2C company, we will not focus on other channels significantly. We will only go to consumers and that's why we are so focused on building a stronger image and a stronger brand towards the consumers. We believe that that will give us strength and sustainable growth in top line and bottom line.

Deepak Madhavdas: Madam, do we see any similar products in the same line, in ready-to-eat category?

N Brahmani: We have some products in the pipeline. It's too early to discuss that now. This quarter, we will be launching amrakhand and shrikhand.

Deepak Madhavdas: Madam, in this Novandie tie-up, can we see more of products on that side also?

N Brahmani: We currently have sales, four in the stirred fruit yogurt space and four in the drinkable yogurt space. We will focus on growing these products. However, seasonally some flavors might be changing, but the idea is to first focus on stirred and drinkable yogurts as product categories and grow them in our markets in Maharashtra and now Telangana as well.

Deepak Madhavdas: How much is the revenue we are looking for this ready-to-eat in the current year and in the next year, ma'am?

N Brahmani: From next year, it all part of our value-added products. So, they are a part of our plan to reach the 45% contribution of our revenues. In terms of specific numbers, I will request Mr. Murthy to talk about plans of tikka paneer.

J Samba Murthy: We are expecting at about 25 tonnes to 30 tonnes per month quantity-wise.

Deepak Madhavdas: What would be the value for that, sir, in revenue terms?

J Samba Murthy: Around 1 crore per month.

Moderator: Due to time constraints, I would now like to hand the conference over to Dr. M. Sambasiva Rao for closing comments.

Dr. M Sambasiva Rao: Thank you very much all the participants for interaction with us and continued interest in Heritage Foods. We will be coming back to you with greater details in the coming call. Stay safe and take care.

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