



Heritage Foods Limited Q2 & H1 FY22

Earnings Conference Call

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MANAGEMENT:

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MR. J. SAMBA MURTHY – CHIEF OPERATING OFFICER, HERITAGE FOODS LIMITED

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HERITAGE FOODS LIMITED

MODERATOR:

MR. HIRAL KENIA – DICKENSON WORLD



Moderator: Good day ladies and gentlemen and a very warm welcome to the Heritage Foods Q2 and H1 FY22 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hiral Keniya from Dickenson World. Thank you and over to you sir.

Hiral Keniya: Thank you Asad. Good evening, everyone. I welcome you all to the Earnings Con-Call of Heritage Foods for Q2 and H1 FY22. Today, we have with us the management of Heritage Foods represented by Mrs. N. Brahmani – Executive Director, Dr. M. Sambasiva Rao – President, Mr. A. Prabhakar Naidu – Chief Financial Officer, Mr. S. N. Kesavan – Chief Executive Officer, Mr. J. Samba Murthy – Chief Operating Officer, Mr. Viney Vatal – CEO, Heritage Nutrivet, Mr. Umakanta Barik – Company Secretary and Compliance Officer, Heritage Foods.

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 statement. Any statement we make on this call today is based on our assumptions as on date and we have no obligation to update this statement as a result of new information or future events. I would now invite Dr. M. Sambasiva Rao from Heritage Foods to make his opening remarks. Thank you over to you sir.

M. Sambasiva Rao: Thank you Mr. Hiral. Good evening to everyone joining us today on this call. We are pleased to welcome you all to this earnings call of Heritage Foods to discuss the financial and operating performance of Quarter 2 and H1 of the current financial year 2022.

The presentation with results has been uploaded on the exchanges and I'm sure everyone of you must have got a chance to look at it. However, I'll give you an overview of the financial and operational highlights for the Q2 and H1 FY22.

Consolidated revenue for Q2 FY22 grew by 10% year-on-year (YoY) at Rs. 6,703 million despite severe rains and a couple of cyclones in our important markets. EBITDA during Q2 FY22 stood at Rs. 637 million as compared to Rs. 873 million during the previous year same quarter. The margin stood at 9.5% in Q2 FY22 as against 14.3% during the Quarter 2 last year, mainly on account of higher raw material costs during this year. During the current quarter PAT stood that 328 million. The board of directors has proposed an interim dividend of Rs. 2.50 per equity share i.e 50% of the face value of Rs. 5 per equity share for FY22.

Now I take you through the first H1 FY22 numbers:

Consolidated revenue grew by 5.6% YoY at Rs. 13,184 million on account of higher sales of milk and value-added products. EBITDA during the H1 stood at Rs. 11,158 million as compared to Rs. 1,432 million during the first half of last year. EBITDA margins stood at 8.8% during the H1 FY22, PAT during H1 FY22 stood at Rs. 631 million.



Heritage Nutrivet, our wholly owned subsidiary sales stood at Rs. 233.7 million in Q2 FY22 as against Rs. 306 million during the same quarter last year. EBITDA stood at Rs. 8.4 million in the current quarter as against Rs. 35.2 million during the last year. PBT stood at Rs. 0.3 million vis-à-vis Rs. 25.3 million last year. On the balance sheet front, gross long-term debt stood at Rs. 327 million and net long-term debt stood at Rs. 300 million as on September 30th, 2021. The Company has a strong balance sheet with a debt-to-equity ratio at 0.05:1 and the cash and bank balance of Rs. 731 million as of September 30th, 2021.

Now moving on to the volume performance:

The average milk procurement during Q2 FY22 was 1.3 million liter per day as compared to 1.2 million liters during Q2 FY21. Average milk sales during Q2 FY22 stood at 1.04 million liters per day compared to 0.96 million liters per day in the Quarter 2 of the last year. The sale of curd during Q2 FY22 was at 280 tons per day compared to 215 tons per day during the last year's same quarter, registering a growth of 30% year-on-year. During the quarter, the value added products revenue surged by 31% year-on-year to Rs. 1,696 million. During Q2 FY22 value added products, contribution of overall revenue increased to 25.7% vis-à-vis 21.7% in the Quarter 2 of last year.

I'm happy to share a few developments in the company during Q2 FY22; Mr. Srideep joined as Chief Executive Officer during the middle of the quarter and now taking greater responsibilities from Q 3FY22. In the recent meeting of our board of directors to strengthen the team of our board, Mr. M.P. Vijay Kumar was appointed as Non-Executive Independent Director. He is a fellow member of ICAI, ICMIMA, ICSI. These are three prominent institutions, Chartered Accountants of India, Cost and Management Accounts of India, Company Secretaries of India. He has over 30 years of experience. He's currently serving as CFO of Sify Technologies, a NASDAQ listed company. Heritage Foods looks forward to gain from his rich knowledge and experience in accomplishing the company's long-term goals and vision.

Despite the challenging business environment, Heritage continues to grow, expand its value-added product portfolio and strengthen its balance sheet. The company launched a few products during this quarter like Kesar Shrikhand, Amrakhand in Hyderabad and Mumbai markets. The company also launched Malai Paneer Fresh in Mumbai. Heritage aims to grow its value-added products share in the coming years by consistently launching new healthy value-added products. Heritage Foods is making swift progress towards achieving debt-free status sooner. In the last one year the company has repaid debt worth Rs. 1,685 million. Now it's open for the question-and-answer session. If any of you have any queries or feedback post this call you may connect to Dickenson World, our investor relation agency.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sameer Gupta from IIFL.

Sameer Gupta:

The first question is for Mr. Srideep. I just wanted to hear from you. How do you view the growth strategy of the company now, you're coming from an FMCG background? What is the current priority in terms of growth? Do we look at a bigger product basket in our core markets or we expand



procurement to near geographies which was our earlier strategy of growth, a mix of both just wanted to hear from you and a little on an elaborated way.

S. N. Kesavan:

Thank you Mr. Sameer for that question and thanks everyone for listening in. I don't think that our growth strategy has changed in the recent past. We had a very consistent growth strategy for some time now and which is the reason why despite the adversities of the second wave of COVID and many other adverse situations, we have been able to deliver consistent results.

Like some of the aspects that you really mentioned, those remain at the core of our strategy. The first and foremost is our expansion of contribution from the value-added products. That remains at the heart of our strategy. The second one is expanding the regional footprint across the country into newer markets. All investors are very well aware of the investments we have made in geographies such as Maharashtra and in the north of India i.e Haryana and Delhi NCR region. And the third of course, continues to be expanding both our procurement network and the sales network in an even fashion, so that we are able to leverage the advantages of full value system which has always been the strength of Heritage.

In the first one as far as the value-added products are concerned, we have been focusing on three areas. One is focused approach on products that give us priority products that give us an advantage as far as the market is concerned where we have inherent strengths and where we see significant headroom for growth. The second one is being consumer centric in our innovations and in our marketing and communications. As the President made his opening statement; we have been consistently launching innovative products in the market which have helped us grow the value-added products. The third is an omni-channel strategy in making our products available and accessible to all our consumers. We have significantly grown our contribution from newer channels such as e-commerce as well as expanding in traditional channels and new geographies.

So, all companies of have all of this is what is driving the consistent growth and delivery of ourselves. The strategy continues to be the same and we're we are very confident that we will continue to see such strong performances in the quarters to come. Thank you.

Sameer Gupta:

Just a follow up on that. What would be our e-commerce contribution now?

M. Sambasiva Rao:

It's close to 5% including the MRF.

Sameer Gupta:

The second question would be that in the last quarter you had stated that in more normal circumstances and state our EBITDA margin would be close to a 7% to 8% which is typical of any other dairy company. But this quarter we have done 9.5%. So, just a question that are these still exceptional circumstances in terms of COVID, post-COVID and competition or now with whatever has happened in the past year there has been a permanent reset to around 9 percentage margins for you.

M. Sambasiva Rao:

Yes, your observation is perfect. The change is not complete. We are still transitioning from COVID affected economy to normal economy. We are still having some advantages now. We are continuing to have the advantage for this Quarter 2 as flush season has begun and milk availability is high, milk



prices are stable. This may continue for a while and see how it changes into the next financial year. It's a bit early to predict the next year's scenario.

Sameer Gupta: Just a last bookkeeping question, you normally state milk procurement prices and liquid milk selling prices along with the volume numbers. I think you've missed those numbers in your press release or presentation this time. Just if you could help me with those numbers.

M. Sambasiva Rao: Yes sure. We thought they are all not so relevant as the outcomes are more visible. So, you want the input data also we can share, we will now share.

Sameer Gupta: You could share it subsequently in the call if that's not available at hand. I don't want to keep others waiting.

Management: Milk procurement price an average actually Rs. 34.36 for the current quarter.

Sameer Gupta: And a liquid milk selling price?

Management: Milk selling price is Rs. 46.85.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI securities.

Aniruddha Joshi: We are still generating extraordinary profitability not just us for but for the entire dairy sector. Just in a sectoral thought process till what time do you expect this super normal profitability can continue? Now I guess we are entering the flush season. So, December quarter again might be in a way good but how do you see can most other commodities in India including agro-commodities and other commodities also globally, if we see there is massive inflation which is not seen in past 10-15 years also, so that kind of inflation we are seeing. Obviously, at some point of time it may happen with milk but just your expert opinion, when do you see that happening in the sector or probably it will take a whole lot of time for milk prices to come up. That is one question and the second was is there any increase in milk selling prices? Most cooperatives have raised the selling price but private dairies have not yet raised selling prices, so any particular reason for this? And also do you see price hikes happening for the sector as well as Heritage in the current quarter?

M. Sambasiva Rao: What's the last point Aniruddha, I couldn't catch you?

Aniruddha Joshi: There price hikes are happening in the sector, most cooperatives have raised selling prices like Amul. But product dairies have not yet been raised. So, when do you see the price hikes happening in the sector as well as for Heritage?

M. Sambasiva Rao: Coming to the first point, yes, the changes are slowly happening compared to last year's COVID first wave. However, we went through Wave 2. Now, things are looking much safer in terms of COVID. The occurrence is less in the country, the impact of COVID is also very minimal on the affected persons. Vaccination has crossed significant number of population, close to 70%. So, the safety levels have increased, markets are open, the demand revived to a great extent, still, the growth is coming. In



view of this, the situation may remain the same for some more time, particularly we are passing through the flush season right now. But as during this quarter sale of value-added products would be a bit lower compared to other quarters due to the winter weather and rains etc. So, it might impact the margins a bit, to the extent procurement prices will be stable are a bit down compared to the earlier quarter. So, stability is visible as of now. We don't see much changes happening on any side of the prices, farm side or sales side prices at least for this quarter. In the fourth quarter, we have to see how things pan out depending on the global milk availability, national milk availability, etc. So, stability is what we are seeing now. And coming to sale prices hike, there won't be any sale prices increase during the current financial year. If at all it will be during the end of the year towards the month of March or so. But I don't see any reason to increase sale prices now.

Aniruddha Joshi: Last question now schools are starting again and even many offices are starting now. Do you see the reverse migration happening in our key cities in south India and also do you see that can drive away demand driver for milk in next 2-3 quarters?

M. Sambasiva Rao: Yes definitely. Normalcy is coming back. Some of the schools are already open for higher classes. Some of them are doing hybrid sessions both online-offline. Post Diwali maybe some more openings will be there, but definitely by January most of the institutions should be open for students with the children vaccine also in sight. The next quarter should be much better in terms of demand.

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

Gokul Maheshwari: Could you comment on the HORECA channel, how are you seeing the demand trends over there in terms of revivals and compared it also with pre-COVID how things are over there?

M. Sambasiva Rao: HORECA is almost open. I mean there is no place where it is closed now. All institutions, all hotels restaurants, caterers, everybody's open except the size of gatherings has come down for caterers. The earlier weddings, get togethers, parties that kind of enthusiasm is not still there. The crowding is not there. The numbers are limited. Maybe I could have seen a 500-member wedding is today managed with 150-200 members. That is coming back in a slow fashion. Similarly, hotels, restaurants also same issue. You don't see overcrowded places, food joints now but it is visible. So, with the precaution with higher immunity, with vaccination, I see the Quarter 4 should be a normal demand for HORECA. Now it is growing. It's growing from a lower level. Month on month we are seeing the demand increasing. For them also footfalls and the revenues are increasing. It's process driven, maybe a few months down the line, post January things should be very normal assuming that COVID Wave 3 is not coming to India.

Gokul Maheshwari: And just two more questions. Could you just comment on the animal feed business which was particularly slightly weak in this quarter and the outlook for the rest of the year? And secondly your own expansion strategy in terms of deepening your presence in rural or even regional expansion if you could comment on both these?

M. Sambasiva Rao: You asked, the second question is related to milk dairy, right?



- Gokul Maheshwari:** Yes.
- M. Sambasiva Rao:** Expansion in related dairy. The first question is on animal feed. I request Mr. Viney, CEO Nutrivet to deal with the first question.
- Viney Vatal:** Good evening. The Q2 FY22 has been muted for the feed business. Typically, we have seen a lot of inflationary pressure on the raw materials and with abundant rains, there has been a lot of green fodder available for the farmers. So, typically, during the start of Diwali is the time when the raw material, the prices start reducing. That is the time when we expect the margins to get better. This year there has been a slight problem with the monsoon that there it doesn't seem to end, so crops which were supposed to start coming into the market now have still not started. And there is excess moisture in the crops. We expect that probably fresh arrivals will start sometime towards the end of November 2021. That is when you see improvement in the animal feed business. I'll hand it back to President Sir for the second part of the question.
- M. Sambasiva Rao:** Coming to the expansions; we are currently operating in all the markets where we are present. We are not going to enter new markets in any way, except to deepening into Tier II, Tier III in the same markets and states.
- Gokul Maheshwari:** But there was a plan to set up a curd manufacturing facility on the Bombay-Surat Road, is that operational or have you been able to commercialize that?
- M. Sambasiva Rao:** Yes. It was done a few months back, the new plant near Mumbai. That's why I said we are in the same markets, not in the new market. Our plant is in Maharashtra. The plant has been commissioned and sales are happening now in Maharashtra.
- Gokul Maheshwari:** What was the value of the sales of curd in the quarter?
- M. Sambasiva Rao:** Can you repeat?
- Gokul Maheshwari:** The curd sales.
- M. Sambasiva Rao:** The curd sales stood at Rs. 134 crores in Q2 FY22.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Capital.
- Shirish Pardeshi:** I have three questions. The first question is that if you could help us to have the update on the Novandie business. I think that you have also launched a paneer tikka. That will be ready to eat segment. So, is that the core strategy that we're also going to get into aggressive in ready to eat the food strategy, maybe some color if you can see that how the expansion and how the whole businesses shaping up.
- N. Brahmani:** This is Brahmani here. I will take the question on Novandie. So, we've seen good response since we launched our products end of the last financial year, beginning of this year. We are present currently in



3 states, Maharashtra in Mumbai, Pune and Nasik markets, Gujarat in in Surat, Vadodara and Ahmedabad and Telangana in Hyderabad market. This month itself I'm happy to share with you that we have also launched in the Karnataka market, in Bangalore city. Given the very positive response from the consumers, we are looking forward to launching these products in other markets such as Goa and markets with various existing places such as Kolhapur, Mysore and Mangalore. We are also looking forward to launching newer flavors within our curd as well as like drinkable yogurts category. And also, we are looking at certain mainstream plain yogurt products also being launched very soon in these states as well.

Gokul Maheshwari: One follow-up here. I think now we have spent almost a good time to learn and shape up the business. If you could give us some understanding on financial metrics for this business over the next medium to long-term?

N. Brahmani: This is a new business as you know, we have launched products during the second wave. So, we are taking some time to stabilize when it comes to margin performance. We will get back to you with better numbers going forward. We also have a JV partner which is an unlisted company, so we are obligated that we don't share too much information either. We'll get back to you at the earliest positive, perhaps by the end of the financial year we will share the numbers.

Gokul Maheshwari: My last question is on the MPM, significant investment in terms of plants. If you can just help me to understand what is the per day run rate, what is the sales we have done and what is the plan in the maybe next 2 to 3 quarters we can expect from this entry in to the market, any specific learning which you are satisfied or if you want to point out that it's not up to the expectation?

N. Brahmani: This is with regards to ready to eat?

Shirish Pardeshi: We have put up a plant in the outskirts of Maharashtra and in last time said that we are trying to look at this market. So, our aspiration is that we were planning to get to 1 lakh liter, so if you can give me some metrics where we have reached and what we are doing and maybe on the front end what are the sales numbers?

M. Sambasiva Rao: We would perhaps hold it for the time being because it's just started a few months back. It started during the COVID wave 2 and we had a lot of difficulties in approaching the market. Post COVID wave 2, only we've done some numbers and we are still evolving the business in that area. We'll definitely present those details for the plant specific. And on Tikka-Paneer I request Mr. Srideep to respond.

S. N. Kesavan: Thanks for that question on Tikka-Paneer actually, my response to that is in continuation of what I said initially value-added products for us we are focused on four advantaged categories L1 invest in commit ourselves to first as Curd which happens to be the biggest contributor for our value-added products. The second one in which we are deeply committed as the Paneer category and the third is drinkable's which includes Flavored Milk and the fourth being deserts in which we have investments in Ice Creams. The second category of Paneer is where we are trying to build national leadership. Hence, you will continue to see a lot of innovation happening in this. Tikka-Paneer happens to be a good innovation that's going well for us but still, it is very early stages for us to comment on. It's been just one quarter and we are getting a great response from our consumers and because we are directly



connected with them through our D2C as far as well as e-commerce we are constantly taking feedback on the product and iterating as well to get the taste closer to consumer expectation and in the same line is where we have very recently launched a Malai Paneer fresh as well. So, you will see a lot of innovations in Paneer going forward from us.

Moderator: The next question is from the line of Nitin Awasthi from InCred Equities.

Nitin Awasthi: My question was relating to the cash which is being accumulated by the company which is going at a good ground take and you're already sitting on a good amount of cash. I would just like to know what are our plans to how are we want to deploy this money in which business segments are we looking at to deploy this money and by when? Because you're going to be doing a good amount of cash-flow even going forward if things remain like you said that the third wave doesn't fit us then again, the good cash-flows want to continue when you're already sitting on a good amount of cash.

N. Brahmani: Of course, the company is going through a very high growth orientation and path right now, so that requires some investment both in OPEX as well as CAPEX and people as well going forward people and teams. We'll even have to invest into our backend as we improve and strengthen our procurement network, our processing network especially when it comes to value added dairy products especially given the fact that we have a very unique go-to-market wherein we believe in having a good control over quality in our products and services. And of course, going forward as mentioned this is the time of the year that we will also be looking at Skim Milk Powder and commodity purchases for the next season especially the summer season to come, so sometimes it will drive the growth itself going forward to be able to reach the Rs. 6,000 crores mark at the earliest possible and to be able to grow over 20% year on year.

As you're aware the board has also approved interim dividend very recently to shareholders and of course to reward the shareholders for their constant support and we will always strive to maximize shareholder value. Aside from that, I think any decisions that need to be taken we'll have to take growth and the need for growth into consideration and balance these different requirements as well as shareholders requirements. The board will have to take dynamically have to take decisions based on the scene. Also, there are several external factors that need of business could be affected by.

Nitin Awasthi: One more follow-up question to this, you saying line getting blurred in the dairy business and the feed business and even agri-business to some extent not to some extent to a very great extent. How are you seeing the evolution of this company going forward? So, from a dairy company you've started doing feed and Novandie Company is starting dairy and having their own retail teams having their own retail outlets, so basically how were you're seeing the sector and the company world and into what?

N. Brahmani: You're very right. I think there are a lot of synergies between the feed business and the dairy business that we have today. Primarily because we as a company are directly connected with the farmers and we don't really go through third party aggregators in terms of our procurement model. That's where we are able to offer subsidized cattle feed that's high in quality and that's processed as well as manufactured by the company itself. There are several synergies, for instance, we're able to use the same procurement, milk procurement vehicles that go empty one way to be able to deliver feed to our farmers. They're able to make a feed available in smaller quantities but them being obligated to be purchasing larger quantities of feed multiple times in a month. So, there are several opportunities for that and most importantly we're also seeing that through our services that we are providing through both our Nutrivet

business or a feed business as well as our procurement network. The farmers are also seeing the benefit of using high quality feed for their animals which generally is not a habit in all parts of the country. So, they're also getting them used to better nutrition for their animals, better wellbeing for their animals etc. So, the company is also benefited in terms of better quality of milk that is helping in terms of margins and would be able to benefit from this particular value that we are adding to the farmer. Certainly, the feed business outlook is very positive for us. We are looking at growing this business into Rs. 400 to 500 crores business over the stable margin of about a 3.5% to 4% in the next 5 to 6 years.

Moderator:

The next question is from the line of Shradha Sheth from Edelweiss.

Shradha Sheth:

Just to follow up on the previous question as we understand we are targeting a 20% sales growth and Rs. 6,000 crores sales mark across the company and with the kind of cash-flow generation. I just wanted to understand do we have enough capacity to be able to cater to this growth because as we see the overall procurement till the time at about 1.3 million on a capacity of 2.7 million, so is my understanding right? That we have enough capacity to be able to cater to the growth and the incremental CAPEX will be relatively lower?

M. Sambasiva Rao:

I think I have taken time last time to explain the capacities and the utilization and growth. What we are talking are three things. One, milk procurement capacities is talked as chilling capacity. The second is milk processing capacity, where milk is processed into various types of milk products and the third is a packaging capacity. So, different capacities are there in different markets and states. We are a decentralized company to ensure the freshness of the milk to consumers. We have a 5-lakh liter capacity in one place and serve one market. It's easier to deal with the demand fluctuations and capacity, but we are operating in 11 states. We have 18 processing plants. We have 187 chilling centers. So, in certain areas milk is higher and availability is higher, certain areas are lower. It changes year on year. During the year also summer time it goes down to half, winter time it doubles. These are all the fluctuations we have to accommodate. When there is surplus milk, we process it in our powder plant. We have a 2 lakh liters per day milk capacity plant which can convert it into powder. That cannot be utilized throughout the year that we used only during the surplus period. So, milk chilling capacity we have 21 lakh liters, milk processing 27 lakhs, milk packing 17 lakhs, with other value added products Curd and other products is 7 lakhs. So, it's different capacities are very different growth requirements are there. So, we need to continuously upgrade, these are all 30-year-old infrastructure. There are replacement CAPEX and automation CAPEX. There are a lot of new locations we have to create capacities where milk is not available. I have explained last time also we have set up 50,000-liter chilling capacity unit 25 years back. The milk chilling capacity is 50,000 liters, but in last the 20 years, 10 other companies have come and set up the chilling units in the same area the size of the milk shed is same. The number of players and installed capacity is greater than that, so we share that milk. We have to go and create another infrastructure in new milk shed for 25,000 liters.

Though this capacity of 50,000 liter has come down to 25,000 liter I still have to create another 25,000-liter capacity elsewhere. Therefore, the capacity is increased and the volumes will not come there. We don't downgrade that plant because it is the same infrastructure, we reduce the utilization of compressors and IBTS chilling and refrigeration capacities to reduce the operational costs but capacity remains the same. That is how we keep moving from one milk shed to other milk shed in the case of milk. That's how the expansions happen. It's a bit complex situation because of the dispersed nature of



milk availability. The same milk is not available in one place to accumulate everything and then process and distribute is the nature of the business nature of the sector.

Shradha Sheth: What I was indicating is that on an overall basis we have done almost about an Rs. 100 crores annual CAPEX in the last 3 years. So, incrementally what is the kind of run rate on the CAPEX with the kind of road that we are seeing can we look at?

M. Sambasiva Rao: Yes, it will be Rs. 90 crores – 100 crores CAPEX per annum in the next 4-5 years to meet the growth aspirations of the business.

Moderator: The next question is from the line of Manoj Bahety from Carnelian Capital.

Manoj Bahety: I just have a follow-up question to one of the participants, as you articulated your growth aspiration of taking the company to around Rs. 6,000 crores over the next 4-5 years. If you can articulate a little bit in detail the journey from now to Rs. 6,000 crores, will it be led by the same categories or it will require significant category expansion? Secondly, you just mentioned that it will be Rs. 90 to 100 crores kind of CAPEX per annum, will that be sufficient to capture this kind of growth opportunity and lastly whether you will be aggressively looking for inorganic opportunities also to reach that ambition?

M. Sambasiva Rao: The journey is essentially aimed at organic growth only because we are not able to find appropriate targets for inorganic growth in terms of geographies, in terms of quality of the product, quality of the processes and people. So, we have been looking at it from time to time whatever is coming to us but we haven't been able to shortlist any target now. Therefore, the going forward or journey should be through organic growth and it doesn't mean we have closed our eyes on the inorganic opportunity if something appropriate at the right valuation which fits into our culture is available, we are open for that. Always we keep looking out for that, but nevertheless, we look at organic only.

Coming to the category expansion as Mr. Srideep in the earlier part of the call he explained that we are creating exciting variants and products in the same category, dairy category at the moment. We are also looking at any adjacent white spaces nutrition products which might be closer to the consumers' needs same consumer who comes for the dairy products. Also, look for similar products at that time of purchase. We are trying to identify any additional products that can also be added to our dairy basket. And coming to the CAPEX, we are confident this Rs. 100 crores CAPEX should be enough to meet the growth requirements of the company in the next 5 years.

Manoj Bahety: Just a follow-up to this, like if I see your growth trajectory over the last 4-5 years it is like kind of stagnant growth. Just wanted to understand like unless we have a different plan or different execution plan going forward and considering this sector is also a cyclical sector. Just wanted to understand that what gives you confidence of journey from now to Rs. 6,000 crores, a little bit more details on this will be helpful for us?

S. N. Kesavan: I'll just give a couple of pointers and then hand over to President to give you further guidance on that. So, first and foremost, one of the things that you hinted at is will the shape of the business be same as now? I can confidently say no. Because today, you must have seen that in this quarter, we have increased the contribution from value added products from 21.7% to 25.7%. We are very confident



about our internal plans which show us that by the time we would have reached Rs. 6,000 crores the contribution from the value-added products category should be close to about 40%. So, that when you look at it the caveat that we are expecting from the value-added products would be significant. The advantage that value added products has is that it needs not follow the same footprint as the fresh milk footprint you could pretty much imagine, which gives us the opportunity to grow that at a much rapid pace compared to fresh milk. Number one, number two we have made President hinted at all the investments we have made in the recent past in expanding geographies into markets such as Maharashtra, in northern India, etc. which are in very early stages and we are very encouraged by the early results we have got. But still, it is too early for us to comment because it's been only a couple of quarters and for compared to a business which has been around for 30 years that a couple of quarters is a very short time for us to comment on. Especially because milk is something which is very habitual for consumers but we are very confident the early signs we are seeing from these geographies that will add significant growth to us going forward.

So, the CAGR that we will see in these markets could be three-digit CAGR, which will add up to a strong double digit CAGR for the milk itself. So, this is I'm speaking about pure organic like to like categories and segments. So, growth from value added products that are very rapid space, secondly growth from newer geographies at exponential rate will be a significant contributor to that apart from entering attractive adjacencies that President spoke about. I hand it over to President to add to this.

Manoj Bahety: Will cheese be one of the categories because this is I think one of the largest categories but unfortunately it requires much higher working capital and low ROCE business?

M. Sambasiva Rao: Yes, cheese we just started as a co-packing opportunity from one of the plants in Maharashtra. Our cheese business is not aimed at HORECA or QSR. We are looking at only consumer packs and consumer sales so that the point of working capital is taken care and we are also not investing in our CAPEX at this stage. We are utilizing the available surplus capacity from one of the manufacturers in Maharashtra. We just entered 6 months back into the market; just building the volumes and brand and distribution right now.

Moderator: The next question is from the line of Aditya Kondawar from JST Investments.

Aditya Kondawar: I just wanted more flavor on the healthy value-added products that you have said that are going to launch ahead. Any color on that will be helpful?

M. Sambasiva Rao: You wanted to know value-added products?

Aditya Kondawar: Yes, the healthy value-added product that you spoke about at the start?

N. Brahmani: I think, we have clarified we are already said that we are in a healthy phase and in fact one of the first dairy companies to end-to-end fortified milk with Vitamin A and B. Having said that what sir or Srideep was alluding to is the fact that we are open-minded, we are in the process of exploring spaces where there can be interesting adjacencies with the dairy space in the food itself. That's something that's still a work in progress, it is like a project that you are working on. As and when there are further updates or material updates, we will keep you posted.

Moderator: The next question is from the line of Shivan Sarvaiya from JHP Securities Private Limited.



- Shivan Sarvaiya:** The first one is on the Novandie JV. So, are we looking at any adjacencies apart from yogurt in that JV?
- N. Brahmani:** Our current scope of JV according to our agreements etc. covers fruit and flavored yoghurt which also covers European deserts and the company is already a market leader when it comes to that. And this also includes some drinkable yogurt. There are products already in the pipeline to be launching into the market perhaps after this financial year because we first want to stabilize in the yoghurt space. We are seeing really good traction in MRF and e-com channels. The idea is to also expand our presence in the GT space within the markets that I mentioned earlier. Yes, there are other interesting products already covered in the scope of the JV that we are exploring and could be introduced in the next financial year.
- Shivan Sarvaiya:** In terms of the distribution, where are we at that ma'am; in terms of acquiring shelf space in the retail outlets apart from the e-commerce?
- N. Brahmani:** As I mentioned most of the sale today is coming from MRF stores and the offtake has been very interesting. In fact, in the little bit newer markets of introduction such as Hyderabad, in very limited stores within very specific about where we wanted to launch the product, we wanted to go slow and steady. We have received positive responses. We will come back to you with more details in the coming calls. Currently, MRF and e-commerce are where we are selling more and GT expansion as we go forward in the current quarter. Also need to keep in mind that the peak season which is a summer season which is 6 months away is when we will see maximum peak sales. That's when we can really access or share the impact of the new products that we launched into the market in the last couple of months.
- Shivan Sarvaiya:** One question from a broad perspective, like when we look at the dairy industry in India when the leader in India is a not-for-profit organization, the when majority of our competition is co-operative base and not for profit. How do we look at competing with such players and maintaining a healthy margin from a long-term perspective and from expanding our top line? Some idea on this would mean some thoughts on this would be very helpful because this industry is pretty much different from the others that we analysts or investors track. So, your thoughts would be very helpful?
- M. Sambasiva Rao:** In the year '92 when the Government of India liberalized the dairy sector to the private sector as part of the economic reforms, 100% milk was in the hands of co-operatives. '92-93 close to 400 companies have come in India, in response to the amendments to the milk and milk products regulatory order, so many private companies have entered since '93-92, now almost 3 decades passed after the government allowed the private sector to participate in the dairy sector. In 3 decades 40% to 50% of milk shifted to private companies. Right now, the estimate is 49% of the milk in the organized sector in India is handled by private companies and 51% by the co-operative sector. I am sure this conveys the answer to you.
- Moderator:** The next question is from the line of Siddharth Bhattacharya from Anvil Wealth Management Private Limited.



Siddharth Bhattacharya: I believe distribution would be a key pillar on which the success of a company like ours exist. So, I have seen that we have done tie-ups with let's say JioMart in some geographies. Would you help us understand that more in detail?

M. Sambasiva Rao: See, our success, our growth is highly dependent on the product and service. We have been taking the stand since the beginning with fresh product and pure product offerings. That's why we have set up 18 plants for a smaller volume of 1.5 million liters. In every market we have a processing plant. We procure milk directly from the farmers within 200 kilometers distance from that market. Today's morning milk reaches the consumer tomorrow morning as a short distance as possible. We don't shift milk from Pune to Delhi, Ahmedabad to Hyderabad, Tirupati to Delhi like that which is a long distance, it's a perishable product. What I am trying to say is the product quality which is fresh and pure, adulteration free, we have zero tolerance for any chemical adulteration, preservatives, etc. in our milk; the quality and the timely delivery. 80% to 90% of milk goes to home delivery in our model through our distribution system. Very small quantities are sold in the outlets. The service in time by 6:00-6:30 am, the milk has to go home, it will be delivered. So, support of quality and service we are growing and we continue to grow. The distribution certainly matters and it helps. We have now registered or tied up with all the e-commerce channels in our market. There are no e-commerce channels which doesn't sell our milk or milk products. There is no modern retail store which doesn't sell our products. All the hyper stores, supermarkets, e-commerce channels are offering our products. Distribution is a strength and product quality and service is our fundamental success point including JioMart, then Udaan, etc.

Siddharth Bhattacharya: I wanted to understand this aspect more from value-added products perspective. Since with value-added product you are increasing the shelf life. So, effectively reach would be a key thing to look at. So, I wanted to understand distribution from that perspective?

M. Sambasiva Rao: There is no problem in that. In every market, we have a plant and we deliver overnight to the warehouses of all these channels and they re-distribute with their hyper locals or their own distribution channels. We have our own distribution to our Heritage exclusive parlors. We have close to 860 exclusive Heritage parlors operated by franchises. We keep our product available in our own outlets and we have close to 1 lakh 30 thousand retail outlets where our product is made available through our distributors and agents, apart from all the modern retail format stores and all the e-commerce channels. Our delivery system is robust in terms of overnight deliveries. Even the product like paneer which has 21 days shelf life is delivered every day because consumer wants fresh packed product. The product is available with 15 days shelf life too, however, they don't prefer as they want it fresh. We are able to deliver because of our de-centralized manufacturing and factory locations.

Siddharth Bhattacharya: Effectively we don't see any returns on our value-added products ever?

M. Sambasiva Rao: Return zero, we have no return policy. It's a cash and carry delivery policy.

Siddharth Bhattacharya: On the same lines could you help us understand that we want to be at 40% value-added products in the next 3-4 years? Where do you see that number trending next year? If you could help us with that?



- M. Sambasiva Rao:** Yes, we are able to add 3% to 4% incremental increase year-on-year. In certain years like COVID years we had a setback because there was no out-of-home consumption. Minus that aberration, our increase year-on-year is 3% to 4% within the value-added products contribution.
- Moderator:** Thank you. I now hand the conference over to Dr. M. Sambasiva Rao for closing comments.
- M. Sambasiva Rao:** I request Brahmani to give the closing comments.
- N. Brahmani:** Thank you so much to all our valued shareholders, investors for your feedback and all of your questions. I am happy to say that despite really tough external conditions, like COVID-19, heavy monsoon, etc. we have seen some positive double-digit growth in the second quarter of the current financial year. And this came more importantly, primarily from volume growth as well as direct through B2C consumer sales which is what the company has been focused on significantly. Given the fact that external factors are looking quite positive now, COVID cases are under control. We have all seen that a billion doses of vaccines, number or milestone has been reached in the country. As one of our investors mentioned schools are back to normal, workplaces are more or less back to normal as now. We definitely seeing demand coming back and we foresee that this will help us in the rest of the quarter, especially on the back of the festive season of Dussehra, Diwali, etc. We are hopeful that this demand will also continue into the summer of next year. Internally also we have geared up as a team with the right people, resources and focus specially to grow in value-added dairy products. In terms of procurement, we are entering the flush season so we should be able to stabilize in terms of margins and continue our positive performance when it comes to the bottom line as well. Thank you once again for joining us and hope all of you stay safe and wish you a Happy Diwali in advance. Thank you once again.
- Moderator:** Thank you. I would now request Mr. Hiral Keniya from Dickenson World to give us closing comments.
- Hiral Keniya:** Thank you everyone for joining us today for this call. In case of any further questions, clarifications, suggestions or feedback you can connect with Mr. Umakanta Barik, Company Secretary and Compliance Officer, Heritage Foods or us, Dickenson World. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Heritage Foods Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.