



“Heritage Foods Limited Q2 FY2017 Results Conference  
Call”

November 01, 2016



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**Moderator:** Ladies and gentlemen, good day and welcome to the Heritage Foods Limited Q2 FY2017 Results Discussion Conference Call, hosted by Sunidhi Securities & Finance Limited. 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 the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shailesh Kumar. Thank you and over to you Sir!

**Shailesh Kumar:** Good evening ladies and gentleman. On behalf of Sunidhi Securities, I extend a very warm welcome to all of you and thank you for joining this con call. Company has already declared its numbers on Friday and result update along with corporate presentation has been uploaded on the website. I trust you must have gone through it. Simply too many developments are going on in the company for last few days and besides current quarterly numbers, I believe our investors are interesting in knowing all those things what is happening in the company. To throw light on that we have with us today, Dr M Sambasiva Rao, who is the President, Mr. A Prabhakara Naidu, CFO, Ms. Brahmani, Executive Director, and all the divisional heads. Without taking much time, I would now hand over the call to Dr. Rao so that he can take the proceedings further. Over to you Dr. Rao!

**M Sambasiva Rao:** Thank you. Good afternoon to all the participants and I welcome all of you to Heritage Foods Earnings Call for quarter two I begin saying we are very happy to inform you that Heritage Foods is awarded the golden peacock award for excellence in corporate governance very recently by instead of directors that reflects our commitment for the transparency and good governance in the company.

Now I take up the quarter two performance of the company the turnover has grown by 9% over the quarter two of the previous year that is 587 Crores to 641 Crores. EBITDA level there is a degrowth of 6% and 36 Crores to 34 Crores to be achieved in this quarter. Whereas PAT level is more or less same 15.3 Crores to 15.7 Crores about 2.5% increase and half year also if you take first half year growth is 9% top-line, 1165 Crores to 1276 Crores whereas in EBITDA level there is a growth of 7.5% 65 Crores to 70 Crores and PAT level it is 24% increase from 26 Crores to 32 Crores. These are attributed to certain seasonal conditions prevailing in the states where we are very active in the second quarter that is Tamil Nadu, Karnataka, Andhra Pradesh and Telangana. All four states have certain localized issues which has resulted in a little bit of pressure in margins and also top-line we could not achieve beyond 9% in the half year and a significant developments which affected the growth as well as margins growth was affected because of heavy rains for number of



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days in the state, several days there were water logging in the cities, similarly law and order problems resulting out of controversy and Kavery River water in those two states, so they are impacted to some extent our operations.

Similarly procurement price has gone up by 3% in these areas in the quarter two itself and realization on certain value added products also has come down by 3% this increase in milk procurement price and decrease in the realization has put pressure on the margins in the second quarter. Situation is improving in the third quarter, milk availability has increased now the flush season started just now, things should be better in the coming few months.

Another significant development in this quarter, we have commissioned our second wind power project of 2.1 megawatts in Andhra Pradesh for our captive requirement of our dairy projects during the last week of September.

These are broadly our quarter two highlights. Coming to the disclosure we made to the stock exchange regarding the acquisition of dairy business of Reliance. An agreement has been reached between both the companies for flump sale of the dairy business of the Reliance, which should be fructified in couple of months from now we have to go through due diligence we have to finalize the definitive agreement we have to make adjustments to the proposed valuations basing on the findings of due diligence we are yet to declare the agreed possible values to the regulators most probably in the coming weeks we will be completing our exercise in principle both companies are agreed for this transaction. We should be declaring cost to the stock exchange in the coming week support the transaction details further more than what we have announced. Whatever we have announced you all must have seen Reliance has achieved 553 Crores of turnover last year with currently they are procuring 225000 liters of milk in ten states that is being sold as liquid milk value added products including fat products.

Certain states we are already having operations overlapping with Reliance operation certain states are new to us like Punjab, Rajasthan, Utrkhand, Uttar Pradesh where we are Madhya Pradesh, where we are not operating now we will be getting axis to new states similarly both companies are agreed for another arrangement selling all heritage dairy products, from now onwards ware next three years in the outlets of retail, retail outlets of Reliance they have currently around 600 Reliance Fresh outlets operational in several states, we will be getting access to the shelf space in these outlets to for increasing our sale of value added products particularly and milk, that should help us in strengthening our marketing side distribution in addition to the procurement operations which will be taking over from them in the next couple of months.



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Coming to the retail business we appointed KPMG as a consultant we have also referred to this discussion in the earlier call KPMG has progress to some extent in consultations with our future group discussions are in progress nothing definitive has been finalized. So as soon as the discussions are complete and we come to some understanding on the arrangements we should be disclosing to stock exchange first and then notifying all of you.

I conclude with this, thank you very much and I invite any suggestions, questions, feedbacks company has. Thank you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

**Prashant Kutty:** Just one thing over here in terms of the dairy as you have highlighted that revenue is an impact on your, rate fall is an impact on your revenues and just wanted to know what is the fat losses in the quarter that has impact your bottom-line number which is the previous quarter you spoken about that the fat losses that has come back anything to call out or any specific reasons.

**M Sambasiva Rao:** There is actually benefit of fat scenario this quarter.

**Management:** The fat losses has come to 63 lakhs for the quarter two cumulative is 11.51 Crores for six months together.

**Prashant Kutty:** For the last year you are saying.

**Management:** Last year corresponding quarter is 9.89 Crores.

**M Sambasiva Rao:** See this is all fat prices were stable and surplus tax production is also lesser you might have noticed our procurement volume was more or less stagnant at least couple of a 2% less than last year's quarter for that additional milk and additional fat is not accumulated the fat losses have come down, well prices were also better than last year realization of fat prices and the rainfall is mostly on the sale side because in the Hyderabad city almost it was like Chennai floods of last year to you this year in Hyderabad we experience several days. So that has impacted on the sales.

**Prashant Kutty:** So largely the Hyderabad part has impacted in the sales.



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**M Sambasiva Rao:** Hyderabad and also Andhra Pradesh part, Telengana and Andhra Pradesh two has significantly higher rains and any years in the recent basis five, six decades this kind of rain was not there.

**Prashant Kutty:** Sir secondly with regard to the sir we just refer that booking of the value added products you are the realizations were a little lower in that I believe in the last two quarter itself we have taken a price cut as well as quarter was concerned, are you kind of with this is in addition to that.

**M Sambasiva Rao:** In addition to that granges adjustments has happened in this quarter earlier there use to be 180 gram pouch it has been move to 200 grams with the same price point. So some impacts like that have happened.

**Prashant Kutty:** Sir is it a bit of promotional activity which are doing or was it anything to do if was there any other reason sir is this with your promotional activity the grammage adjustments has happened.

**M Sambasiva Rao:** It is more a competition led.

**Prashant Kutty:** Okay no problem this is more of a promotional activity and rather competition led actually. Sir actually but that the same word if I actually look at my liquid milk realization that seems to have seen a bit of an improvement actually obviously it is a function of somewhere my milk procured by the asset going up but just wanted to take over here as per as the trends are concerned we have been seeing a fairly flattish kind of the spread for the last three, four quarters what is your take on this or going forward how do you expect this to behave in terms of this, and maybe a token in terms of your how do you expect they may put on file also procured.

**M Sambasiva Rao:** In terms of volumes our sales volumes are growing up in terms of sales price there is a marginal improvement because certain variants of milk sale price has gone up like full cream milk or standardized milk but we have not taken price hike on toned milk or double toned milk certain various there was a price hike and in certain territories there was a price hike like Delhi, Mumbai there was price increases, not in all markets so the price improvement realization improvement is attributed to price increase in select markets and select variants coming to procurement price now the flush season started the usual behavior of price issues to go down in this quarter and which started not a very significant price drop but price drop is visible small, small corrections are happening and we do expect in the coming few weeks prices to go down as international prices are also stable. So procurement price to drop now.



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- Prashant Kutty:** Just a bit is here on the branded sales part of it, now again if you look at the trajectory of growth that also has come down quite significantly so while I understand that there was a such on the previous quarter your branded sales grew by about 20% has come down to almost 12% numbers even your record sales which use to probably operate to by 25% exceptional.
- M Sambasiva Rao:** This is seasonal impact summer versus rainy season typically value added product sales raise significantly in summer month and as we get into rainy month the butter milk consumptional drop most of these items there we got this is a annual trend base nothing very different.
- Prashant Kutty:** So can we actually assume that, that the branded sales per se should be maintaining a 20% kind of a growth rate number is that a very straight assortment?
- M Sambasiva Rao:** A year average we definitely achieved but month-on-month, quarter-to-quarter...
- Prashant Kutty:** Absolutely on a year-on-year I am asking.
- M Sambasiva Rao:** Year-on-year it is possible.
- Prashant Kutty:** Okay 20% growth is the possibility.
- Management:** Just to add to that I also want to throw light because the fact that in the first half of the year we had seen a 25% increase with volumes of curd so that is quite significantly so it is 30% last and in certain times of there and for the last quarter sir we have seen about 20% growth in terms of volume for curd.
- Prashant Kutty:** And sir in regard to this the deal which is actually happened just wanted to understand while you have given the revenue number could we have some sense in terms of what could be the every time the business model what are that usually operated at what are the reasons when it come.
- Management:** We will get back later and we have some discussions happening this is a bit premature we will get back to you with full details.
- Prashant Kutty:** Could we at least know whether it is a profitable venture at least the EBITDA level of that at least gone to that extent.
- Management:** I understand you are inclusive to that but you are not appreciate my constraint.



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- Prashant Kutty:** Sure definitely and thank you I should come back on the queue. Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of R Sajesh Ranganathan from Doric Capital. Please go ahead.
- Sajesh Ranganathan:** I still wanted to get some more clarity on the sales growth for this quarter we have had relatively muted growth in the dairy business some of that you said was because of rain in Hyderabad and so forth could you give us some sense of in areas which were not affected by the excess of rain fall what sort of growth did we experience.
- M Sambasiva Rao:** See our four states where the substantial volumes come AP and Telengana have been impacted the rains other two states Karnataka, Tamil Nadu were impacted may be local law and order situations arising out of Kavery River dispute and subsequently the help of the Lok Chief Ministers on states of there were disturbances in terms of sales could not take on other states volume wise they are not very significant to impact the growth of sales.
- Sajesh Ranganathan:** So what sort of growth are we seeing in places like Delhi, Haryana, Mumbai.
- M Sambasiva Rao:** Around 20% growth.
- Sajesh Ranganathan:** That is for liquid milk.
- M Sambasiva Rao:** Yes, that is for small volume it will not have an impact on the overall volumes.
- Sajesh Ranganathan:** And for the value added products what if there is a similar impact because of the weather and political conditions.
- M Sambasiva Rao:** Weather is more here. Value added products get impacted more by weather.
- Sajesh Ranganathan:** Sir when there is excessive rainfall for instance in Hyderabad then you do not deliver milk that day, is it?
- M Sambasiva Rao:** No milk is delivered institutional gets closed consumption is dropped. Seven days schools are closed all three days offices people could not access lot of residential areas businesses are closed in certain pockets in the city, the off takes will come down we will deliver milk to residential areas homes deliveries will happen that also a lot of difficulty delays et cetera. Next time we will invite you.



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**Sajesh Ranganathan:** I would love this, then you will have to do very good weather forecaster, but with respect to just on that previously so of cur liquid milk sales how much would be the residential versus institutional.

**M Sambasiva Rao:** Close to 85% in the residential and home delivers customer level around 15% go through other options like the shop garden retail format institutional caterers officers buying et cetera.

**Sajesh Ranganathan:** So that 15% is what got affected is it.

**M Sambasiva Rao:** Not fully some days may be it can present even the residential consumption goes down see very fat 1 lakh, 2 lakh people do not go offices at many cups of tea, coffees out each person in an office today consumes per cup on an average so couple of lakhs for us all IT companies gave option to work from home for three days saying that there is no commutation possible in the city everything got choked and entire Pune office got all the work shifted. All companies gave the works all the companies work got shifted to Pune. They all work twenty four hours while these people here are battling with the local rails the things like that happen for a few days I do not know how you miss this drama of Hyderabad in September.

**Sajesh Ranganathan:** Yes, I am sorry about it...

**M Sambasiva Rao:** Very dramatic.

**Sajesh Ranganathan:** Yes, we did not see that, but now in fourth quarter then the third quarter perhaps what is that are we seeing growth rate coming back to what sort of that.

**M Sambasiva Rao:** It is probably one month I think most of it is like say how is this month October, October is impacted Dasra, Diwali again that we do not have right now but it should be coming back.

**Sajesh Ranganathan:** And one thing that I possible with assuming eventually do some sort of a deal with the future so then would you be looking at also tying up with them to say for a certain number of years they need to give you preferential treatment for the dairy products and things.

**M Sambasiva Rao:** Yes, we will discuss with you once the discussions are concluded.

**Sajesh Ranganathan:** Because that would be an important part of that would be now and not just, and for one of the other initiatives that you were speaking to us about was your cheese products and way products and so forth what has been the progress.





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- Management:** We have been talks with a couple of players with specific products and with one of the players we have also been engaged in coming up with a different plan and we will give you more details once documents has signed and once the market study is start up those particular products.
- Sajesh Ranganathan:** You have any timeline in mind.
- Management:** Next couple of months is what we are looking at to come back to you with more information's.
- Sajesh Ranganathan:** And the other things that we saw in this quarter was a significant drop in Saudi smaller captive is like Bakery and agri and so forth on a year-on-year basis what was the reason for that.
- M Sambasiva Rao:** Bakery there is no doubt and hence in agri also there is no doubt moving there bakery is increasing.
- Sajesh Ranganathan:** May be I read the number incorrectly sorry about that I will it out.
- M Sambasiva Rao:** Bakery has grown by 85% agri grown by 48%.
- Sajesh Ranganathan:** Okay maybe I read the numbers rather sorry about that. And on the margins for dairy is that for the full year what sort of expectations we have compared to last year given that value added percentage is growing and we are able to take some price increases and as you said international prices are also stable.
- M Sambasiva Rao:** Yes, surely it will be better than last year how much better we have to see another few months.
- Sajesh Ranganathan:** Thank you.
- Moderator:** Thank you. We will take next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Good evening everyone this is Nisar Bukhari here. Could you please elaborate a little bit on the competitive posses that you have faced incurred is that you said that you took a price decrease increase volume essentially. Who are the case in competition come which is so to hear.



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- M Sambasiva Rao:** It is basically region-to-region, state-to-state there are players-to-players to know Dodla, Hatsun, all the players are there, even Govardhan, Visakha. Visakha particular that Visakapatnam region local regional competitors are there generally they are also into the price reduction mode.
- Sachin Kasera:** But why are the price reduction mode is because milk prices has gone down because milk prices has gone up so why are they reducing prices.
- M Sambasiva Rao:** Well everybody wants to now increase their volume in fact of milk and curd, curd generally we get some good margin than the milk then everybody want to fulfill this branded sort of particularly curd that is why they keep on playing that these schemes or less this some reductions or realization and all everybody will say that clearly they use to separated about that the quality is up now they are now in the same side they have now giving at the quality sometime. So we are force to now extending the 180 grams to 200 grams with the same realization just and the realization margin will come down.
- Sachin Kasera:** Sir is there any way that we can quantify our market share in this curd I think vis-à-vis the other guys in the states that were very dominantly sharing.
- M Sambasiva Rao:** Yes there are certain markets where even major markets our curd will be not selling at the premium prices.
- Sachin Kasera:** No I am saying what is our market share in terms of volume.
- M Sambasiva Rao:** Market share in this now again market-to-market I cannot again club into it.
- Sachin Kasera:** But in our dominant market.
- M Sambasiva Rao:** It is about Rs.46 per kg it will be around the Hyderabad like market it is at about 25% market shares.
- Sachin Kasera:** And the other guys are lower than you so it is a very fragmented space or is there player who has got higher market shares only.
- M Sambasiva Rao:** They are now their rates are sub one brand is in about 17%, 18% market share and the below is up about 7% to 10% market share.
- Sachin Kasera:** Sir can you, this question is for the entire board can you please explain or quantify in our last annual report we have mentioned that we see our value added portfolio going close to



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800 Crores or so, so can we get some description as to this is going to be completely given by curd because as of now I think 18%, 19% of the value added sales is there?

**M Sambasiva Rao:** There was the products like curd apart from the there is products like butter milk other Lassi just sweetened condensed milk, there are products available not only in the curd, rest of the products are there which also did planned and for the growth in the value added products.

**Sachin Kasera:** But essentially all projects sort of going well.

**M Sambasiva Rao:** The major portion is convenient curd.

**Sachin Kasera:** Thank you for answering my questions.

**Moderator:** Thank you. We will take next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

**Dhruv Bhatia:** Sir my first question was on the margin decline in the milk business is it purely because of the curd increase in grammage that you have taken and because of which the fall in margins or is it also liquid milk also you face some pressure in terms of margins.

**M Sambasiva Rao:** Yes the margin drop has two major contributors one is the increase in the milk procurement price which is not only impacts the margin of liquid milk it also impacts margin on the value added products. Second one is significant one is curd realization drought because of the price cut or and the grammage adjustment upwards.

**Dhruv Bhatia:** And in last quarter I think you have quantified the curd margins was somewhere around 17%, 18% that is right sir the last quarter when you alluded to that.

**M Sambasiva Rao:** Yes, EBITDA margin for quarter one is 16.21% and quarter two is 16.24% half year it is 16.22%.

**Dhruv Bhatia:** Sir the other thing was is the receivable days in curds much higher than your liquid milk business in terms of working capital cycle.

**M Sambasiva Rao:** Both are same they are delivered cash and carry only.

**Dhruv Bhatia:** Also when I see the number of parlors that you operate which is almost around 1600 odd numbers are these owned by the company are these how to hold model for this prattle is there a Capex which has to be incurred by you.



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**M Sambasiva Rao:** It is a franchise model, franchises operate the parlor but initially company shares the cost of development let us say the parlor cost a lakh of rupees for creating the infrastructure like freezer, chiller, shelf then Syngé some painting room counters et cetera all that will cost estimated to cost around a lakh of rupees 60% company will give us a promotional budget for the parlor development and business is rather than a cash and carry basis with the franchise for things must to one year we will do some support assistance to him to still business is stabilized close to Rs.5000, Rs.4000 a month towards these expense so that is this company's commitment let us say initially Rs.50000 and subsequently around Rs.30000 for next one year in two formats and rest of it is gone by the franchise.

**Dhruv Bhatia:** And the product sold that the parlors are purely only of Heritage should done right or it is...

**M Sambasiva Rao:** Predominantly heritage brand we also authorized certain products which are not heritage products but we authorize them to sell some products so that this is the kind of value to customers the walk-ins demand sometimes some other products in certain season we allow them to do that like for example recently we authorized month per some the mango juice in tetra pack that was the order based bottles we authorized certain products they are very small in value but that is just to meet the customer requirement and to try out some new products.

**Dhruv Bhatia:** Thank you.

**Moderator:** Thank you. The next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

**Sundaram Mutual:** Many of the dairy companies are moving towards integrating with cattle feed and probably building up the supply chain so what is our thoughts on the supply chain and would we also at some point get into manufacture and servicing of cattle field and related veterinary products.

**M Sambasiva Rao:** It is a good point actually I miss to mention in the beginning we have started the cattle feed supply to our farmers four years back in the heritage brand only it is all heritage cattle fields different propositions of protein percentage in the different sub brand names we have been sourcing this on a co-packing model from four, five plants cattle field plants located in different territories we have received close to 3000 tonnes per month of the feed mostly it is supply to our own farmers some quantities go to others also who are not supplying to heritage through distributors. Having seen the benefit of this supply to farmers a good quality consistent quality at reasonable prices we are able to offer farmers have been continuously pursuing with us to increase supplies on the step up the arrangements so this



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year we have started one division separately to handle this business called wet cast heritage, veterinary care division which is now reporting segment separately for the results from the first quarter results we must to know this thing a business division has emerged for dealing with nutrition for cattle so we also started very recently our own packing stations where we can manufacture and package and supply in place called Hindupoor near Bangalore which has 200 tonnes production capacity per day this should be coming into production from next financial year or towards end of March 2017 definitely from April 2017 the plant will be commissioned commercially the production will be commissioned, the plant will be commission production will be start we should be in the market with more volumes and we aspire to grow further on this vertical that is why we created a separate vertical separate ahead of the business and going for a plan we intent to expand further as we achieve the volumes from this plant.

**Sundaram Mutual:**

Thanks for that. The other question is we are seeing fair amount of competition emerging from the large corporate outsource who have been increasing presence in the dairy space so how does that affect us from a longer-term planning perspective though reliance did exit or looking to exit the dairy business there are other people Godrej, Mahindra's and others who were also kind of coming in so what would be your thoughts in terms of the sector competitive intensity and guidance for long-term business margins and ROCs.

**M Sambasiva Rao:**

You have given a very tough question on a conference call which does not delivers to discuss too much but we are well placed with reference to our relationship with farmer where we are confident of sourcing milk whatever we can and we also offer great quality milk and a good service to our customers and we take great precautions to avoid any adulterations happen and we strive to give pure milk fresh milk everyday to our customers in urban India I am sure the strength of company seen by farmers and the consumers in markets we have our own journey chartered and we have our own programs expanding the basket and adding more value added products. So definitely competition will increase some people will dump money maybe discount their products but ultimately a long-lasting businesses are those who are built on certain values and the principles.

**Sundaram Mutual:**

Just one last question if I may, in terms of the value added products you are exploring probably some kind of joint initiative is there any thought progress on that in terms of setting up a new ventures for value added products to the higher end.

**Management:**

So for value added products a new value added products specifically we have been talking to some companies European companies and we are in the process of working out the business model and investment model into those particular joint venture so we would be



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able to give you more details once we classified the business plan and once the marketing study is complete that is where it tax.

- Sundaram Mutual:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Resha Haria from Green Edge Wealth Services. Please go ahead.
- Resha Haria:** Sir my question pertains to the acquisition of Reliance in the dairy products. So if you could just give some sense on as far as their procurement is concerned of 2.25 lakhs liters so which are the major states wherein we have their procurement network and if there any portion of direct may procurement within that?
- M Sambasiva Rao:** The procurement of reliance as you said is around 2.25 lakh liters and the procurement is spread over 10 states Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra, Rajasthan, Punjab, Haryana, Uttar Pradesh, Madhya Pradesh and entire milk is directly procured y them there is no bulk suppliers or contract suppliers are there.
- Resha Haria:** So it is directly procured from the farmers.
- M Sambasiva Rao:** Yes directly procured they have set up village level pooling points they call with these 11 procurement centers where farmers are organized in formal groups one of the farmers is their representative village service provider that person will be taking responsibility for procuring as an aggregator and testing and supplying to the company, it is more or less fashion like any other company in the country procurement.
- Resha Haria:** And sir when you mentioning that its spreading over time so any specific region from where the chunk of procurement it make it will be if you could not give in terms of the states maybe the North East the West region or the south region.
- M Sambasiva Rao:** It is about a lakh of liters in Tamil Nadu, Telangana, Karnataka it leaves about a lakh of liters and Rajasthan, Punjab, and Haryana gives another lakh of liters.
- Resha Haria:** And in terms of they are processing plant capacity is your bulk coolers, milk filling centers et cetera so do we had those also to our capacity or.
- M Sambasiva Rao:** Yes some of them will not come there are some copacking arrangements in terms of milk procurement entire infrastructure will come in terms of packaging they have outsourced packaging to eight plants each one they have an arrangement for packing of the milk so they



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would not be transfer to us the packing arrangements will get transferred not the plant similarly they have tied up with the milk conversion plant surplus milk into power and butter they are also contractual arrangements there is no transfer of the asset it is a arrangements gets transferred.

**Resha Haria:** Okay sir essentially our milk processing capacity there will not be any addition of new process in capacity is that fair.

**M Sambasiva Rao:** Yes not through asset transfer through agreement transfer processing capacities will go up.

**Resha Haria:** Alright got it. And sir lastly, when we acquire their business so do we also acquire debt on their balance sheet or something of that sir.

**M Sambasiva Rao:** No it is a debt free.

**Resha Haria:** And would be the funding this to our internal accruals or...

**M Sambasiva Rao:** Yes to internal accruals.

**Resha Haria:** That is it from my side sir, thank you.

**M Sambasiva Rao:** That is it from my side sir, thank you.

**Moderator:** Thank you. We will take the next question from the line of Shailesh Kumar from Sunidhi Securities and Finance Limited. Please go ahead.

**Sunidhi Securities:** Just wanted to know since we are dealing with reliance versus dairy do we also plan to acquire the brands and dairy life and dairy pure or we are just acquiring the infrastructure.

**M Sambasiva Rao:** Both the brands.

**Sunidhi Securities:** So will there not be a confirmation and cannibalization they will complete with our stabilized brands.

**M Sambasiva Rao:** They are coexisting right now in certain markets like Hyderabad and Maharashtra certain geographies we are not present our brand is not present their we will see the advantage here also this to the extent possible we try to protect both volumes, and we have freedom to continue to use those two brands anyway as we acquire.



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**Sunidhi Securities:** Our value added product where we command a double digit margin and because of earns lot of competition we are making some adjustments is there any threshold level beyond which we do not intent to go even if competition and tricks intensifies.

**M Sambasiva Rao:** Yes that is the business call we have to take as we confront the situation Hazard cheese and there cannot be a rigid stand are the line withdrawn it is a kind of adjustments game between the top-lines, bottom-lines volumes if I there may be certain situation where we may have to sell at the lower margin one is consumer see if I have to satisfy the consumer I cannot disappear from the markets we have to satisfy the supplier because he is depending on us for decades so we have to see the marketing of their milk also so it is a sub call for a company but we will see as we confront the situation instead of drawing lines they keep changing actually milk prices procurement prices sales prices global prices are so consistent so you cannot even predict how it goes.

**Sunidhi Securities:** In terms of this VADP product where we are in discussion first on JV with European companies have we actually finalize the products or we are still exploring.

**M Sambasiva Rao:** Product lines we have finalized but not exactly SKUs and variants et cetera the channel is finalized.

**Sunidhi Securities:** Are we in a position to discuss it or it will take some time.

**M Sambasiva Rao:** Because it is a conference call and these are all not stabilized decision so we do not want to get into some bodies recording and you will use it against me tomorrow.

**Sunidhi Securities:** And sir this heritage retail deal which is underway with the future previously we have said our expectation is close to 1, 1.5 times EV sort of things do we still hold on that ground or...

**M Sambasiva Rao:** That you are also bouncing me again I have initially drawn contours of our discussion today I have to disclose anything that is finalized to stock exchange first my board directors and it take approval from them their board directors have to approve so there is a lot of statutory processes going on they require to go through them this is not the opportunity for me to talk about it.

**Sunidhi Securities:** Just a last question if you may permit sir this JV investment plan is close to 300 Crores which was previously discussed do we envisage having any debt on our books to fund this JV or our internal accruals and deal value suffice to fund this JV.





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- M Sambasiva Rao:** It depends on the outcomes of certain corporate actions going on now and also the business plans finalization and the facing of the business plan finalize because we want to do rapidly or we want to do in a phase manner there are number of options available to us we will balance out the requirement and see we do not take unreasonable debt on our book same time we do not go on a prevails plan so we have to evolve that.
- Sunidhi Securities:** That is typical Dr. Rao thanks.
- Moderator:** Thank you. We will take the next question from the line of Ashish Nainan from Moneylicious Capital. Please go ahead.
- Ashish Nainan:** My question is how are we doing at the exports front like are we seeing some kind of increase in demand from a particular geography or some traction from some markets.
- M Sambasiva Rao:** Exports is not actually viable for last couple of years so we initiated but we were not able to progress much on the dairy products we started doing milk power, butter and gee so globally last two years prices were so low it is not viable actually realization in India is better than exporting and we have been trying to do alternate products this year we try drives we drive the mango dices et cetera but it is close to 10, 15 Crores is our annual expectation in terms of export revenue.
- Ashish Nainan:** So we are not really seeing some kind of spread could...
- M Sambasiva Rao:** I think unless market conditions change globally exports will not happen not only as a company as a country also in this sector not much is happening in exports.
- Ashish Nainan:** Okay sir thank you so much.
- Moderator:** Thank you. We take the next question from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.
- Ritesh Vaidya:** I had question on the diary business of reliance retail that you have in process to acquire what was the milk procurement growth for lands retail for the last three years milk procurement growth for the last say 2012 to 2016.
- M Sambasiva Rao:** There was no growth for benefit they have actually dropped, drop on milk volumes the last land book received are in 3 lakhs to, 1 lakh liters they have dropped over three years procurement operations.



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**Ritesh Vaidya:** And if the reason for acquiring further transaction and just that only it will get action still the milk procurement but then do you see a potential does there a number in mind that you think you can take this procurement up to in your initial reach that you have done also get milk procurement that you can achieve.

**M Sambasiva Rao:** No actually this has not driven by the procurement volume it is driven by the sales volume so their sales volume is lower than their procurement volume so we will have to readjust our sales first to the procurement first to the sales volume and grow the sales then back it up with the procurement we will have to relook at the whole model and see the balancing act is achieved first then the growth plans will be taken up.

**Ritesh Vaidya:** So is it fair to say that in their product mix there is not much of liquid milk give a sense of their product mix right now.

**M Sambasiva Rao:** Their products are close to 1.8 lakhs of liquid milk and balance 40000, 50000 is going into different products like curd then Lassi, buttermilk, diary whitener, and ghee.

**Ritesh Vaidya:** No because when you say that you have 2.25 lakhs procurement from ten state it seems to thin very thinly spray out across states and this concentration.

**M Sambasiva Rao:** That is where I have explained in for states five states it can integrate without activities easily where there is a overlapping jurisdiction in four states where we have to take up a fresh like Punjab, Rajasthan, Madhya Pradesh, Haryana where our presence is very nominal there we have anyway entered Delhi market to Haryana Milk, Rajasthan Milk that is where we have to step up our activities and take advantage of their volumes to our business and wherever there is surplus milk we will divert into our savings. So they do have surplus milk compared to their sales those volumes we have to see how much we can bring into our sales and that is the optimization happens on both sales and procurement our priority is not immediately grow the volumes integrate rationalize make it more efficient in terms of operations either procurement or sales and wherever possible we will also shift certain contracts backing into our own backing session so where the our capacity utilization also goes up cars can also be reduce there are multiple actions we have to do to integrate and rationalize before we look at the growth. Growth will be little latter a year or so it will be refined post successful integration and rationalization.

**Ritesh Vaidya:** And sir are these operations of thus profitable for say the liquid milk sales or for even the value added products are they making comparable margins.

**M Sambasiva Rao:** Yes we said we will revert later because we are going deeper in to the discussion.



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- Ritesh Vaidya:** Sir if I may just one question on the liquid milk business for 2Q what was the margin for 2Q in the liquid milk business.
- M Sambasiva Rao:** EBITDA margin is 8.4%.
- Ritesh Vaidya:** If it higher or lower Y-o-Y.
- M Sambasiva Rao:** It is actually first quarter is 8.69% is EBITDA margin of liquid milk second quarter is 8.4%.
- Ritesh Vaidya:** This is the cost increase in terms of procurement.
- M Sambasiva Rao:** There is procurement cost has gone up that is the reason there is a slight decrease in margin in liquid milk.
- Ritesh Vaidya:** And sir out of your markets where do you have the pricing part to push through the higher procurement prices so where are your price taken and where do you set a price.
- M Sambasiva Rao:** Nowhere we can take price this is all very competitive markets now.
- Ritesh Vaidya:** And do you see this correcting in the next one or two months the difference between procurement and a selling price.
- M Sambasiva Rao:** Procurement prices are likely to go down there is an indication coming right now that might again help in regaining the margin.
- Ritesh Vaidya:** Okay sir that is it from me. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** My question is again on this reliance acquisition I just wanted to know which of these have been the most important concentrations while deciding to go ahead with the acquisition like is it the procurement network in the North India which will probably help us to enter into a JV with a European partner later on or is it the distribution network or is it the price at which reliance may want to sell because I think it is a loss making areas for us we know. So which of these three would be or the most important consideration.
- M Sambasiva Rao:** All three.



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- Digant Haria:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Sameer Kapadia from Fortune Enterprises. Please go ahead.
- Sameer Kapadia:** Just wanted to understand see like you said the 800 of your reliance fresh outlet would be huge for the distribution of the heritage product as well and we are simultaneously will to own the Reliance brand as well so how this will to be play.
- M Sambasiva Rao:** See the shelf space will be available to us as part of this agreement so we would be pushing both the existing brands of reliance to the extent possible and also adding heritage brand products into it, it could be pannier, it could be gee, it could be butter, it could be dairy whitener there are so many products with heritage brand apart from the liquid milk and curd which are predominantly used by dairy pure and dairy life of reliance so as long as possible we will try to use with those brands whenever possible we will try to slowly convert into heritage brand meanwhile we will also push heritage branded products into the retail chain of Reliance.
- Sameer Kapadia:** And you said this would be happening over the next three years so like why this three years close if I could understand.
- M Sambasiva Rao:** If the business is going they will continue beyond that it is a kind of assured agreement period.
- Sameer Kapadia:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Aman Chaplot from Ventura Securities. Please go ahead.
- Aman Chaplot:** Sir just like to have whether Patanjali has entered also into dairy business and their premium cow gee is available so what kind of traction are we seeing in the cow gee segment especially what I have heard from other places that the market has opened at a much larger basis so advantage for other place as well so are we facing the same advantage.
- M Sambasiva Rao:** Yes, basically we are also marketing this cow gees is also here we have also respectively launched in North India also and we are selling cow ghee from here and more over this purpose will be whatever their procured butter we are also top-line to them as a butter now so they are making out of that all butter but yes there is a scope to in and ask that earlier in North India only (inaudible) 57.53 Ghees was used to sold much used to be consumed



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much a last to six, seven years now trend is again move into what is cow ghees we are not turn of started our operations and not particularly Rajasthan, Haryana, Himachal Pradesh all these places including NCR fairly so we will be growing in that segment as such.

- Aman Chaplot:** And how do we see the unorganized market the share of unorganized market falling?
- M Sambasiva Rao:** See this branded actually in daily particularly ghee segment yes this branded ghee products are now growing actually in the ghee segment still unorganized sector is already prevailed it will be continued but this branded ghee segment is growing.
- Aman Chaplot:** So how much growth did we witnessed for branded ghee segment.
- M Sambasiva Rao:** Branded exactly I do not have the figures but it is growing by some 8% to 10% of that.
- Aman Chaplot:** Thank you I am done sir.
- Moderator:** Thank you. We will take the next question from the line of Karthik Gada from Value Quest Investment Advisors. Please go ahead.
- Karthik Gada:** Just one doubt a couple of questions that you mentioned the EBITDA margin for liquid milk is around 8% but in one of the earlier questions the answer was that the EBTIDA margins at 16% so just wanted to confirm is that from value added products the 16%.
- M Sambasiva Rao:** 16.24% is for curd.
- Karthik Gada:** Only for curd.
- M Sambasiva Rao:** Only for curd.
- Karthik Gada:** Okay alright that is it thanks.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question I would now like to hand the conference over to the management for their closing comments.
- Brahmani:** I would like to thank each and everyone who participated in the call today and thank you very much for a very productive discussion looking forward to a positive financial year going forward. Thank you.



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**Moderator:** Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.