Ref: SECT: STOC: 56-23
May 31, 2023

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 10, 2023 the Company had organized a conference call with the Investors/Analysts on Monday, May 29, 2023 at 04.00 PM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been put up on the Company's Website at www.heritagefoods.in.

Kindly take the same on record and display the same on the website of your exchange.

Thanks & Regards

For **HERITAGE FOODS LIMITED**

UMAKANTA BARIK Digitally signed by UMAKANTA BARIK Date: 2023.05.31 16:34:52 +05'30'

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 10.50 MW from both Solar and Wind for captive consumption of its dairy factories.

HERITAGE FOODS LIMITED

Q4 FY2023 Earnings Conference Call

May 29, 2023

MANAGEMENT:

DR. M SAMBASIVA RAO – PRESIDENT, HERITAGE FOODS LIMITED

MR. A PRABHAKAR NAIDU – CHIEF FINANCIAL OFFICER, HERITAGE FOODS LIMITED

MR. SRIDEEP N KESAVAN – CHIEF EXECUTIVE OFFICER, HERITAGE FOODS LIMITED

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

MR. UPENDRA PANDEY – CHIEF EXECUTIVE OFFICER, HERITAGE NUTRIVET LIMITED

MR. UMAKANTA BARIK – COMPANY SECRETARY & COMPLIANCE OFFICER, HERITAGE FOODS LIMITED

MODERATOR:

MR. ANUJ SONPAL – VALOREM ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to Heritage Foods Limited Q4 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you, and over to you.

Anuj Sonpal: Thank you. Good evening, everyone, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Heritage Foods Limited. On behalf of the company, I'd like to thank you all for participating in the company's earnings call for the fourth quarter and financial year ended 2023.

Before we begin, let me mention a cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management.

Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. Firstly we have with us Dr. M. Sambasiva Rao, President; Mr. Srideep Kesavan, Chief Executive Officer; Mr. A. Prabhakara Naidu, Chief Financial Officer; Mr. Samba Murthy, Chief Operating Officer; Mr. Upendra Pandey, CEO of Heritage Nutrivet Limited; and Mr. Umakanta Barik, Company Secretary and Compliance Officer. Without any further delay, I request Mr. Rao to start with his opening remarks. Thank you, and over to you, sir.

M. Sambasiva Rao: Thank you, Anuj, and good evening to everyone joining us today on this call. We are pleased to welcome you all to this earnings call for the fourth quarter and financial year ended 2023. The financial results and earnings presentations have already been uploaded on the exchanges and I hope you must have got a chance to look at it.

Let me now take you through the financial performance for the quarter under review. Consolidated revenue for the fourth quarter grew at 0.5% to INR 818 crores despite the market conditions. EBITDA stood at INR 42 crores as compared to INR 33 crores during the previous year same quarter. The EBITDA margin is at 5.11%. Margin profile improved year-on-year basis as well as quarter-on-quarter basis with several decisions related to price corrections, value optimization measures, increase in sales of value-added product volumes, etcetera. During the current quarter, net profit stood at INR 18 crores, representing a growth of 44% year-on-year.

Coming to the financial year ending 2023, consolidated revenue grew by 21% year-on-year at INR 3,241 crores. EBITDA was at INR 138 crores, and EBITDA margin stood at 4.26%. Net profit for the period was INR68 crores.

Now moving on to the operational performance for the quarter. The average milk procurement during the quarter-end revenue was 1.43 million litres per day as compared to 1.22 million litres during the quarter four of previous year. With regards to the sales of our products, we have had a healthy year-on-year growth across product categories. Average milk sales during the quarter four stood at 1.07 million litres per day compared to 1.04 million litres per day in the same period of the previous year.

The sale of curd during the quarter four was at 333 metric tons per day compared to 303 tons per day in the previous year's same quarter. The value-added product revenue surged during the quarter were approximately 25% year-on-year to INR 231 crores and its contribution to the overall revenue also increased to 28.62% while the financial year ended the contribution of value added to us was around 29.06%.

We continued on our path to add innovative and unique value-added terms. During the quarter, the company launched new products like Gluco Shakti, a whey-based instant energy drink Creamilicious Curd and two new flavours of milkshakes, and one spiced buttermilk in buttons called A1 Spiced Buttermilk. And two new desi flowers of ice lollies called Golgappa and Kalakhata.

With this now, we'll open the floor for interaction. I invite the members to seek any clarifications, ask questions, make any suggestions. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Sameer Gupta from India Infoline.

Sameer Gupta: First question is a bookkeeping one. So liquid milk selling price and milk procurement price for the quarter, something that you've been sharing on a consistent basis every quarter? That's my first question.

Samba Murthy: So the average prices increased by 10.5%, which is about INR 5.16 per litre and Kg and this is the sales price. And whereas the procurement price is down by 11.8%, which is INR 40.76 per litre.

Sameer Gupta: Secondly, a sense of the season ahead. So last year, we had an impact by lumpy skin disease, there was unseasonal rainfall, and there was inflation in cereal and cattle feed prices. What is your assessment for this year's flush? I mean I understand this is still early days, but any early indications now farmers have got better remuneration in the past year. Some prices are down. We are hearing about lumpy skin disease cases but not at a large extent. So what is your sense of the milk prices in the flood season going ahead? Any early indications?

M. Sambasiva Rao: Yes. Now just we have observed that cow milk mini flush, particularly the feeds of Maharashtra and Tamil Nadu and it will -- that flush will continue up to June, July. And again flush is expected in the month of November onwards for both cow and buffalo. And thereby, the prices are particularly in these two states now there is a drop in prices, but in other states actually it is stable.

Sameer Gupta: And any indication of the largest flush expected in October, or November based on this -- extrapolating from this data or this trend?

M. Sambasiva Rao: Yes. It is actually a normal flush only and a flush season from November onwards, it is going to be normal-only, it is not like huge men availability and all, but it is going to be flush. As of now, we don't see any reason for not having a regular flush to normal. Everything is back, the lumpy skin disease disappeared. And post-COVID repercussions of artificial insemination etcetera, are being streamlined, now insemination programs are going on very well.

And if the monsoon is good and every other factor is normal, flush season should step-in definitely in November with normal production. The current year being a scarcity year, and next year as per the novel cycles also should be a better year. But as of now, scientific evidence to say which way it goes.

Sameer Gupta: Third, and the last question, if I can squeeze in. I see an unusually high level of inventory for FY '23 for the company. Any reason for this sharp increase? And going forward, how should we look at this number?

Srideep Kesavan: Yes. See, the inventory that you have seen in the books is actually -- this is Srideep Kesavan, CEO. The question is regarding the inventory that you are seeing in the books is reflected on account of both skimmed milk powder as well as butter that we are holding, and it is very normal in our business. We usually enter into contracts and buy the inventory that is required for the first half of the year, which is the period starting from, let's say, March going on till about September and there are two factors which have compounded the value for us in this year.

One, our volumes are consistently going up. So every point in time, now this year on a period-to-period basis compared to previous years, our volumes are up in double digits, which means that a proportionate increase in quantity of powder and butter is also required. Secondly, you've heard from the CEO earlier that the milk prices have gone up by about 11%, 11.5% in the same period.

So compounding of, let's say, 10%, 11% in volume terms and 11% in prices is what is reflected in terms of the absolute value of the inventory being held and this inventory was bought at a period of advantage that we had during quarter three of the previous financial year. So there is nothing abnormal in it. I hope I've been able to clarify.

Moderator: Next question comes from the line of Sandy Mehta from Value Investment Principals.

Sandy Mehta: It's nice to see the company again, growing earnings on a quarter-over-quarter and year-over-year basis. Are you seeing the margins continue to recover in this current quarter that we're in right now and when is your expectation that we can once again get back to over 10% EBITDA margin? How soon can that happen?

Samba Murthy: First, let me clarify. You mentioned that our normal EBITDA margin is 10%. I think we have been always committing that our ambition is to stay in the range of 7% to 8% of EBITDA, so it's not 10%. 10% would be like a windfall here, I would say. So 7% to 8% is what we are aiming to be, and we are still a little bit away from that particular point from the profitability point of view. But yes, thank you for your kind words.

We are improving profitability every quarter sequentially. The worst period for us is behind us as we see, and this has happened with the multitude of factors playing at the same time as the President spoke in the opening remarks. Number one, I think we have taken price corrections across markets. Even though we have not passed on the entire increase in material prices, raw milk prices on to consumers, but still, we have substantially increased our prices across milk as well as value-added products. Secondly, we have taken a series of value-creation initiatives during this period.

For the last six to nine months, we have been working on various efficiency measures, all of which is playing out to full potential now and we'll continue to get benefits of that in the continuing quarters as well. Third, as you have noticed that we are consistently growing our value-added products portfolio, value-added products contribution consistently for the last several quarters and we are touching close to about 30% contribution, which means that our margin profile actually improves.

A combination of all these factors will continue to play and as we mentioned earlier, if raw milk prices come down, as we all expect it to in the next many months, and that will give us added advantage in pushing us towards the 7% to 8% mark.

Moderator: Next question comes from the line of Viraj Mehta from Equirus PMS.

Viraj Mehta: My questions have been answered.

Moderator: Next question comes from the line of Resha Mehta from GreenEdge Wealth Services.

Resha Mehta: So first is, now that we have -- we are on an all-time high base in terms of revenues of INR3,200 crores roughly. So for the next financial year, what kind of growth are we looking at on this base and if you could call it out in terms of the procurement target as well as the top-line target?

M. Sambasiva Rao: Yes. So see, the current quarter that quarter four of last financial year we had a revenue growth of about 17.5% and the procurement volumes also grew in similar terms, about 17.5%, 17.7% to be precise. So first of all, I think we are --

Resha Mehta: Sorry, my question was for the full year and not for Q4.

M. Sambasiva Rao: Your question is about -- full year, going forward.

Resha Mehta: FY '24 versus FY '23 in terms of procurement growth as well as the top-line growth that you all are targeting.

M. Sambasiva Rao: It is our intention to sustain the growth momentum in our sales, as we have done in the past several quarters and to sustain that momentum, we will have to continue to grow our volumes and meet the volume requirements, we'll have to continue to grow our procurement. I will not be able to reveal any number specifically at this point in time.

But you could be reassured that we are working on strategies that will help us maintain our growth momentum and as much as possible, keep our growth momentum clearly ahead of the market and our procurement at this point in time is quite promising. We have no reasons to be worried at all. In fact, our procurement is very much sufficient to meet the milk requirement to fuel this growth.

Resha Mehta: Would it be fair to assume a double-digit growth on the top line and procurement both for FY '24?

M. Sambasiva Rao: I'm still not getting it -- can we expect to double-digit growth?

Samba Murthy: Let me put it like this, okay? The industry is expected to grow in double digits, right? And this is -- we are actually sitting in -- I'm sorry, actually, whenever when you spoke, your voice was not very clear. That's why I had to really ask the question. I'm sorry about that. The industry is growing in double digits, right?

And we should expect continued momentum for the next several quarters. We have no reasons to worry that will be affected because even today, about 60% of our revenues come from milk, which is an essential commodity, right and it's not a discretionary spend of the consumer. And even in the value-added products, many of the categories that we play in are mostly all essential from a consumer basket point of view.

So we have no reasons to worry that the industry momentum will slow down. We are expecting the industry to continue to grow at 11% to 12%. And at Heritage, we are on an accelerated journey, gaining market share in all the markets that we operate, which means that we have to keep our growth momentum ahead of that. So we are seeing that playing out for us at this point in time. But FY '24 has just started. I wouldn't want to give any guidance for the next 10 months or about 11 months ahead. At this point in time, I can say that we are confident that we can continue this momentum of growth.

Resha Mehta: The second question is on the Q4 numbers. So if we see -- unlike the rest of the industry, we have maintained our gross margins Q-on-Q, right? If you look at Q3 versus Q4, we have maintained our gross margin. So is it due to some price hikes that we have taken in Q4? And if yes, if could you just call that out?

Samba Murthy: As I mentioned, it's a combination of factors. At this point in time, we wouldn't be breaking it up. The question is that we have maintained is the question. Yes, absolutely. It's about 19.55% and it's the same, actually Q3 to Q4. See, it's multiple factors playing out. Number one, you must have seen that the milk prices, raw milk prices went up in Q4 compared to Q3, right? So as farm prices continue to rise in Q4 even compared to Q3, almost hitting our peak sometime in the beginning of April.

The first thing is that we were able to pass on most of the increases in raw milk prices that happened during Q4 on to our consumers as market price increases. That's the first thing. Second thing, we had certain notions, several initiatives of value creation and cost efficiencies sometime at the beginning of Q2. In the third quarter, we had part of the benefits flowing into the P&L and by quarter four, most of those initiatives were playing out fully, and we were able to reap-in the benefits fully.

Not only that, we were able to reinvest back in the market to get an early head-start for Q1 of this financial year itself as well in terms of marketing initiatives as well as new product launches. So net-net, I think we anticipated that the raw milk prices would continue to go up and we planned accordingly, we took astute measures which played to our advantage.

Resha Mehta: And is there still scope to benefit from these cost efficiencies in FY '24?

Samba Murthy: Yes, absolutely. Because in most of the efficiencies we have done are structural in nature. In terms of energy efficiencies, and fuel efficiencies, we have been talking about our clustered approach in terms of procurement, which reduces our cost of net delivered, etcetera. All those efficiencies will continue to play in the future as well.

Resha Mehta: Right. And in Q1, would you say that the milk procurement prices are trending lower versus Q4? I don't want an exact number, but just the trend if you could call out?

Samba Murthy: Could you please repeat, please?

Resha Mehta: So like you did speak about the flush for the cow belt being decent in the month of June, at least that was the expectation is, right? So with that, would you say that the Q1 for the current quarter Q1, the milk procurement prices have softened versus what they were in Q4?

M. Sambasiva Rao: Yes, we could say that. So let me put it closely. Throughout last 15 months, prices continue to rise, hitting a peak sometime around first half of April. And since then, it has come off the peak a little bit. I wouldn't be able to comment on whether Q1 average will be lower than Q4 of last year because we still haven't seen all of Q1. But I could say that we are off the peak now.

And we are seeing that like the COO mentioned earlier, we are seeing mini flush season due to cow happening in Maharashtra as well as TN, both key procurement regions for us, and that has resulted in prices coming off the peak in these two markets. But we still have five to six weeks of the quarter growth. We'll have to see where the waste average prices of Q1 will be lower than Q4, but the indication is --

Resha Mehta: Understood. And lastly on the unseasonal rains impacting the sale of value-added products. So would you say that in Q4, I can see that your value-added products overall grew by 23% Y-o-Y, right? And Ice-creams also grew 50% on a low base Y-o-Y. But would you say that Q4 was below your expectations in terms of value-added product sales because of the unseasonal rains? And do you also see that trend continuing the softness in value-added product sales in Q1. What is your expectation?

M. Sambasiva Rao: That's a very million-dollar question, a difficult question. See, the weather is actually a very big uncertainty in our business and not just in our business, the business of lot many companies and sectors today because of climate changes and unpredictability of the weather, unseasonal rains, etcetera. Like I said, we are still in the middle of the quarter.

It is very difficult for us to predict. Usually, for example, rains in South India start by the beginning of June, but in the month of May itself, we had excessive rains and now the forecast is that June is going to be excessively dry and hot. So it's very difficult to predict how the matter will go. But yes, adverse weather definitely has an impact in terms of consumption volumes. We are also seeing a little bit of impact of consumption volume because of sequential price increases we have taken in some of the value-added product categories.

At our end, what we have under control is demand creation at the consumer end and number two, distribution and distribution expansion. So we are focused on what we can do at our end to continue to book momentum and hope for the best as far as weather is concerned.

Moderator: Next question comes from the line of Hitesh Sharma from White Sky.

Hitesh Sharma: I would like to understand like your EBITDA margin is continuously going down from 7.6% to 4.71% going peak again 10% and now again back to the 4.27%, whereas your value-added products are going up. So this is contradicting numbers.

M. Sambasiva Rao: So let me put it like this. First of all, I think the quarter four EBITDA margins are better than full year EBITDA margin. And if you see quarter three also, it was better than the full year, which means, actually, we went into the trough sometime around Q1, and we have been coming up ever since, number one, the first thing.

The second thing is that, sir, if we had not done the value-added products contribution increased the way we did, you can imagine the profitability scenario would have been even worse than what we had in quarter four. So even today, if I can say, on a full year basis, when our raw milk prices have moved up by about 11.3%, we have passed on only about 9.7% to the consumers because we still absorbed 1.6% at our end because now passing on the entire burden to the consumer would have further slowed down our growth. So it's a combination of multiple factors, right?

One is we have absorbed part of the raw milk price increases in our P&L. And secondly, the value-added products have done compensated that negative impact. And the net impact is what we are seeing in the P&L at this point in time. But this was improved sequentially as you go forward because definitely, the gap between raw milk prices and market realization will continue to come down as we were answering the previous questions, we are hoping that the farm prices will come down from its peak in the next many months, and we will be able to reap the benefits.

Hitesh Sharma: Can we hope to achieve 7% in the coming year?

M. Sambasiva Rao: See, our ambition is to aim towards a steady-state 7% to 8%. If you can say that in the month of, let's say, quarter four of last financial year was around 5.2%, which means that quarter one could be sequentially better than that hopefully. But I wouldn't want to guide you to say that we'll end up with 7% weighted average for the financial year. But what you could expect is that all the efficiencies that we have built in will continue to play throughout the next many quarters to come.

The pricing that we have taken as far as the consumer as a concerned is never going to come off because we don't usually reduces the prices. Third, raw milk prices, raw mill penetrability should improve, and raw milk prices also should come off the peak. That's all I can say.

Hitesh Sharma: Second is a question about the capital work in progress. What is the project going on for this?

M. Sambasiva Rao: You're asking about the specific projects we have in the CWIP?

Hitesh Sharma: Your capital work in progress is INR199 lakh.

M. Sambasiva Rao: Yes. Okay. So see, we are investing -- we have sufficient processing capacity at our end as we have mentioned in the previous quarterly calls as well. The capital investment that we are doing are for specialized value-added products or in the milk procurement side. So at this point in time, what is reflected in the balance sheet is on account of capacity enhancement we are doing in terms of paneer projects as well milkshakes and other UHT products that we are setting up the capacity that we are setting up for those products in our locations. So all of those that is reflecting is all for our value-added products.

Hitesh Sharma: So this project will be commissioned by when?

M. Sambasiva Rao: Expected in the next quarter or two.

Moderator: Next question comes from the line of Rajat Setiya from I thought PMS.

Rajat Setiya: Sir, in terms of our direct retail outlets, how many do we…

M. Sambasiva Rao: Could you repeat question?

Rajat Setiya: How many direct retail outlets do we have for every single franchise and making it company-operated or…

M. Sambasiva Rao: Our reach at this point in time should be close to about 120,000 to 130,000 retail outlets, which are serviced through our distributors.

Rajat Setiya: Okay. We don't own any meeting directly, right? I mean don't operate or --

M. Sambasiva Rao: Can you please repeat that. Your voice is a bit muffled.

Rajat Setiya: So we don't operate directly under our own control, any of the retail outlets like our peers?

M. Sambasiva Rao: No. Except for national key accounts, national key accounts, some of them are directly delivered by us. But all other retail outlets are serviced through our distributors. We do not do any direct service to general retail.

Rajat Setiya: Okay. And what do you mean the national key accounts, sir?

M. Sambasiva Rao: You could say e-commerce and modern trade accounts of national trade.

Rajat Setiya: And we don't have any plans to get into direct outlets like our peers?

M. Sambasiva Rao: No, we have -- see, you must be aware that we have what we call as Heritage Parlours. We have just about 850 of them. They are still exclusively Heritage products as far as milk and milk products are concerned. And we also have what we call as Heritage Happiness Centres or distribution centres, as we call them. We have almost over 150 of them. They have a retail store flush they do distribution in the neighbourhood as well. So these 850 plus of these outlets stores directly are serviced by us as well.

Rajat Setiya: And how much sales come from these outlets, sir, 850 Heritage Parlours?

M. Sambasiva Rao: Roughly around 22% of our business will be from these.

Rajat Setiya: So I think we had the target to reach out to 2,000 collection centres by FY '24 for increasing our milk procurement. Where do we stand today?

M. Sambasiva Rao: We couldn't hear what you said. Sorry.

Rajat Setiya: How many collection centres do we have under our network at the moment, milk collection centres?

M. Sambasiva Rao: Which collection centre? In milk production there are two levels you know first level is at the village level where milk collection centres are set up to collect milk from farmers, second level milk chilling units where this milk from the villages is carried for quick chilling and then transported to the processing plants. So you are referring to the first level milk collection centres or second-level chilling centres?

Rajat Setiya: First level, sir.

M. Sambasiva Rao: First level is around 12,500 approximately.

Rajat Setiya: 12,000. Okay. And sir, to reach our target of 20 to 24 million, sorry, I forget unit. So basically, broadly increase our -- want to increase our procurement by 70% from the current level. So how many collections centres, first level collection centres you will have to increase.

M. Sambasiva Rao: See, our procurement network expansion is in line with the milk requirements, okay? And this is a very dynamic process because we always try to procure milk closes to the consuming markets or sales market. We are today present across many states, and we have a good enough strong enough structure to dynamically grow this procurement network in a very short span of time.

So at this point in time, I should say that we are strongly positioned as far as growing our milk procurement to meet our demands in the next three to four years' time. So an average milk collection centre collects about 120 to 150 litres per day. That's the size of a village level centre and we keep on adding village level centres wherever we require.

Rajat Setiya: And in terms of our top three states for milk procurement, I'm guessing, Andhra Pradesh and Telangana would be the top two and which one is the third one?

M. Sambasiva Rao: They keep changing season-to-season year-to-year. There is no such fixed number, but currently, we have Maharashtra also joining the list.

Rajat Setiya: Maharashtra. And other 10% would be Andhra Pradesh and Telangana would be 30% each. Would it be in that range?

M. Sambasiva Rao: How much, Andhra Pradesh, Telangana?

Rajat Setiya: 30% each.

M. Sambasiva Rao: AP would be around 40%. AP is actually bigger, that would be in Maharashtra and then would be Tamil Nadu, yes.

Rajat Setiya: And sir, in value-added products, how much sales will be coming in from cheese?

M. Sambasiva Rao: Cheese is a very small contributor for us. Even though it is growing in triple digits, but it's still very small for us to call out.

Moderator: Next question comes from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: So my first question is, I think we have kind of panned out a vision to increase our top line. And in order to do that, we need to increase our procurement by 12% to 15% on a CAGR basis. So can you give us some sense as to are we -- so we are present in 11 states. So in terms of procurement, do you think that the incremental bulk of the volume will come from three or four states by going deeper and deeper because that is our strategy. So can you talk a bit about that, how is it going to pan-out?

M. Sambasiva Rao: Yes. So see we are growing procurement in very high teens, okay? And that does not immediately come down, right, which means that procurement is on a momentum, and it is feeding our recovery at this point in time. Yes, you are right, because of the size of the procurement network, AP, Maharashtra, and TN will continue to add the biggest delta or increase as far as the procurement volumes are concerned, but that doesn't mean that we are not expanding our footprint in terms of procurement.

For example we have entered Odisha and we are expanding procurement in Western UP, because our volumes are growing rapidly in North India as well. But in terms of absolute size, those new procurement regions will continue to be small, even though the growth percentage in those regions would be much fare.

Dhwanil Desai: And sir, my second question is, so in the last cycle or last normal environment, you were making around 7% EBITDA margin. Now as we stand today, we have brought in a lot of operational efficiency in terms of kind of conversion at procurement and then converting milk into final development?

M. Sambasiva Rao: You will have to repeat, your voice is muffled.

Dhwanil Desai: So sir, my question is that in the last normal environment, we were making 7% EBITDA margins. Now post that, as it stands today, we have a much higher value-added shares, and we are also bringing a lot of operational efficiency. So when, again, we go into an environment where the milk prices are kind of normal, don't we think that will make more than 7% EBITDA margin given what we have done in those last two, three years?

Srideep Kesavan: We wish to make, but we don't want to give leading statements today as it is not the most prudent way of talking.

M. Sambasiva Rao: So let me put it like us, okay? So we are here for the very long term. As continued investors, I think you will have to believe in our story. We are looking at our first milestone that we are looking to is the INR 6,000 crores revenue mark. But we already started thinking about INR 10,000 crores revenue about.

We want to look forward and we want to continue growing this business, right, which means that, that requires certain investments not only in terms of tangible assets, but also intangible. We will have to reinvest part of the margins into growing, building our brand. So you will see that actually we have started investing monies into marketing campaigns, which are on air at this point in time.

This also will be required as we go forward to continue to see the momentum of growth that we desire. We are launching products, new products almost every quarter, we have at least three or four significant launches, which means that those new launches also require support to establish. So I think we are also hoping that this is a margin profile as the cost structure stands today, 8% or 9%. But we'll have to reinvest part of that to continue to growth momentum. Otherwise, like we are living in the short-term.

Moderator: Next question comes from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Good afternoon, sir. Most of my questions have been answered. Just one thing on your opex side. So if I just do the math, I think that for the entire year, we have sort of gained 20 basis points in terms of our opex as a percentage of our revenues and the same stands at around 100 basis points, if I just do a fourth quarter comparison. So I believe we've been working on various sort of initiatives on the opex side.

So what can be -- I mean 20 basis points is a small increment that we have been able to juice-out from our operational efficiencies. But what's the target for this year in terms of compared to this financial year, how much more we can lose out as a percentage of sales from all the initiatives that we have been doing since the past few quarters.

M. Sambasiva Rao: Yes. So I wouldn't want to put a percentage on that and give guidance but let me say there are three areas in which we are working. Number one is in terms of energy efficiency, which is how many units of energy is required to produce one litre of milk, right? And that's a metric which we are continuously driving down with several initiatives. One is in terms of bringing in more and more energy-efficient equipments. Number two is better planning and better coordination. A lot of other initiatives in terms of even improving even product reformulation that helps to reduce energy usage.

So energy is one area that we are keenly focused on, which we continue to invest results and as we continue to grow offerings, that will remain as a growing interest for us in the future. Second is in terms of fuel, which is basically for us, it starts from bringing milk from the villages from chilling centres to the plant and the plant to our market. This is also an area where we are looking at taking a lot of efficiencies. You could say that we have just got started in terms of what we ourselves have visibility of.

At this point in time, we have hardly done about 20% of that, which means that 80% of the efficiency is there. As we see today, is still yet to play out. And I'm sure that once we achieve what we have in plan at this point in time, there will be new operational opportunities available in terms of fuel as well at that point in time. The third is in terms of people productivity. So that is a journey which we have yet to start, which will have continued benefits going into next financial year.

So we have not seen much in terms of people productivity in last financial year, but we'll be able to get that as well as in this financial year. So it's a continuing evolving journey, it is the way I'll put it because I'm putting a number on.

Sarvesh Gupta: So fuel efficiency will also majorly show up in this year and people will also start coming in from this financial year.

M. Sambasiva Rao: Yes. That's what we are working on.

Sarvesh Gupta: And second question, sir, on your product as such, you must have done some consumer studies, blind tests, etcetera, especially now that you are launching many new innovative products as well. Are there some pointers that you can provide us in terms of what are some of the key understandings that we have gained from such study, especially vis-a-vis both national competitors also which are becoming prominent in the VAP segment irrespective of the regions and on the milk side with respect to your local competitors as well.

Srideep Kesavan: Yes. So as part of our marketing initiatives, we continuously scan the market for competition and also benchmark our products versus competition let's say, primarily for a product like curd, many of our drinkables that we launched in the market, they've all gone through extensive consumer study before we put out in the market.

And you would also probably know that our products are -- that's slightly five-steps of premium to many of the mainstream competition that is there in the market. So it's impetus that we actually beat the mainstream competition in terms of pace and acceptance. So our benchmark is slightly higher. That's how we test ourselves, and we are able to meet them.

And we constantly -- wherever we feel that there is an area of improvement, so our R&D team works on Kaizen projects which helps us continuously improve even existing products that our curd. So there's all the time work going on at our end to improve the consumer experience and be worthy of a premium that we pass from consumers.

Moderator: Next question comes from the line of Resha Mehta from GreenEdge Wealth Services.

Resha Mehta: Just something on what the previous participant asked about the inventory days, right? So see, I understand that we are growing our volumes, etcetera, and hence, inventory in absolute terms kind of goes up. But if we look at our inventory days, historically, they have always been in that 20 to 30 days kind of a range. While this is like the first time in almost the last 7 to 8 years that it has jumped to around 42 days.

So what I want to understand is that with the kind of aggressive growth plans that we have, do we expect this inventory day number to remain at a new normal of let's say around this 40 plus kind of days or would we go back to our old inventory days of around 20, 30.

M. Sambasiva Rao: The inventory is melting already. We started consuming from March, but these March 31 numbers. So this is for capital consumption in the products fully. It will be consumed within the second quarter. So we may even have to procure further in the end of the second quarter. That's not a concern at all. As we come to number of inventory days come down month-on-month. It is, as Srideep explained, one, the volume, we have procured more in spot and price of the commodity also is higher than earlier year. So it looks higher in terms of value. So for us, internally, we feel very normal. It gets consumed over a period of four or five months.

Resha Mehta: And any comments on the JV, the Novandie JV. FY '23, what were the revenues and EBITDA losses there?

M. Sambasiva Rao: Yes. JV sales as they are improving, our penetration has increased to more markets and within the markets more chains of modern retail and e-commerce. Now the volumes are increasing, and we should be able to present better numbers in the current year as we go forward. All operations got stabilized, placements have happened. So we should see some offtakes increasing from this quarter.

Resha Mehta: And FY '23 revenues and losses, if you could quantify that for the JV? FY '23, the last year full year revenues and losses for the JV?

M. Sambasiva Rao: It's around, INR 8 crores is revenue and around INR 13 crores EBITDA loss.

Resha Mehta: EBITDA loss, okay. All right. And lastly, I just had a few data questions. One is if you could -- sorry, I missed this at the beginning of the call. What would be the milk procurement price for Q4?

M. Sambasiva Rao: INR 45.70 per litre

Resha Mehta: INR 45.70, okay. And the realization?

M. Sambasiva Rao: INR 59.09.

Resha Mehta: Okay. And the liquid milk sales volume for Q4. How many lakh litres per day.

M. Sambasiva Rao: 10.7 lakhs litres a day.

Moderator: Next question comes from the line of Rajat Setiya from Ithought PMS.

Rajat Setiya: Sir, what's our strategy for the ice cream business?

M. Sambasiva Rao: Ice cream was actually a business that's growing very strong for us, like last financial year, we've seen a 50% growth in the ice business and the momentum continues. But at this point in time, we are primarily focused in our core markets, which is AP, Telangana. We have very limited footprint in Bangalore and Chennai.

And so at this point in time, we are focused in growing our footprint in the existing markets rather than going to newer markets, one Secondly, we are expanding across channels. So earlier, footprint was limited to either push carts or general trade outlets.

Now you will see our products more and more in modern trade as well as e-commerce channels as well. Thirdly, you must have seen a series of new product launches that we have made. So we continue to innovate. We are focused on bringing in certain percentage of our revenues from new product launches.

So I could summarize, number one, deepening our presence in existing markets with addition of new outlets. Secondly, going into new channels such as modern trade and e-commerce; thirdly, continuous innovation and punching of new products. That's what we are doing at this point in time. It is still a small contributor as far as revenue is concerned, but a very fast-growing one.

Rajat Setiya: Sure. And how much sales did you say that you target from new products? You mentioned a number, I think while answering the last question.

M. Sambasiva Rao: No, I did not mention the number. Internally, we have a benchmark as far as what new product should contribute in terms of our growth. So we are looking at 10% of all our growth coming from new products that we launched in a year and a large percentage of these new products would be all coming from ice creams and drinkables and other segments for value-added products whichever smaller at this point in time.

Rajat Setiya: And sir, how much capex have we done in this ice cream segment so far? And how much sales can we do from the existing setup?

M. Sambasiva Rao: Yes. So capex -- we have not invested in any new plants at this point in time. And I think we will give you the capex gradually. At this point in time, the continued investment we are making is in terms of leased assets as far as our market retail freezers are concerned. And the current capacity that we have will be sufficient for us to take us for one more summer is our estimate. Just give us a minute for us to get back on capex.

Rajat Setiya: Sure. And in terms of capacity, what did you say, sir?

M. Sambasiva Rao: Around INR 50 crores is the capex in our ice cream business, but that's the existing plan. We haven't made any new investments.

Rajat Setiya: Sure. And how much sales did you say you can reach from the current setup?

M. Sambasiva Rao: We will cross INR 100 crores.

Rajat Setiya: INR 100 crores. And at INR 100 crores, what kind of margins this business will be throwing.

M. Sambasiva Rao: Yes. See, the gross margins in ice cream business is close to 33% to 35%. But again, it is a function of raw milk prices and other factors.

Rajat Setiya: Sure. And right now, sales channel is primarily outlets, or do we sell through carts, just like Kwality Walls or other plants?

M. Sambasiva Rao: Most of our sales actually is concentrated in retail outlets. Many of the retail outlets are in general trades. Some of the retail offices are in specialty channels like colleges, institutions and all of that, but we did not have any institutional large accounts….

Rajat Setiya: And we don't want to get into carts, sales channels where in every major brand is selling through that?

M. Sambasiva Rao: You're talking about push carts, right, as in cycle carts.

Rajat Setiya: Yes.

M. Sambasiva Rao: We have many of them. It's actually a large contributor to all.

Rajat Setiya: And one more small question on ice cream. So do we make milk-based ice cream only or its milk as well as vegetable oil?

M. Sambasiva Rao: We have both.

Rajat Setiya: And sir, in terms of competitive intensity in our two major states, is it the same over the last few quarters or has anything changed?

M. Sambasiva Rao: See, ice cream is actually a very large --

Rajat Setiya: Sorry to interrupt. General, not ice cream, I would say, milk-based and milk and value-added products, overall business and this question is about the overall business.

M. Sambasiva Rao: So I think the competition is actually a good thing. As competition grows, product quality improves and suddenly, consumption also increases, like dairy as such still has a long way to go as far as converting from unpackaged informal sector to formal packaged business, right? So even in products like curd, there is still a certain percentage of curd which is home-made, which can eventually become a package branded curd, right? So the more the competition, better for the industry is the way we look at it. Yes, a large part of the growth that we have seen in the industry is also driven by the increase in competitive intensity.

Rajat Setiya: So over the years, competition has increased, like Amul has been trying to enter new states. So are you seeing any competition?

M. Sambasiva Rao: For the last one quarter, it's been increasing for last several years. So whatever business results we are getting is in that reality.

Rajat Setiya: Sure. And what about Amul, sir? How about their entry into our core geographies?

M. Sambasiva Rao: Amul has been present in linear for markets for a long time.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Dr. Rao for closing comments.

M. Sambasiva Rao: Thank you very much for your continued interest and sparing your valuable time, making certain suggestions and look forward to hear you again in the next call. Thank you. Bye.

Moderator: Thank you. On behalf of Heritage Foods Limited, that concludes this conference. Thank you for joining us. You may now disconnect your line.

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