



“Heritage Foods Limited Q4 FY2017 Post  
Results Conference Call”

May 29, 2017



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**Moderator:** Ladies and gentlemen good day and welcome to the Heritage Foods Q4 FY2017 Post Results Conference Call, hosted by Sunidhi Securities & Finance Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Shailesh Kumar from Sunidhi Securities & Finance Limited. Thank you and over to you Sir!

**Shailesh Kumar:** Good evening ladies and gentlemen. On behalf of Sunidhi Securities, I extend a very warm welcome to all of you on Heritage Foods Q4 FY2017 and full year FY2017 Post Results Conference Call. From the management side today we have Dr M Sambasiva Rao, President, Mrs. Brahmani Nara, Executive Director, Mr. A Prabhakara Naidu, CFO, Mr. Umakanta Barik, Company Secretary and Mr. Murthy, who is the Dairy Head. We will start with a brief introduction of the company’s quarterly performance then we will follow with question and answer session. Now without taking much time, I hand over the call to Dr. Rao, President of the Company. Over to you Sir!

**M Sambasiva Rao:** Thank you Mr. Shailesh. I welcome all the participants to our call today. Before getting into the quarter or annual number, I will just summarize the important corporate actions that happened in the past few months. We have completed the transaction of slum sale of retail undertaking to Heritage Foods Retail Limited, the subsidiary and then demerger into Future Retail Limited with effect from November 1, 2016 and integration process is in progress, we expect this to complete by May 31, 2017 and the business controls will totally shift into Future Retail on June 1. Accounts point of view it seems from April 1, itself, May 31, was my appointed date or effective date of transaction that is why the presentation of our quarterly annual numbers are looking different. Our CFO will explain if there is any requirement of the slightly different looking presentation for this quarter.

Second transaction with Reliance Retail Limited about slum sale of their dairies is finished we have also been completed with effect from April 12, 2017. Integration process is in progress we expect this also to be completed by May 31, 2017 in all centers and operational control is more or less taken over by Heritage Foods with effect from April 12, 2017.

The third subject which we have been discussing for last two calls is joint venture for yogurt products that is expected to be completed anytime soon within a few weeks time. There were small procedural delays, which we do not achieve though we wanted to discuss



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and take approval of the last board meeting on May 25, 2017. It did not happen but soon we will be taking the approvals and announcing the details at the earliest. During the year we have also commissioned our new cattle feeds plant which is our first plant of the own plant of the company it has 200 tonnes per day capacity 6000 tonnes per month which definitely been our current.

**Moderator:**

Sorry to interrupt sir there is a lot of disturbance that is coming from the line is Kiran available right now with you, if you can do something, okay now it is better.

**M Sambasiva Rao:**

We have also commissioned one wind power project of 2.1 megawatt and also off grid solar project of around 1.6 megawatt at our dairy plant by now we have more than 8 megawatts of our own power generation capacity with renewable energy which means 55%, 60% of our power requirements in clean energy source.

We have also comment our Silver Jubilee Celebrations in the month of April this year as we have completed 25 years after registration or incorporation of the Company and we are going through the celebrations in this quarter. As part of this we have also rejuvenated our logo of Heritage, which was notified it is now in use. We have also altered our art works and packaging materials made it more contemporary and we have started engaging with our key stakeholders holding meetings with the farmers in the religious consumers and trade partners in the urban areas and our employees motivating for the next 25 years of journey of Heritage so that is the current engagement activities going on in the company.

Coming to the Q4 performance the company achieved a turnover of 700 Crores. You all must have seen our results with 11% growth for this year same quarter, revenue terms. EBITDA we have reported 36.8% degrowth compared to the last quarter 39.8%.

PAT level we have achieved 14.10 Crores compared to 16 Crores of the Q4 of next year. Much of it is because of the increase in milk prices, milk powder prices that we could not immediately pass on to the customers that in line and in between the increase in the raw material cost on the same prices. For the full year the turnover achieved from Rs.226.8 Crores the 11% achievement over the last year, EBITDA wise we have grown by 8.5% from 35 Crores to 146.6 Crores. PAT wise we have achieved 20% growth 55 Crores last year to 66 Crores for this year.

These are broadly the financial numbers of the quarter four and the full financial year. I now open the floor for discussion. Thank you very much.



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- Moderator:** Thank you. We will now begin the question and answer session. First question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Thank you for the opportunity Sir. Sir firstly if you could just tell us a bit on especially with regard to the price hikes which effected post that because you just said that there is a difference in the input cost prices so if you could just speak a little bit on that front as to what are the hikes you have taken and is it sufficient enough now to stall the raising procurement prices high?
- A Prabhakara Naidu:** For the quarter actually there is a 10% hike actually in the milk procurement cost for the full year it is almost 5%.
- Prashant Kutty:** What is the price hike that we have taken Sir?
- Brahmani Nara:** Basically to summarize that through the year we have seen an increase in our procurement price of 5% for the full year 10% was the increase in procurement price for the Q4 so it was noted in Q4 because of the seasonal effect and half of that price hike only for the consumer that meant that there was about a 1% gap in terms of margins between Q4 of last year to Q4 of the year before FY2016.
- Prashant Kutty:** I am sorry you said you have taken half of the price hike you are saying, half of that the procurement cost increase has been taken right?
- Brahmani Nara:** Yes so the increase in price for Q4 was about 10% for the overall year it was 5% whereas in the consumer side for the full year we saw milk prices increasing only by about 2.5%. So there was a gap there that cost of one certain decrease in margin from FY2016 to FY2017.
- Prashant Kutty:** But incrementally as the last two months of progress have the procurement cost gone up further and would we require to take additional price hikes?
- M Sambasiva Rao:** Some areas it has gone up and we may not pass on this to consumer now because we will be further reducing the prices couple of months down the line. It will disrupt the volumes again so we will be waiting for the price drop after the season commences and just now the news is good monsoon is progressively coming closer much ahead of the time schedule so temperatures will come down milk yield should increase situation should improve faster.
- Prashant Kutty:** So even if you have see dispatching of procurement price increase we might probably not take any price hikes now because obviously we are expecting the season to actually improve.



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- M Sambasiva Rao:** You are right.
- Prashant Kutty:** So effectively it means that may be you could have this quarter also to probably be a little weak on the margin front as well as dairy is concerned is that a right assumption.
- M Sambasiva Rao:** We will come back after a while.
- Prashant Kutty:** Again also just with regard to the branded sales obviously with regard to the branded sales business we have kind of grown reasonably but typically if you look at the growth rates for curd that seems to probably come off a bit as well and if you look at the branded curd sales branded sales also it has come up from that 15%, 20% kind of a bracket to about a 10% for this quarter anything specific to highlight over here if you could just probably speak on that front?
- Brahmani Nara:** Yes, actually we have seen encouraging growth in volumes incurred for the last financial year FY2017 of 20.7% in terms of volumes again so that has been quite encouraging and this quarter also we are seeing some encouraging growth and volumes of curd is there.
- Prashant Kutty:** So there has been a price cut effect, which would have probably taken up.
- Brahmani Nara:** Yes there is some decrease in realization.
- Prashant Kutty:** Also if you could just couple of clarifications over here with regard to the retail and the other businesses I believe you said that from April 1, 2017 onwards these businesses would not be anywhere very much there in the Heritage Foods right, that is what you meant?
- M Sambasiva Rao:** Prashant, this came so there are two appointed dates are there that is for slum sales that is for subsidization of retail, agri, bakery and VetCa division are four divisions should be done action from November 1, 2016 and after that closing of that is March 31, 2017 the three divisions which is retail, agri and bakery...
- Moderator:** There is a lot of disturbance coming from the management line I will just disconnect and reconnect the line. We have the management line connected.
- Prashant Kutty:** I am sorry Sir I just missed out the last part of your comment.
- Prabhakara Naidu:** As per the composition, there are two appointed dates one is November 1, 2016 that is naturally appointed date for subsidization of four divisions retail, agri, bakery and VetCa from HF. So then on the closing months of actually a closing business in the month of



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March 31, 2017 then HFRL to FRL the Future Retail Limited so three divisions retail, agri and bakery which is called actually retail undertaking has been emerging so then we have received a court order on May 2019 NCFC order but this is the event occurred after the balance sheet date but before the financial statement approved by the board, if that happens that will belong the new effects of the financial to this financial statement strongly filled subsidization as well as demerger in retrospect effect. There is no much subsidization and on March 31, subsidy from HFRL to FRL, the Future Retail Limited we are call in effect of retail undertaking we have demerging. Second question we have already announced our up to December 31 HFL only, the financial results of related to November and December come to the reversal in the fourth quarter in the HFL Group standalone financials that is the reason in the standalone financial result from the four divisions retail, agri and bakery financial results which has seen a segmental results there are negative benefits are there. But in the consolidated statement the fourth quarter results have shown because the from November onwards, November 2016 to March 31, 2017 the profit and loss accounts or the turnover in operating profitability is shown things subsidiary division. So that is the reason actual payroll comes in minus similarly even in quarterly results there are one payable is given at the end saying it continues the operations. Once this actually we decided to discontinue the operations this as per AS24 accounting standard 24 we need to communicate on the investor community saying that these turnovers these number are not going to be there from next year. This is for the new division that is the reason we have given the statement, but at the end actually they need to want a table both in the standalone and the consolidated point on statement. Is it clear?

**Prashant Kutty:** Just one last bit form my end Sir on the Reliance Retail acquisition if you could just speak a little bit on that front what are your plans in the procurement side now that deal has been done how you really plan to expand geographically over here how has been the what has been the earlier experience at least from your end if you could just speak a little bit on that Sir.

**M Sambasiva Rao:** As of now when we have got taken our Reliance Dairy procurement volume was 200000 liters per day was the procurement volume that we have taken the operations. Sales volume was around 150000 liters per day. These are the volumes terms we have got they have been operating around 48 locations where milk procurement is happening 47 locations. The locations in ten states milk procurement was happening and they are operating with two brands Dairy Life and Dairy Pure they also have got all the milk packing been done in the co-packing arrangements with third party packing stations, they do not have own packaging station. We have now started identifying the operations where we should rationalize the volumes in certain, some imbalances we have noticed in terms of procurement volumes and



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sale volumes in different geographies we are trying to rationalize those activates. It will take about two months or so for us to balance the procurement volumes, sale volumes, market wise our company approach is we try to procure milk required for a market from within the vicinity of the market the villages and districts closer to the sale points we will focus and get the milk powder and it is received in a few hours from the villages in the packing stations and then to the markets. There are such a long distance milk movements involved we would be reorienting those operations. Reliance has created this infrastructure to support their Reliance Fresh Stores wherever the Reliance Fresh Stores are opened they went ahead with the backend operations. We do not have such obligations now though we have products we can sell in the Reliance Fresh Stores but in certain areas if the operations are not viable we do not have to compulsorily arrange for Reliance Fresh Stores. We will take their intent efficiencies in market requirement, procurement route length distances cost etc., and rationalize certain things and try to merge operations wherever possible with existing Heritage operations to take advantage of the existing facilities capacities and we will that way reduce the cost of operations by taking leverage of this. These operations will take couple of months we are at it now everybody is working on that. As we go forward in this financial year we should be able to integrate operations of procurement, packing, sales effectively to take advantage of this new volumes and new geographies have added to us and certain geographies we will step up our procurement and sales so that we maximize the infrastructure created in those areas.

**Prashant Kutty:** Are there any specific geography which are referring to this one actually where the leakages are probably little more?

**M Sambasiva Rao:** These are basically Punjab, Haryana, Rajasthan, Uttarakhand, Uttar Pradesh, Madhya Pradesh. These are the areas where we have acquired few geographies and in existing markets AP, Telangana, Maharashtra, Karnataka, Tamil Nadu also they have operations these areas that is easier for us to merge into our operations. The northern states where we are not present those areas where we look for the growth by maximizing their infrastructure.

**Prashant Kutty:** Thank you Sir. I shall come back in the queue.

**Moderator:** Thank you. The next question is from the line of Digant Haria. Digant Haria you may precede.

**Digant Haria:** My question is that for the full year FY2017 our milk procurement volumes have actually been a little lower so last year they were like 11.4 lakh liters per day and this year if I calculate the average of four quarter it is close to 10.4 lakh liters so is this the reason why



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our dairy sales has been, the sales growth has been quite muted or and in this Reliance Dairy acquisition one of the key?

**M Sambasiva Rao:** Last financial year we have operated a linked plant in Haryana, which has 200000 liters of capacity for conversion of milk into milk powder. In that financial year we have procured more than 150000 liters in the previous financial year quarter four that plant was operational with more than 150000 liters per day capacity. This year we have suspended that operation because we did not find that as attractive and viable to us and on top of it we have also got this new acquisition so that is why the volume was looking lower than last year.

**Digant Haria:** On the sales side we think that whatever we can procure from this Reliance dairy we will be able to sell it in a similar proportion say liquid milk and value added products as we do with our own operations do we have that enough sales visibility on the milk that we get from Reliance?

**M Sambasiva Rao:** Reliance side there are certain imbalances like certain markets procurement was higher and sale was lower, in certain markets sale was higher procurement was lower. We have to recalibrate these areas certain areas we have to scroll down the procurement, certain areas we have to increase it will take some time to rationalize. There are contracts, which will last for three months minimum so unless we cannot transport long distance to other markets thereby freshness issue will go so we are trying to relook at the volumes. Secondly the value added products the surplus milk is converted into dairy whitener and SMP and ghee etc., by them those also are being reviewed. What volumes we can continue what volumes we should produce so this will be taken care in the coming months I would not be able to clearly say exactly now.

**Digant Haria:** Lastly this we were doing the due diligence on Reliance Dairy machinery and all those things so what will be the acquisition cost overall for this entire procurement network of Reliance Dairy?

**M Sambasiva Rao:** It is getting ready another one week or so maximum. We will be able to share later but it is now two agencies are working on that so it will take most probably by first week of June we should be concluding it.

**Digant Haria:** Thank you and all the best.

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





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- Aniruddha Joshi:** Sir just on the numbers, whether the balance sheet number as on March 31, 2017 do they pertain only to dairy and renewable energy segment I mean the debtor, inventory whether that pertain only to dairy and renewable energy segments?
- Prabhakara Naidu:** The standalone financial statement it is related to only dairy and renewable energy and that is not even the financial statement it relates to three divisions dairy, renewable energy and VetCa division.
- M Sambasiva Rao:** Animal nutrition.
- Aniruddha Joshi:** Secondly going forward do you plan to publish the numbers of Heritage only for the dairy, renewable, energy and VetCa segment for FY2017 at least the pro-forma numbers?
- M Sambasiva Rao:** No we do not have pro-forma numbers but you are right going forward we will be publishing dairy and renewable energy in the Heritage Foods Limited and Veterinary Care division will be coming under subsidiary, HFRL and then gets consolidated.
- Aniruddha Joshi:** Sir the reason is because we cannot make out from the FY2017 numbers so it is difficult to because it has got the three segments for nine months and then for Q4 we have got it for some months and other segments and dairy for full three months so that is just the request?
- M Sambasiva Rao:** Yes this is the problem with AS-24 one of the mandatory requirement on presenting accounts when there is a discontinuing operation and the decision has been implemented before the announcement of the annual results so this has happened but we can give you a separate explanation of what exactly is it. This is more a statutory presentation of accounts which has been released on our investor presentation we will be showing the MIS kind of thing business wise or we can share it with you later.
- Prabhakara Naidu:** For now if I will be taking segmental reporting is Ind-AS and in it this is presented and renewable energy and the divisions, which are announced, we can take it for the next year.
- Aniruddha Joshi:** Sir and just one more question on distribution what is our total reach in terms of retail outlet across the segments let us say fresh then this pure milk products etc?
- M Sambasiva Rao:** We have a company operated Heritage fresh outlets 136 spread over in three cities, Chennai, Bengaluru, and Hyderabad. These 136 outlets are going out of Heritage Foods to Future Retail as part of the demerger. They do not be with us first June onwards they are taking over then second is we have exclusive franchise operated Heritage outlets. They are called Heritage Parlours as of end March it must be 1680, 1680 as on end March but now



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another 30, 40 have turnover, 1700 are there as of now these are selling Heritage branded products through franchisees they are spread over almost in South India in most of the states.

**Aniruddha Joshi:** Sir I am looking at the total reach means the total number of retailer through which selling the dairy products?

**M Sambasiva Rao:** It is in addition to these two the company operated Heritage Fresh, franchise operated Heritage Parlor we have close to 115000 retail outlets carrying our products.

**Aniruddha Joshi:** How this number would have increased over next past three years?

**M Sambasiva Rao:** I do not have ready numbers but we can share later.

**Aniruddha Joshi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Deepak from ASK Securities. Please go ahead.

**Deepak:** Thanks for the opportunity Sir. Sir we have seen a hit in the margin and the procurement price as you have said it has gone up in the last quarter like we would see the same procurement price going in this quarter also we have almost completed about 60 days of working and like how much of the margin is going to be hit in this Sir?

**M Sambasiva Rao:** I am restrained from saying about current quarter numbers from our financial officer. He is looking at me.

**Deepak:** At least can we compensate in that value added product or are we facing the acute shortage of milk or something?

**M Sambasiva Rao:** There is a shortage of milk in particularly the markets we are procuring because of the severe drought and high temperatures etc., but now good news is around that monsoon is advancing and already as we can see pre-monsoon showers we expect production to pickup soon and volumes build up faster.

**Deepak:** Sir can you give a rough roadmap of the products getting launched in this year for 2017-2018? Like as we had mentioned that we are going to launch this Yogurt with some tie-up or something like what are the other projects we are bring Sir, a rough road map like?



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**Brahmani Nara:** We will continue to grow in our existing products especially in new geographies apart from that we are looking at yogurts like you mentioned. We are also very soon going to be launching flavored milk in new packaging and we already sold flavored milk in the last quarter but not we are going to be selling in pet bottles so that is another new product that we are doing.

**Deepak:** Okay that is the flavored milk and yogurt so will that be coming and the Heritage brand only?

**Brahmani Nara:** Yes regarding flavored milk yes. Regarding yogurt we are yet to decide on the marketing strategy.

**Deepak:** And we are having this Heritage Parlors like once we are out of this Heritage store are we looking for any expansion in the Heritage Parlors also.

**Brahmani Nara:** Heritage Parlors are around 1680 in terms of numbers, end of last financial year and they will continue to grow organically.

**Deepak:** If anything is there I will just come back. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

**Ashi Anand:** The first question I had was the entry numbers in the market with Heritage brand would not as known as it is in the south, how are you looking at in either marketing advertisement spends to build a brand image in the market and will this impact the margins going forward?

**Brahmani Nara:** Surely as a company we are totally focussed on dairy and we are focussing a lot more on marketing going forward so we have in fact spend a last couple of months already rebranding ourselves in terms of our logo and also renewing our packing design for which we receive really positive feedback this idea going forward is this particular year will be spending around 1% of our revenue on marketing in order to increase our visibility. This is both AT and BTs put together so definitely we are focusing on marketing especially in our newer market is going to be there.

**Ashi Anand:** Madam, I did not get the number you mentioned on marketing spend?

**Brahmani Nara:** 1% of our revenue.



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- Ashi Anand:** And how much was this for the last year.
- Brahmani Nara:** Sorry I did not get your question?
- Ashi Anand:** How much was this for the last year.
- Brahmani Nara:** 0.5% was spent on marketing.
- Ashi Anand:** Okay so we are looking about a 50 basis points. Madam the second question is with relation to the Reliance brands that we have dairy life and dairy pure how are we looking and continuing with those brands or would be the converting those to Heritage what exactly the outlook on the brand that we required?
- M Sambasiva Rao:** This is geography specific. Certain geographies where Heritage is already there in a dominant form we will convert the dairy life in the Heritage. Certain geographies where heritage is not present or not very significant volumes are we will continue with dairy life the logo is being replaced Reliance logo will be replaced with Heritage logo.
- Ashi Anand:** So the Heritage dairy life and the Heritage dairy pure.
- M Sambasiva Rao:** Yes it is called dairy life only logo is there at a bottom point that logo gets replaced.
- Ashi Anand:** And on Reliance Retail would it be possible to share the margins the company makes at this point in time?
- M Sambasiva Rao:** No they have not shared their last year's numbers yet are perhaps under finalization now.
- Ashi Anand:** Mr. Rao so we actually in a position as we do not really do the acquisition cost or the financials of the company would it be possible to just share do you expect the Reliance Retail deal to be EPS accretive or dilutive in the first year of acquisition?
- M Sambasiva Rao:** I could not understand.
- Ashi Anand:** Do you expect the Reliance Retail deal because it obviously have to and you have to borrow a certain amount to fund the acquisition. Do you expect the deal to be EPS accretive? Would it add to your EPS so would it be dilutive to your EPS in the first jump?
- M Sambasiva Rao:** This is no relation, this is we are looking at EPS being diluted it is Reliance acquisition.



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- Brahmani Nara:** Just to clarify forward-looking it is really hard to see at this point in time so with that what tenting for in terms of impact on EPS. What you are asking is still how is this effect profitability.
- Ashi Anand:** Yes in FY2018 yes.
- Brahmani Nara:** So it is too early for us to say that like we said they have not announced their results so we are under we cannot reveal that information at this point in time but obviously what we have hoped for is profitability on the increase.
- Ashi Anand:** Thank you.
- Moderator:** The next question is from the line of Rupen M from R&A Associates. Please go ahead.
- Rupen M:** Good afternoon everybody. I have a couple of questions. The first question is on volume milk sales volume in FY2017 if I average out four quarters that is around 5.5% to 6% and as per the vision statement for the next five years that is up to 2022 Company is expecting around 15% volume growth so in the light of FY2017 performance how do you plan to achieve the volume of around 15% plus so if you can highlight the strategy going forward.
- M Sambasiva Rao:** Both elements of organic and inorganic growth whatever the shortfall is there in organic way we will keep with the inorganic.
- Rupen M:** Because organically even if I look at last four, five years data then it hovers around between 4% and 7% so organically how much you plan to achieve?
- M Sambasiva Rao:** As much as we can. We will do our best efforts to increase organic growth.
- Rupen M:** Sir second question is on VetCa part in the first three quarters at EBIT level veterinary care business it is reported positive EBIT in fourth quarter there was a lot of around 2.85 Crores at EBIT level in VetCa could be because of capitalization of new plant so going forward can you throw some light on sustainable EBIT going forward from VetCa business?
- Prabhakara Naidu:** So in VetCa actually there are some doubtfully approaching has been made in this fourth quarter results it is around 86 lakhs that is an exceptional item which are provided for. Otherwise actually the profitability, EBITDA is around 2%. But actually the fourth quarter only we have commissioned our plant so after commissioning plant in the first quarter the efficiencies will go up.



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- Rupen M:** So sir could you again give me the number of exceptional item I could not hear you?
- M Sambasiva Rao:** About 2.8 Crores of provisions were made for the doubtful debts. It is looking into a new company from HFL to HFRL the subsidiary company is being formed. It is moving into that organization so it has taken the liabilities and doubtful assets along with them.
- Rupen M:** Sir is it a part of other expenditure in consolidated statement because if I look at the number of other expenditure it has gone up from around 61 Crores to 78 Crores in Q4.
- M Sambasiva Rao:** In other expenditure only.
- Rupen M:** So it is a part of other expenditure am I correct?
- M Sambasiva Rao:** Yes.
- Rupen M:** Last question if you permit regarding the capex plan organic capex plan excluding investments in proposed JV if you put some number to it?
- Brahmani Nara:** We expect that the capex in our dairy business going forward will continue at the same rate of about 100 Crores per year and broadly speaking this also entails procurement processing and distribution related and on a processing side like we said earlier we are looking at investing about a 160 Crores in the next five years into five processing facilities.
- Rupen M:** That is useful. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Dhruv Bhatia:** Thank you for the opportunity. Sir first question is if you could give us a broad ballpark product mix of Reliance Dairy?
- M Sambasiva Rao:** The mix of Reliance Dairy is about 70% of turnover is from milk only and 30% other products like bleach, dairy whitener that is something else.
- Dhruv Bhatia:** Sir and secondly could you share the margins of for Heritage is fresh curd and the fat products for FY2017?



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**Brahmani Nara:** So actually speaking 75% of our sale of value added products some from curd itself and in the previous financial year, we have seen EBITDA margins of, for the full year FY2017 in curd we have seen EBITDA margins of about 15.6%.

**Dhruv Bhatia:** Fresh milk.

**Brahmani Nara:** About 8%.

**Dhruv Bhatia:** And PAT would be loss making right.

**Brahmani Nara:** Correct.

**Dhruv Bhatia:** Sir the last question is just wanted to understand the presentation you have mentioned that you are commissioning a plant for yogurt near Mumbai is it going to be through Heritage standalone business or is it through the JV is it already through the JV it set a plant this yogurt?

**Brahmani Nara:** This will be through the JV. It will not be through Heritages existing business.

**Dhruv Bhatia:** So it is already in the process of commissioning the plant for this JV India Mumbai is it right?

**Brahmani Nara:** This is the plan for the JV and like I said earlier we need to first go through the documentation process and we have to commissioning our marketing study and simultaneously be finalizing our plant for our production capacities so it is still not commissioned but the plan is to do it in Mumbai.

**Dhruv Bhatia:** The last thing since majority of your revenues comes from fresh milk, how difficult or is it to take a price hike in the fresh milk product because we have seen a milk procurement prices go up by 10% and there should be a some sort of stickiness of customers in the fresh milk business so is it too difficult to take a price hike in the fresh milk business?

**M Sambasiva Rao:** It is very difficult because people got used to various brands particularly the cooperatives and government controlled brands where price has not altered as per the market requirements as per the procurement prices any brands get subsidies and supports from the governments locally so that is much it is expect us to be at par.



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**Dhruv Bhatia:** So if there is a price increase by say Heritage over the other cooperative brands so you see probably customers who from Heritage brands with some other brands that how should I look at.

**M Sambasiva Rao:** It is absolutely possible.

**Dhruv Bhatia:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.

**Sangeeta Tripathi:** Good evening Sir. Thanks for the opportunity. Most of the questions have been answered. Just again coming back to the margins we are seeing milk price increase since last one year they have increased by 5% and this quarter you said that they have increased by 10% while it is very difficult as you explained right now to take a price rise so on one hand the milk prices are increasing on second hand, we are increasing our marketing spend from a 0.5% to 1% in changing the entire DNA of the business from a traditional milk company to a consumer led company so in the pace of these two things happening in FY2018 what is your direction for margins as well as dairy business is concerned. I do not want guidance anything on that sort but still a direction we can expect margins.

**M Sambasiva Rao:** See as you know dairy business is highly cyclical, seasonal the margins are influenced our growth is influenced by the season the weather, whether you have a good monsoon year or a bad monsoon year, whether you have a good rains or a drought. Majority of that the activities in India are controlled by the weather. In addition to this weather impact we also have the international influence on the milk powder prices. Certain years in the past I think in 2014 milk powder prices have peaked to \$4600, \$4700 a tonne. The same prices have crashed in the last two years to \$2000 a tonne so much of drop. Now it is moving upwards hovering around \$2500, \$2600 a tonne and the prices are fluctuating so much they will have serious impact on all over the world and particularly in our market too. So the growth and margins are a function of the factors, which are definitely beyond our control monsoon and the milk prices within this we hedge our margins. We try to protect our margins at milk at 8%, value added products around 15%, 16% so our internal understanding is milk prices and value added prices are 816 or 815. We try to protect it by various methods in terms of growth on margin. Certain markets we will have some fluctuations in growth. Certain markets we will have fluctuations in the margins. Overall we try to balance it in addition to this the increase of revenue from value added products also help us in maintaining the margins the fluctuations are lesser in value added products compared to the milk and our





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share has moved from 3% to 23% now. The contribution of revenue coming from value added products has gone up we are trying to take this contribution to 40% in the next five years. As we increase our value added product share our margin stability will be seen. To increase the sale of value added products, we have to create the brand communication and advertising and marketing expenses have to go up otherwise sale of those value added products is not that easy. So we have to balance in marketing expense the increase of value added products, grow the milk volume simultaneously and grow the value added products at an accelerated face so that the current 23% becomes 40%. Our internal strategy is one to increase value added product share, stabilize the margins increase the liquid milk sell by penetrating in the current markets to Tier II, Tier III towns also wherever possible we are standing our packed milk into the deeper markets. Also expand into new geographies where the opportunities are visible in terms of Mumbai and Delhi where current sale itself is more than 5 million liters a day in packed form and it is increasing by 5% to 10% year-on-year in that incremental increase we are trying to capture a portion of it to build our liquid milk volumes there also.

**Sangeeta Tripathi:**

Also Sir I completely understand the entire strategy and the way we are placed but as and somebody else also pointed out that the organic procurement over the last three to five years we have seen that it is still in single digit, 5% to 6% so is it like just wanted to know is it very hard to increase the procurement from the same market? How is it? Because I understand already inorganic strategy, the value addition everything happening those things quite understood but unless and until by increase the procurement of the milk from the existing state, existing region still the procurement comes nothing can be achieved so I was just trying to understand on the procurement front how difficult or easy it is?

**M Sambasiva Rao:**

As I think I explained earlier also procurement is not seen an isolation. If you just procure milk and you do not have strategy to dispose profitably you end up making losses. Surplus milk will go in the form of milk powder and fat is a weak quarter. It is not at always these products are profitable. In certain years these products as commodities they are profitable certain years they are not. Last three years milk markets have gone in a different direction compared to 2011 to 2014 and 2014 to 2017, the markets behavior was very different. Last three years first time in the history of dairy industry sale price of milk was revised downwards. We have never heard that in at least last two decades I have not heard sale price of milk being reduced. It has happened so these things do happen and impact as our volume increase but value will not increase because of that so certain onetime issues, seasonal issues, global issues have happened and we do hope the situation is changing now, production is increasing, demand is increasing, we should be able to accelerate our rate of



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growth from now onwards if there are issues will confront them and we will find the solution.

**Sangeeta Tripathi:** Thanks.

**Moderator:** Thank you. The next question is from the line of Shailesh Kumar. Please go ahead.

**Shailesh Kumar:** Thanks for the opportunity. Dr. Rao I wanted to understand has the competitive intensity increased so much that we are again talking of the reduction of the final produced price. Normally what we have observed here in Mumbai that once prices have increased and of pouch milk it hardly goes down it does not go down I have not seen that now you are talking that going forward you are thinking of reducing the price?

**M Sambasiva Rao:** Shailesh, I think you got me wrong. This has happened last year 2017 financial year first half year the milk prices have been reduced all over not only by Heritage by everybody. Now the trend is reversed now the milk sale prices have been increased in the last quarter so certain unexpected things have also happened in the dairy industry because of the globalization impact and also the local weather factors. I was only trying to explain that procurement cannot be seen in isolation, procuring another 1-lakh liters is not a challenge alone procuring and disposing in the same market. We do not transport milk long distances. We are trying to balance procurement and sale volumes within the same market like I cannot bring Hyderabad milk to Bombay and sell market. It does not make sense. We have to procure in Maharashtra nearby Mumbai and sell there only so in the process we will be balancing and rationalizing our approach. I do not expect sale prices to go down again in the coming months. Procurement prices are expected to go down in the coming months then your margin protection will come right so last year one hard event happened I was trying to explain.

**Shailesh Kumar:** Sir what kind of sustainable of procurement we can expect from Reliance Dairy in FY2018 and presentation shows it is close to 1.76 lakhs liter per day when you acquired it was close to 2 lakh liter per day so once it is there in Heritage Food how do you see it unfolding in FY2018, FY2019 sustainable level?

**M Sambasiva Rao:** Again it is a same point I was explained in the earlier question. Certain markets they have higher procurement volumes and lower sales that milk has to be reduced there so that that market becomes viable otherwise that milk is going long distance and getting converted as power and sold as ghee.



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- Shailesh Kumar:** So you are still undertaking that study what kind of adjustment you need to make or you have already done that?
- M Sambasiva Rao:** We will be lowering in certain markets certain areas. The procurement will be increased in certain areas. This year we can maintain the same 2-lakh liters plus in the Reliance acquired areas.
- Shailesh Kumar:** Sir what was our curd volume for full year FY2017 and Q4 FY2017?
- Brahmani Nara:** For Q4 it was 206 tonnes per day whereas for the full year 213 tonnes per day.
- Shailesh Kumar:** During the last concall it was said that we plan to increase our curd price by around Rs.4 a kg have we taken the price hike in Q4?
- M Sambasiva Rao:** It has been taken us Q4 2.75% price increase is there.
- Shailesh Kumar:** That is it from my side.
- Moderator:** Thank you. The next question is from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.
- Jinal Fofalia:** Good evening Sir. Could you please tell me what is your share of value added products of overall sales?
- M Sambasiva Rao:** 23%, 24%.
- Jinal Fofalia:** That is as of FY2017?
- M Sambasiva Rao:** Yes.
- Jinal Fofalia:** How it has moved in last five years like you said 3% to 23% so 3% was when?
- M Sambasiva Rao:** Average 3% was around 10 years back. Average we are adding 2% to 3% increase every year.
- Jinal Fofalia:** How do we see this going into FY2018 like 24%, can this become 30% also?
- M Sambasiva Rao:** I think our plan is to add 3% year-on-year, in the next five years we should add another 15%, 24% to 40%.



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- Jinal Fofalia:** 24% to 40% by 2022?
- M Sambasiva Rao:** Yes.
- Jinal Fofalia:** Okay, fine Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.
- Rohan Advant:** Thanks for the opportunity. Can I have the PAT losses number in FY2016 and FY2017?
- Brahmani Nara:** In FY2016, PAT losses were at Rs.43.6 Crores, FY2017 that decreased significantly to Rs.16 Crores.
- Rohan Advant:** Okay and this significant decrease in PAT losses, what could be the reasons for it?
- M Sambasiva Rao:** The last year we had engaged one conversion plant in Haryana. We procured 1.5 lakh liters a day and converted the milk into powder and butter and sold there. Those operations have contributed certain PAT losses and overall PAT prices or realizations are also lower last year compared to this year. This is a function of availability in the market. This year production being lower in general surplus was not there if anybody in the market, so price has firmed up.
- Rohan Advant:** But going forward you expect that this Rs.16 Crores kind of a number is sustainable?
- M Sambasiva Rao:** It is again market sources dependent, year-on-year procurement, production, disposal, market prices, they all influence our effort is to minimize, but it depends on the market price.
- Rohan Advant:** I understood Sir and lastly on the Reliance acquisition, we understand that you do not have the complete numbers right now. Can you just tell us if that Reliance Dairy operation is profitable right now?
- M Sambasiva Rao:** It is only six weeks or so we have taken responsibility. We will be able to throw more light in the coming quarters.
- Rohan Advant:** Thank you for taking my question.



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- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Thank you again. Just one clarification Sir. You just said that you have taken a price hike curd of about 2.75% and you said that you have seen double-digit volume growth curd in the fourth quarter. So was it because you kind of had a higher promotion or something of that actually why your curd growth is just about 10%. I did not understand that math Sir actually?
- Brahmani Nara:** Could you repeat that question?
- Prashant Kutty:** You have taken price increase of about 2.75% curd for the fourth quarter and you said that you would have done double-digit kind of a volume growth in curd for the fourth quarter as well. So I am just wondering why is the curd growth rate at about 10%?
- M Sambasiva Rao:** There is no erosion in the margin.
- Prashant Kutty:** Is there anything to do with the where the promotion higher or something that is what I mean was it?
- M Sambasiva Rao:** That is what I am saying there is no margin drop.
- Prashant Kutty:** Okay and just one clarification.
- M Sambasiva Rao:** I think it is more seasonal effect and also new market entrants.
- Prashant Kutty:** I am sorry what is the volume growth Sir in Q4 for curd?
- M Sambasiva Rao:** 213 tonnes.
- Prashant Kutty:** For the fourth quarter.
- M Sambasiva Rao:** 206 tonnes.
- Prashant Kutty:** Versus?
- M Sambasiva Rao:** 206 per day.
- Brahmani Nara:** 206 tonnes per day.



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- Prashant Kutty:** Madam I am sorry just said that what is the fresh milk EBITDA margins which you would have done in this year for FY2017 I have missed that number actually?
- M Sambasiva Rao:** 8%.
- Prashant Kutty:** Thank you very much and all the very best.
- Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.
- Ashi Anand:** Thank you. My questions have been answered.
- Moderator:** Thank you. The next question is for the last question from the line of Deepak from ASK Securities. Please go ahead.
- Deepak:** Thanks for the follow on opportunity. Sir, we have already completed the sale of this retail now. We were selling this milk to the retail outlets also like once the retail outlets are out, are we going to get a hit of sale in the liquid milk because of our retail counters going away by any chance?
- M Sambasiva Rao:** Suppose if we continue to supply to Future Retail, they have actually started taking for other retail outlets of their company.
- Deepak:** Sorry Sir. Can you please come again Sir?
- M Sambasiva Rao:** Our supplies to Heritage Fresh will continue though ownership is changing. In addition, they are also sourcing milk from us for their other brand outlets.
- Deepak:** Okay, got it. They will be branding their own milk also in their outlets.
- M Sambasiva Rao:** No, it is called Heritage Milk only.
- Deepak:** Okay, it will be sold as a Heritage Milk only.
- M Sambasiva Rao:** Yes.
- Deepak:** Okay, fine Sir. Thanks.



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**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Shailesh Kumar for closing comments.

**Shailesh Kumar:** My sincere thanks to all the participants for taking time out to attend the call. I extend my thanks to management team for taking time out to clarify all the investors' doubt. Before closing the call if I may request Dr. Rao to part with his closing comments.

**M Sambasiva Rao:** Thank you very much. We are also looking forward to present a more attractive presentation performance in the coming quarters and season is in our favour. Hopefully we will deliver much, much better and positive numbers. Thank you very much.

**Shailesh Kumar:** Thanks.

**Moderator:** Thank you. On behalf of Sunidhi Securities & Finance Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.