"Heritage Foods Limited
Q4 FY2018 Post Results Conference Call"

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Moderator: Good day ladies and gentlemen and welcome to the Heritage Foods Q4 FY2018 and full-year FY2018 post results conference call, hosted by Sunidhi Securities & Finance Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shailesh Kumar from Sunidhi Securities & Finance Limited. Thank you and over to you Mr. Kumar!

Shailesh Kumar: Good Evening, Ladies and gentlemen. On behalf of Sunidhi Securities, I extend a very warm welcome to all of you on Q4 FY2018 and full-year 2018 post result concall of Heritage Foods Limited. Management side is being represented by Dr. M. Sambasiva Rao – President; Mr. A. Prabhakara Naidu – Chief Financial Officer, Mr. Samba Murthy – Dairy Division Head; and Mr. Umakanta Barik – Company Secretary.

The presentation will start with Dr. Rao briefing us about the performance and then we can follow with the question and answer session.

Without taking much time now I hand over the call to Dr. Rao for further proceedings. Over to you Dr. Rao!

M. Sambasiva Rao: Thank you Mr. Shailesh. I welcome all the participants to this earnings call today. I will initially present the standalone financials of Heritage Foods, which include two verticals dairy business and renewable energy.

Subsequently, I will take you through the consolidated presentation, which includes besides these two divisions like dairy and renewable energy there is wholly one subsidiary Heritage Nutrivet Limited, which handles cattle feed and Heritage Farmers Welfare Trust, which conducts welfare activities for the farmers.

Now I will start with the Q4 standalone performance that is dairy and renewable energy. In this quarter, we have achieved turnover of Rs.555 Crores with a growth of 16% against the previous year same quarter revenue of Rs.477 Crores.

In Q4 our EBITDA numbers stands at Rs.47 Crores against Rs.33 Crores of the same quarter previous year, registered 41% growth. At PBT level, it is Rs.31.8 Crores during the current year's Q4. Previous year we had certain exceptional items related to the discontinuing operation etc., so it is not very comparable number. Dairy alone if you will take PBT level in the current quarter it is Rs.32 Crores, previous year same quarter it is Rs.23 Crores with a growth of 36%. This quarter PAT level it is Rs.20.5 Crores.

Now I move onto full financial year 2018 at standalone level, the company-registered turnover of Rs.2344 Crores, there is 28% growth against the previous financial year turnover of Rs.1834 Crores. At EBITDA level there is degrowth of 10% current year it is Rs.133 Crores against the previous year, it was Rs.149 Crores. PBT level for the full year it is Rs.88 Crores this year versus last year Rs.323 Crores, which is not comparable, it has other numbers of one time and Rs.208 Crores, which includes the previous year's one time extraordinary item. At PAT level current year it is Rs.60 Crores versus last year's Rs.84 Crores plus other extraordinary items total was Rs.298 Crores last year.

Now I move on to consolidated results of Q4. Total turnover for this quarter is Rs.562 Crores versus last year Q4 Rs.494 Crores; it registered a growth of 14%. As I earlier mentioned this number includes dairy, renewable energy, subsidiary call Heritage Nutrivet Limited and the trust for Heritage Farmers Welfare Trust. At EBITDA level for the Q4 consolidated level it is Rs.47 Crores versus Rs.37 Crores last year for Q4. PBT level it is Rs.31.7 Crores and PAT level it is Rs.20 Crores. I am not taking previous year consolidated numbers; they have exceptional items from one time.

Full financial year consolidated numbers is Rs.2373 Crores; it is 25% growth over the previous year Rs.1895 Crores. Consolidated level EBITDA for full year 136 versus 149 of the previous year and PBT level 89.8 versus 323 including exceptional item. PAT level 62.68.

Some details of dairy business operations, procurement volume increased from 106300 liters per day to 132400 liters per day, it is about 25% growth in the milk procured during the financial year Q4. Sales volumes of milk it has grown by 19% from 8.75 lakh liters per day to 10.42 lakh liters per day.

Contribution of value added products in Q4 is gone to 23% versus 22% previous year same quarter. This value added products growth is 17.5% in this quarter over the previous quarter extends it Rs.127 Crores revenue versus Rs.108 Crores.

During the current year, capex incurred for the full financial year is Rs.163 Crores in the dairy and Rs.16 Crores in the renewable energy. Significant capacities have been added particularly during the last quarter aimed that achieving the current year and future year's growth.

Working capital cycle is 14 days versus 13 days of the previous financial year. Debt at the current year March long-term loan is Rs.160 Crores and working capital Rs.102 Crores, total debt Rs.262 Crores.

Subsidiary which is handling cattle feed that is Heritage Nutrivet Limited registered revenue of Rs.67 Crores for the full financial year with an EBITDA of Rs.1.32 Crores for the full year and PBT of negative Rs.36 lakh for the full year. For the Q4 revenue of Heritage Nutrivet Limited is Rs.16 Crores with an EBITDA of Rs.1.28 Crores and PBT of Rs.76 lakhs for this last quarter. There is no comparable quarter for this business as this came into action only 2017-2018 and few months ahead of this for their in the previous year.

These are broadly the numbers of the Q4 and full financial year 2017-2018. I now leave the subject for interaction. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Resha Hariya from Green Edge Wealth Services. Please go ahead.

Resha Hariya: Good evening Sir. I had a couple of questions, the first one being that if this like last time as we could give state wise granular progress in terms of our plants setup, so you had mentioned that in Haryana and Punjab, the plants will be ready by April 2018 so if you could comment if you know those plants have started operations and how they are contributing to revenues their and also in Tamil Nadu last year sales were impacted because of some adverse common by some minister there so if both their back in track?

M Sambasiva Rao: Thank you. State wise numbers as I explained last time we have not presented in the public domain because of that disadvantages we are noticing from the competition action we will share when we meet separately.

Resha Hariya: Right Sir just that if you could comment that have plant started in Haryana and Punjab?

M Sambasiva Rao: Yes it is started in the current quarter that is Q1 of this year.

Resha Hariya: Okay and Sir Sales will flow in FY2019 right?

M Sambasiva Rao: Sales were already there in the last quarter, last year because that sale was essentially from dairy light brand acquired from reliance business. We were operating from third party plant in Punjab for that business. This business moved into the own plant, which we acquired, from Vaman Foods near Chandigarh. The operations have been commenced in this quarter of 2018-2019; the details will come in the subsequent quarters.

Resha Hariya: Right and Sir about Tamil Nadu have a sales recovered there?

M Sambasiva Rao: Not significantly. We have been making some effort. In this quarter we have just started some marketing campaign to give boost for the sales in the market. We do expect from June certain traction in the market in Tamil Nadu.

Resha Hariya: Sir do you see that the pain in the sales in Tamil Nadu market was essentially because of that adverse comment by the minister or is it because of some kind of competitive pressure or some other such reason?

M Sambasiva Rao: It is combination of several factors including competition, including pricing, including market perception.

Resha Hariya: Right and Sir have we started selling value added products like curd etc., in the North India or in the Western region?

M Sambasiva Rao: Yes North India we started with curd and buttermilk right now in the last few months. We have created infrastructure for these products and other products like Paneer, Ghee will follow in this quarter. The entire infrastructure is in place and products have started hitting the market.

Resha Hariya: Okay and Maharashtra is still essentially liquid milk market?

M Sambasiva Rao: Maharashtra is yet to start. We just started curd and flavored milk through a co-packing arrangement. We are doing in Prabhat Dairy Curd and flavored milk in some other Aniket Foods in Pune. The co-packing arrangements started till we establish our own infrastructure will continue here and we are also looking at creating own infrastructure for production facilities in Maharashtra during the current financial year.

Resha Hariya: Okay and like FY2019 do we see 20% kind of our topline growth run rate we continuing because Q1 onwards even the Reliance Dairy numbers will come in our base so we will be like heightened effect, so do we expect to continue the 20% loss kind of topline growth run rate?

M Sambasiva Rao: Yes that is our ambition we will work towards that.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir. Firstly in terms of the gross margin numbers have not really seen too much of increase in your milk procurement prices, which has in fact come down, but again sharp improvement in our gross margins if you could just highlight the reasons for the same and any impact also coming in from the Reliance Dairy acquisition over here? I am asking the gross margin side if you could just highlight what are the reasons for the gross margin improvement because if you look at the milk procurement prices, the procurement prices have not really fallen sharply mean it has been about a couple of percentages down so just wanted to understand the reasons for gross margin improvement?

M Sambasiva Rao: Yes Mr. Prabhakara will take you through the gross margin improvement from Q3 to Q4.

Prabhakara Naidu: Q3 gross margin is 19.60% and Q4 21.80%. One of the reasons is actually zone 4, which is mainly related to Reliance business acquisition. The losses have come down so in Q4 actually the PBT loss is Rs.83 lakh only. Previous quarter around Rs.5.2 Crores so that is one of the reason and other right mix of fat products are better prices and all that is the reason actually the gross margins have slightly improved.

Prashant Kutty: Okay so you said PAT losses were less did I hear that right?

Prabhakara Naidu: PAT losses actually around Rs.3.6 Crores this quarter. Almost same. Actually the procurement prices because we are operating in the different markets so raw material both milk as well as SMP consumption both together as compared to the last year it is around Rs.8 Crores. There is gain in that reduction cost of raw material so the main reason is actually Reliance losses has come down that is one of the reason immediately from previous quarter to the current quarter drop margin improvement is because of that.

Prashant Kutty: Okay and are we safe to say that obviously the losses had definitely gone for good and we are definitely looking at profitable number going forward as well as and any target you have in mind as well as Reliance business is concerned in terms of what could be the EBITDA margins over there because just by seeing an improvement into loss figure if have been our EBITDA improve to almost about 8% so what is the kind of margins are we looking at let us say for Reliance business incrementally?

Prabhakara Naidu: We will work out and let you in course of time because these are not very concrete; it keeps changing from quarter-to-quarter depending on the milk prices. We would not be able to articulate exactly what is that percentage for that segment.

Prashant Kutty: Okay but can we at least assume one thing that the losses in the Reliance is definitely gone for good, would there be right assessment Sir?

M Sambasiva Rao: That is what I am saying it is too early to say because it depends on the prices movement certain months prices may go up for milk prices. In a particular quarter we might end of marginal loss and in particular quarter we might make profit end of the year positively we will achieve positive numbers by end of the year, but month-on-month and quarter-to-quarter there will be some fluctuations till we achieve threshold volumes, we have to go through and mix of value added products had increased. Just now the facilities are setup so we have to get into the market and promote our value added products, there will be certain promotions schemes etc., placement cost so we have to go through one financial year with adequate volume of value added products in the market and then plan for the next year. This year is kind of journey we have to walk through and see. Once we have come out of the bigger problem now we will stabilize onto the volumes.

Prashant Kutty: Just a couple of bookkeeping questions over here and in terms of our curd sales if you could just tell us what that number was in terms of what is the curd sales revenues for the quarter?

M Sambasiva Rao: Revenue and sale of curd during the quarter.

Prashant Kutty: Yes. You used to give that number in the past I just cannot see those numbers?

Prabhakara Naidu: Yes. For Q4 curd sale is 249 metric tonnes per day.

Prashant Kutty: Okay in terms of value Sir?

M Sambasiva Rao: Value is Rs.100.44 Crores.

Prashant Kutty: Okay Sure and Sir if you just list question over here on the value added products if you look at the full year I think we have done about 22% would be the value added shares as far as?

Prabhakara Naidu: 23%.

Prashant Kutty: About 23% is it slightly lower than our FY2017 number, I understand we have Reliance Dairy and all those things, but just wanted to understand incrementally what is the kind of value added sales we are expecting going forward given that you are looking at distribution expansion into lot of other market as well so any target which you have for FY2019-2020 in terms of what could that number be?

M Sambasiva Rao: Year-on-year we are gearing up to add 3% increased on the base.

Prashant Kutty: Okay will add 3% on the base. Sure. Thank you very much Sir and I will come back on the queue.

Moderator: Thank you. The next question is from the line of BV Bajaj from Bajaj Shares & Securities. Please go ahead.

BV Bajaj: Thanks for taking my question Sir. Good afternoon Sir. I want to drive your kind attention on the point that e-commerce business, or whole food whatever recall because as just now stated that value added products range of value added products, we are increasing but if you see the market of e-commerce, our market share is very, very negligible compared to others and they have got range of products to supply hospitality, fast food chain and all whereas we are yet to gear up. Can you throw some light on that any action?

M Sambasiva Rao: You are right we are yet to gear up.

BV Bajaj: Because there was visit at Gokul plant also it was discussed so our share in that because if you go through other e-commerce business there is a lot of margin in that compared to regular traditional products that is one thing Sir. So please look into that. Second thing is our JV with Non-Dye Food Product Limited how far it has progressed and what is that action plan on that can you throw some light on that?

M Sambasiva Rao: Sure this joint venture civil work construction and equipment acquisition etc. is being done so we are expecting to complete the construction and commissioning in the last quarter of this year somewhere in February and March and look for the commercial launch in the month of March 2019.

BV Bajaj: Last question Sir our profit margin though gross revenue has gone up by 30%, profit margin has come down. Can you throw some guideline on 2018-2019 financial year Sir?

M Sambasiva Rao: How do say margin is come down for full year?

BV Bajaj: Consolidated full year it was Rs.357 Crores.

M Sambasiva Rao: Last year we acquired the Dairy Life brand it has caused initially certain operational losses also in the H1 we had a higher milk prices so that also impacted the margins. Q4 has recovered the margins, it is very clear from the data and this year we anticipated better margins over the last year.

BV Bajaj: And our non-current liabilities because of acquisitions Sir? It has gone up by 400%?

M Sambasiva Rao: No that is upside sharing part of the future retail shares.

BV Bajaj: Thank you Sir.

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

Anirudh Joshi: If I exclude the revenue run rate Reliance Dairy of somewhere around Rs.45 odd Crores from this quarter's number so then on Y-on-Y basis we get an organic revenue growth of just 7% so I understand that there was probably limited benefit of price hikes because we have not raised prices of our products in last one year, but still 7% significantly lower number so why probably the revenue growth would have come at 7% that is one thing and also can you please elaborate on the Tamil Nadu issue what happened and how biggest the Tamil Nadu as a market for us and when do we see going back to the original sales in first half of FY2019 and second half of FY2019?

M Sambasiva Rao: We have just launched our marketing campaign in Tamil Nadu including TV ads, newspaper ads then the point of sale materials and started activating our teams as well as distribution channels, expanding our retail networth etc., after the last year setback and we do anticipate after the summer vacation sometime in the first week of June once the vacation situation is out some traction in the sales. Recently couple of new brands has also been launched in Tamil Nadu. One is Srinivasa and another is Vallabha. This two brands also started giving deep discounts and high channel margins as a introductory strategy for like a predatory pricing model so withstanding that price strategy of the new entrance and also started our own campaign so we do expect improvement in the situation where it is 15%, 20% volume metric growth, we will see how it moves on and step off our efforts if some inputs have to be given by us also we will try to do that.

Anirudh Joshi: But Sir exactly what were the issues means and also the first question we have a 7% organic revenue growth so that is quite low compared to previous three to four quarters?

M Sambasiva Rao: On that we have not disposed our inventory since the Q4 because of the low prices anticipating higher prices for the fact. We are building our inventory that is why even our working capital has gone up. Our inventory have gone up we are looking forward for better realizations to sell particularly the butter and ghee products in this quarter. So we have depressed our growth in that way.

Anirudh Joshi: Okay we have large inventory, which we had decided not to sell in March and probably that sell may get booked in June quarter?

M Sambasiva Rao: Yes.

Anirudh Joshi: Last question we have still maintained the guidance of Rs.6000 Crores revenues by FY2022 so if I look at FY2018 sales to FY2022 sales we need to grow in excess of 26% in terms of revenue CAGR basis so do you see 26% kind of CAGR is achievable considering over probably one or two years if the prices remain lower we may not take aggressive price hikes? So entirely to a large extent that 26% revenue growth need to be mainly volume growth so any your views on the same?

M Sambasiva Rao: See this is again; there are two to three dimensions for this Rs.6000 Crores discussion. One is framework is created within the company to achieve aspirational number. This is our ambition of our company to achieve those numbers. Ambitions has been articulated through an exercise of mission and vision conducted with an external consulting agency KPMG by involving all stakeholders particularly in the employee segments from top to bottom, directors to fieldworkers in different methods. All of us are aligned for this kind of growth and achieving these numbers. Only when framework of this nature is available our resource allocation happens. We look out for expansions in the milkshakes for adding more infrastructure for milk procurement, engaging more farmers today we have X number of farmers we have to double the number of farmers engagement, bring them into our procurement network similarly we have to create distribution mechanism dealers, parlors expand into modern retail or e-commerce etc., when we have these numbers in mind then all the teams will work for the numbers and allocate their time resources, organization structural is being revamped to ensure this kind of growth. We are more open organization with more territorial jurisdictions and empowerment of different functional heads then technological we have also integrated all operations end to end with SAP. We have moved out of basic SAP and now we have gone into next level of SAP called SAP HANA, which is more integrated ERP for achieving the integration on daily basis. The organization is geared itself up for this kind of growth whether this growth comes within the next four years or it will take five years is a function of several other factors apart from organizations readiness, ambition also the kind of ecosystem we are working. This growth is contingent upon many factors like weather, a good monsoon year, a drought year, national policies, state policies of intervention the dairy market for the prices then the competition building up from the domestic players and international players. All these factors do help us and impact us either positively negatively. Having said all these we are still grade up and we are ambitious and we are working to achieve Rs.6000 Crores by 2022 with a caution that it might slip by a year or two. I have explained our position clearly.

Anirudh Joshi: Thank you.

Moderator: Thank you Sir. The next question is from the line of Rohit Ramesh from Pantomath Fund Managers. Please go ahead.

Rohit Ramesh: I just wanted to know how big is the UHD milk market right now and how fast do you expect it to grow going forward.

M Sambasiva Rao: UHD is not a very significant share in the market may be at national level it is estimated to be anywhere under 5% and the growth is also not significant because as a country we are fond of fresh milk. Freshness season obsession in the dairy and every customer particularly in south where we do home delivery almost significant volume either it is half liter, one-liter everyday morning we have to deliver at doorsteps fresh milk. So people got used to be fresh milk concept, not many prefer the long shelf life milk, which is there for three months, four months in the self. So the growth of UHD is not happening significantly; however, there are certain pockets where UHD milk is preferred like where the power supply is not continuous where the milk availability local is not good like not available like North Eastern states or Himalayan states where milk availability is low and distances are long, power supplies are not adequate those areas preferred the long shelf like milk similarly deficit pocket in the country where fresh milk is not readily available those pockets also do that and the business is like tea stalls and coffee stalls and the railway stations, airports etc., where they are not sure of the demand for using fresh milk, there is a mix of fresh milk and long-shelf like milk like UHD so they can store and use it as per the demand whereas fresh milk cannot be stored beyond point. So these are select pockets of UHD consumption so we do not see a huge traction or growth in the UHD milk like fresh milk.

Rohit Ramesh: So basically like in the northern parts wherein may be logistics is an issue those type of places mostly UHD milk will be little more famous?

M Sambasiva Rao: Defense forces where they cannot get fresh milk everyday, army canteens, navy canteens all these are very specialized users and very few people believe this is the most superior on safe milk and they are also prefer this compared to the fresh milk. Some of them have a feeling that is tetra pack packs are much safe for than normal milk. They are priced quite high about 25% higher than the fresh normal milk.

Rohit Ramesh: How is the competitive intensity in Punjab like there is strong brands such as metro milk and are there any bigger brands in Punjab?

M Sambasiva Rao: Yes it is quite competitive markets where their cooperative milk itself is strong Verka brand and Amul has entered a few years back this market. Competition is high but milk is also availability high and consumption of milk is very high in these areas so we can also try to join the suppliers group.

Rohit Ramesh: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Resha Hariya from Green Edge Wealth Services. Please go ahead.

Resha Hariya: Thanks for the followup opportunity. If you could elaborate on your ice cream strategy. We have just launched Alpenvie brand so if you could elaborate on the strategy in terms of may be having marked brand and premium brand and what is the distribution model so initially will be launched in the south markets and probably then we plan to launch in the north and western region?

M Sambasiva Rao: Sure we already have ice cream for the last seven years in the name of Heritage brand. Over a year of time this has been converted into frozen dessert brand and we wanted to have an exclusive brand to ice creams. This is introduced as Alpenvie. If you are aware of the campaign that happened a year back between two brands one ice cream milk based and another frozen dessert vegetable fat based. There was a disturbance in the market between the two ice creams and frozen desserts. There was a space we identified in the milk fat based product that the ice cream versus vegetable fat based frozen dessert. We wanted to have a kind of superior product in the name within Heritage brand. So Heritage is now branding frozen dessert Heritage and ice cream in Alpenvie. We are keeping both the products in the same freezer of Heritage wherever Heritage ice cream is Alpenvie is also put in the same freezer. Freezers are branded outlets are branded, Alpenvie which is driver of the business growth that is milk fat based ice cream and we will be keeping in all the markets where our earlier Heritage frozen dessert is there, Alpenvie ice cream is also there and it is comparable with any other premium brands in ice cream segment both in terms of quality specifications packaging and pricing.

Resha Hariya: So would this Alpenvie brand available in let us say Maharashtra, Haryana, Delhi market?

M Sambasiva Rao: Right now we do not have in all those state except Mumbai and Maharashtra. Mumbai wherever we have possibility, we have started I think around 200 points of sale we have kept our freezers called Alpenvie where we sell both heritage and Alpenvie in both results. We are trying to expand within Mumbai instead of going to outside places in Maharashtra.

Resha Hariya: What kind of revenue target are we looking at from the ice cream business like over the next two to three years?

M Sambasiva Rao: It is starting of this brand we have not yet presented the full scheme of ice creams; we will give you in the course of year during the next call sometime.

Resha Hariya: All right. Thank you.

Moderator: Thank you. The next question is from the line of Rupen Masaliya from RN Associates. Please go ahead.

Rupen Masaliya: Good evening Sir and congrats for good set of numbers. I have couple of questions one is this 2022 you are planning to achieve Rs.6000 Crores revenues so how much growth you are expecting organically and what sort of capex you are planning to incur and inorganic initiatives that is number one?

M Sambasiva Rao: Yes Rs.6000 Crores target we basically anticipate it to come from organic growth only. Inorganic growth is based on certain opportunities available though there is no targeted number given for inorganic growth. It depends on the availability of a brand acceptable to us, which can match in our quality standards and also the reasonableness of valuation that are expected so therefore inorganic has no target, it is opportunity, suitability and acceptability of the valuation to both parties so as we come across any opportunity we will evaluate and take a call and keep notifying the growth. There are no set targets for that. Coming to organic the capex at the moment the runrate is going to be Rs.110 Crores, Rs.120 Crores a year kind of investments in the next four years, which are anticipated to yield this kind of revenue growth. Our earlier decade capex was may be half of this and this period we are doubling our capex investments particularly the new markets where we do not have capacities we have to create capacities and delivered these growth numbers.

Rupen Masaliya: Sir coming to segmental breakup like out of Rs.6000 Crores major proposition would be obviously from dairy but apart from dairy VetCa business renewable energy business so what sort of mixed you are seeing?

M Sambasiva Rao: It is essentially driven by dairy growth only. Renewable energy is not separate revenue. If you also noticed in the current year or last year, it is shown as intercompany revenue. There is no additional topline advantage because of this entire renewable energy generated is aimed at captive consumption, the revenue generator gets netted off when you take company revenues because it is an intercompany or intersegment. So I do not see any revenue benefit coming from the renewable energy except we have certain tariff arbitrage advantage because the power supplied by the pubic sector, power companies is always higher than the power cost of our own generation so we have the price advantage, our cost of production will come down similarly, they are certain tax break available because of those investments. So that will not help in revenue. Next is the veterinary care or the cattle feed. This is also 50% of the revenue is generated from the intercompany sale. Half of the feed generated product produce packed is going to our own farmers, which is sold through the Heritage Foods, so only half of the revenue is coming from the general trade other farmers where direct sales happens from the subsidiary company, so that is also not going to be significant on an average. Per annum we are looking at Rs.100 Crores to Rs.200 Crores kind of revenue coming from this subsidiary company from the general trade sales and another Rs.200 Crores come from the Heritage farmers, so at the end of five years by 2022 may be Rs.200 Crores to Rs.300 Crores will be the revenue generated by subsidiary from the general trade. Another Rs.200 Crores to Rs.300 Crores from the internal sale, which will be netted off.

Rupen Masaliya: Last housekeeping question like Reliance Dairy number for FY2018 I want only three numbers revenue, EBITDA and PBT?

M Sambasiva Rao: According to me, we have forgetting it is Reliance Dairy. We have converted this as Heritage Dairy. I do not want to take anymore Reliance Dairy in my discussion. They also would not like Heritage using their name. We are merging all operations. Merger is complete. Consolidation is complete, so therefore the tracking is also difficult for us. What is milk coming from Reliance Chilling Center acquired from Reliance what is coming from this and all that. Now operations are integrated from this quarter, we will not discuss separately. We will be presently it as a Heritage only.

Rupen Masaliya: Thank you Sir.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity again. Just one thing on the value added side so apart from curd what are the next let us say couple of drivers that we are looking at, which will probably will be sizeable for us because we are looking at two to three initiatives one time? They are probably talking about ice creams and they are also talking about UHT milk is coming, so if you could just give us some sense in terms of let us say of 20 to 22 perspective what other could be the large contributors to the value added products?

M Sambasiva Rao: Sure. There are flavored milk, buttermilk, ice cream, and lassi. These are the products, which will pull up let us say 15% of the revenue from the value added products while the curd will give 65% to 70% of the revenue going forward and yogurt will come in a separate subsidiary, so it will be reflected differently. That could also be another 5% of the revenue.

Prashant Kutty: You said about 15% is flavored milk, ice cream, lassi and buttermilk and curd is about 65% that makes it about 80%?

M Sambasiva Rao: Curd is 70% and these are about 15% to 20% and then there will be many other smaller products like whiteners and SMP.

Prashant Kutty: This is targeting about 20% to 22% right that is the number we are looking at?

M Sambasiva Rao: Yes.

Prashant Kutty: Thank you very much.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: I wanted to check the acquired asset what are the changes we have brought in till date and what are more left on the table and that will happen over a period of time?

M Sambasiva Rao: Which one you are talking please?

Nitin Gosar: The Reliance part that we acquired. What are the changes we have brought in till date and what are more stretched, which are left and that we can take in the upcoming years?

M Sambasiva Rao: With the assurance that we will not discuss Reliance separately from next quarter, I will reiterate what all we have done. This has been done in the last three quarters, we have been explaining. We termed it as rationalization of the operations to bring more synergies and improve the margins. One wherever the long distance chilling centers are there, we have either shifted or merged or closed. We have inherited close to 35 locations where milk procurement operations are happening. Out of that we have either merged or shifted or closed around 15. Close to 20 remain with us and some of them also get tweaked in this course of time, so the long distance and then second is in terms of sales. Certain markets where Reliance started the dairy to support-to-support Reliance Fresh the super market chain. We do not see those requirements in those markets, so those markets like Gwalior, Agra, Nagpur, Aurangabad, several places like that we have withdrawn our marketing operations there because volumes are quite slow and the obligation of supplying to those to stores is not there. They have not found alternative branches to sell there, so wherever viability is not there those markets also we have withdrawn. On the operations, they were operating, they were doing milk processing and packing in third party packing stations by paying some user charges some places minimum guaranteed volumes are there. Some places it is not there, but all operations were conducted in the third party and asset like model. We have started shifting those volumes wherever possible to our own plants like Hyderabad or Pune or Chennai, Bengaluru wherever we have plants; we have shifted those operations into our plants and got out of the third part operations. In certain places where we do have facility we found an alternate like in Haryana we have expanded our plant, doubled the capacity so that this milk can be shifted there. In Punjab we have acquired a kind of physical asset from a company, which was doing job work for Amul they have sold their unit to us, so we have started operations in this quarter in that plant. In Rajasthan, we are yet to figure out an option. We are continuing in the third party packing station, so our ambition is to move out of those third party packing stations and get in our own for several reasons and several benefits we foresee in own operations. Distribution network wherever possible we have merged the routes, so the sale vehicle carries both the brands in those routes, so optimizing the cost of distribution on milk and its products. Next coming to the value added products, the Reliance business was mostly driven by the milk plus bulk sale of ghee, whitener, butter, so we have come out of that bulk sale of whitener and milk powder and butter. The operations to that extent have been pruned; no bulk sales are being conducted by us. We are only doing retail sales preferably B2C and small quantities of B2B, so we have moved out of the B2B business in those commodities. To that extent milk procurement also has been slashed because the bulk business is not our forte and our business is more to the B2C, so that is on the bulk trading part of it.

Nitin Gosar: Got it Sir. Very elaborate; Sir one last question on the gross margin part I think the earlier part if you can also try checking on this can we have some bit of more understanding on gross margin expansion for Q3 what could be coming from in from raw material advantage and what could be coming in from pricing advantage? I understand trade mix is something, which is continuous and it will be very difficult to pinpoint it a number it out, but raw material and pricing something that you can help?

M Sambasiva Rao: In this financial year 2018, the Q3 to Q4 there was an expansion by 300 basis points. All this has come from the milk procurement price drop. There was some improvement in terms of increased share of value added products compared to Q3. Q4 has certain increase in the value added products sale, but that has been nullified because of the marketing campaigns we have conducted during this period, so that is not reflected in the increase in the margins, so that is the change and the first half year there as a significant impact due to three factors. One was the higher raw material prices like milk and milk powder. Second is the acquire business contributed certain losses and third was silver jubilee celebrations and brand rejuvenation and artwork change, etc. We have done significant marketing program in this year on the eve of silver jubilee completion of 25 years of the company's commencement, so that has impacted in the first half and during the coming months or coming quarters, the procurement of raw material price advantage continues as we were reading the industry estimates the procurement prices may not change much except in the buffalo milk tracks where the lean season has set in, but to that extent that would get nullified with the increase sale of value added products, so we may expect some amount of stability in margins in the coming quarters.

Nitin Gosar: Perfect Sir. Thank you and all the best.

Moderator: The next question is from the line of Kunal Pawaskar from IndGrowth Capital. Please go ahead.

Kunal Pawaskar: My question was specifically about Karnataka so without giving a sales break up if you can just explain a bit about the scenario there especially with respect to KMAF and the kind of pricing they were doing all things back to normal or by when do you expect them to be?

M Sambasiva Rao: Them mean who?

Kunal Pawaskar: KMAF the actions that the corporate were taking, so when do you see normalcy getting restored?

M Sambasiva Rao: KMAF I do not know whether you have heard me earlier having an advantage that Rs.5 support coming from Karnataka government. Are you familiar with this? Did you hear this?

Kunal Pawaskar: You had.

M Sambasiva Rao: Karnataka Government gives Rs.5 support price to farmers those who choose to supply milk to KMAF and if the farmer supplies to any private company that Rs.5 is denied. Therefore most of the private companies including us have pruned our operations of procurement in Karnataka. Hardly we get any milk of Karnataka farmers unless they have some difficulty to give to KMAF they will not give it others and we will not be able to match Rs.5. The margin itself does not exist here, so what we have been doing is we are diverting our milk procured in the neighboring districts of Karnataka from Tamil Nadu and Andhra, conducting our sales operations in Bengaluru.

Kunal Pawaskar: You have mentioned this, but are you seeing anything about that situation reversing because that would help reduce come cost?

M Sambasiva Rao: It will only further get aggravated as politics keep changing.

Kunal Pawaskar: That is all from me. Thank you.

Moderator: Thank you. The next question is from the line of Vikrant Kashyup from Kedia Securities. Please go ahead.

Vikrant Kashyup: Good evening and congrats on a good quarter. Sir you mentioned next four years you are going to do a capex of Rs.110 Crores per year can you please give us the breakup how it is going be funded from your internal accruals and debt?