



25
YEARS
OF HERITAGE

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04th February, 2020

To
The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

To
The Manager,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, C-1, G Block, Bandra-Kurla
Complex, Bandra (East), Mumbai - 400 051

Scrip Code: 519552

Scrip Code: HERITGFOOD

Dear Sir / Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

In Continuation of our letter dated January 14, 2020 the Company had organized a conference call with the Investors/Analysts on Friday, January 31, 2020 at 16.00 PM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been put up on the Company's Website at www.heritagefoods.in

This is for your information and record.

Thanks & Regards

For HERITAGE FOODS LIMITED

UMAKANTA BARIK
Company Secretary
M. No: FCS-6317

Encl: a/a



HERITAGE FOODS LIMITED
(Formerly known as M/s. Heritage Foods (India) Limited)
CIN : L15209TG1992PLC014332
AN ISO: 22000 CERTIFIED COMPANY





“Heritage Foods Limited Q3 FY20 Earnings Conference Call”

January 31, 2020



MANAGEMENT:

DR. M. SAMBASIVA RAO – PRESIDENT

MS. BRAHMANI NARA – EXECUTIVE DIRECTOR

MR. J SAMBA MURTHY – HEAD (DAIRY DIVISION)

MR. A PRABHAKARA NAIDU – CHIEF FINANCIAL OFFICER

MR. UMAKANTA BARIK – COMPANY SECRETARY



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Moderator: Ladies and Gentlemen, Good Day and welcome to the Heritage Foods Limited Q3 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. M. Sambasiva Rao – President, Heritage Foods Limited. Thank you and over to you.

Dr. M. Sambasiva Rao: Good evening to all of you. Thank you for participating in Heritage Foods Quarter 3 Earnings Call and we welcome all the participants to interact freely, any queries, any suggestions, feedback we will be happy to take and respond to you.

I now take Quarter 3 standalone performance of Heritage Foods:

Net turnover for Quarter 3 reported at 662 crores against 610 crores of Quarter 3 previous year that is 8.5% growth. We have also achieved 36 crores at EBITDA level against 45.5 crores in the previous year same quarter. At PBT level it is 19.78 crores against 30 crores of last year in the dairy at company level 19 crores versus 30 crores of previous year Quarter 3. PAT level it is 14.57 crores versus 19.58 crores Quarter 3 last year. When we compare Quarter 3 results with Quarter 2 of this financial year ‘19-20 the turnover remained flat at 666 crores versus 662 crores this year, so it is almost same.

In terms of EBITDA we have shown some recovery 36 crores this year versus 27 crores Quarter 2 of this year so there is a significant improvement in terms of margins in the Quarter 3 compared to Quarter 2 aided by couple of facts:

- We have increased sale realizations in the Quarter 2 in different months in different markets for various products. The full benefits of price hikes done in Quarter 2 has been accrued during Quarter 3 that has shown the improvement.
- Secondly, our surplus fat accumulated is also lower due to drop in procurement by about 6% in this quarter and the realization of fat products is also higher than Quarter 2. So the fat side performance is better and sale realizations are better, this has helped us to recover part of the margins in the Quarter 3 compared to Quarter 2 of this year.

At PBT level last quarter that is Quarter 2 was 9 crores and Quarter 3 is 19.78 crores in dairy. At the standalone level with including RE it is 19.09 crores in this quarter versus 10.36 crores in the second quarter. PAT level is more or less same. We have 14,57 crores in Quarter 3 versus 14.04 crores in Quarter 2 because of the lower rate of tax adopted and certain adjustments.



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If you take 9 months performance at standalone HFL level, the net turnover achieved is 2038 crores against 1,857 crores in the previous financial year for 9 months. It is about 10% growth at 9 months level. EBITDA there is a de-growth of 19% last year it was 140 crores for 9 months, this year it is 114 crores. PBT level, de-growth was 31.8%. It was 90 crores last year versus 61 crores this year 9 months in dairy.

At standalone company level it was 94 crores last year 9 months versus 63 crores this year 9 months. At consolidated level for Quarter 3 our total turnover is 672 crores against 619 crores in the previous year Quarter 3, it is showing 9% growth.

At EBITDA level consolidated 34 crores this year Quarter 3 versus 46 crores last year Quarter 3. At PBT level it is 16.17 versus 30.59 in the last year Quarter 3. 9 months consolidated data net turnover is 2,073 crores against 1,880 crores in the last year which is 10% growth. EBITDA level it is 107 crores achieved in this period versus 144 crores of the previous year 9 months. At PBT level it is 53.57 crores in the 9 months of current year versus 96.58 crores in the last year 9 months.

The overall if you see the margins have been lower than the last financial year 9 months, last Quarter 3 to this quarter, but Quarter 2 to Quarter 3 there is a significant improvement because of the transfer of the additional cost to the consumers to some extent.

If you see the actual numbers procurement cost increase by 12.5% during this quarter compared to Quarter 3 of last year. The sale realizations overall increase by 8.5% compared to last year same quarter. So we still absorbed close to 4% of the increased cost of milk into the margins. Milk procurement volumes and sale volumes if you, see current year's procurement volume in Quarter 3 is 13.56 liters per day versus 14.5 lakh of the last year same quarter and sale volumes it is 11.27 lakh liters of milk versus 11.09 lakh liters of milk in the last year Quarter 3 whereas value-added products growth is 15% in this quarter compared to Quarter 3 of last year that is 155 crores revenues versus 135 crores revenue of the last year same quarter. The contribution of value-added products increased from 22% last year to 23.5% this year.

We will go to the next item of CAPEX:

We have so far incurred 43 crores during the 9 months of the current financial year versus 103 crores of CAPEX incurred in the full year of the last financial year. Capacities wise currently we have 20 lakh liters per day chilling capacity, 25.7 lakh liters of processing capacity, 17.08 lakh liters per day milk packing capacity. In addition to this we have small capacities in the lease premises and copackers about 1 lakh liters outside our company's assets.

Coming to the long-term debt position:



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We have 188 crores as on 31st December in Heritage Foods and about 16 crores in subsidiary company Heritage Nutrivet Limited. These are the basic facts of the quarter and some comparison elements I have tried to give you the Quarter 2 of this year and Quarter 3 of last year 9 months of this year to 9 months of last year.

Overall, milk procurement prices are not stable they are still increasing in this quarter also. Quarter 4 also we find the increased happening in different regions of the country and increase is much higher in the northern states like Punjab, Rajasthan, Haryana where we are procuring milk from the farmers.

We have been able to pass on significant increase cost to consumers and some more cost has being passed on in this quarter. We have already done some price corrections in the month of January to recover the increase cost from the sale side that is about the current scenario and we are still looking at milk powder SMP prices, skimmed milk powder prices which are rising further if there is any decision of the government on the industry representation for import of SMP, there can be some change in the market scenario otherwise situation continuous to be quite volatile on the spiraling prices at both procurement side and sale side.

Thank you very much for your patient hearing and now look forward to interact with you on any feedback, queries, suggestions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: Sir, we see that the difference in the selling price and the procurement price was about 5.92 in Q2 and it was almost stable in Q3 also at 5.95, so when you say that you are taking further hikes what can be realistically expect in Q4, what can be the difference between the procurement price and selling price, will it stay at the current levels or will it actually expand?

Dr. M. Sambasiva Rao: It is actually narrowing down we have taken price hike one more for the sales. So the gap between procurement price hike and sale price hike is being reduced. Thereby our realizations will be better and margin should be better.

Shiv Kumar: So actually the 5.95 is coming down that should hurt margins right?

Dr. M. Sambasiva Rao: 5.95 where are you picking from?

Shiv Kumar: Basically 42.49 minus 36.54.

Dr. M. Sambasiva Rao: That is procurement price versus sale price.



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- Shiv Kumar:** That is right so last year it was around 6.4 in Q3 that has dropped to 5.95 this Q3?
- Dr. M. Sambasiva Rao:** Yes we are increasing sale price of milk and milk products once again and we have increased. This year is 38.86 sale price and this year is 42.49 right are you on the same page.
- Shiv Kumar:** Yes sir very much, but just looking at the difference between the selling price and the procurement price in each quarter. So that has actually kind of compressed in Q2 and Q3 which has hurt our margins I was waiting for your comments on that as to whether the price hikes which you have taken will again expand that difference?
- Dr. M. Sambasiva Rao:** No the difference will come down between the procurement price and sale price are you comparing sale versus sale or procurement versus sale?
- Shiv Kumar:** Sir, I am comparing sale versus procurement?
- Dr. M. Sambasiva Rao:** See the procurement price increased by Rs. 4.07 paisa Quarter 3 to Quarter 3. Sale price increase by Rs. 3.63 paisa. See there is a gap of 44 paisa we could not recover.
- Shiv Kumar:** So you are hopeful of recovering that in Q4?
- Dr. M. Sambasiva Rao:** Yes by increasing the sale price.
- Shiv Kumar:** Sir, any comments on the slowdown in value-added product growth for two consecutive quarters we see year-on-year growth coming down to about 15%?
- Dr. M. Sambasiva Rao:** Yes this year was specifically climate oriented. If you recall our rainfall season got extended to October. So because of the heavy rainfall the value-added product off takes have come down, but they are not the rainy season products and the consumption comes down and winter season also the temperatures I mean you have must have read in Delhi area the 100 years record was broken in terms of temperature lower temperatures. So the winter was severe and rainy season was extended and rainy season was also very high. So this seasonal impact was there in Q2 and Q3 there was no other factor that has created this lower sale of growth. Now we are seeing already the temperatures have gone up and again weather forecast is showing the temperatures will be higher this year compared to last year. In Hyderabad already is 4 degrees higher than the average last year temperature. So the weather pattern is impacting the sale trends quarter-to-quarter.
- Shiv Kumar:** Sir, one last question on the milk side per se you have been an observer of this entire industry for a long time we see the procurement price increase this adverse increase as one of phenomenon, but do you think this can extend for a long time of time what do we think is a aberration and it should correct itself going forward?



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- Dr. M. Sambasiva Rao:** Usually these aberrations were felt once in 4, 5 years in the cycle, but this year aberration is a bit deeper than earlier aberrations. The production fall, price hike both are on exception highly exceptional type. We do not see this kind of exceptions continuing and in the earlier scenario when such exceptions happened either glut scenario or scarcity scenario the government used to tweak the Exim policy export, import policy either to encourage or discourage. Like for example last year there was a heavy inflow of milk, glut of milk where many places, farmers agitated cow milk prices particularly have fallen to Rs. 20, 21 even below Rs. 20 for a few days in states like Maharashtra then Maharashtra government, Gujarat government, Central government intervened and provided support price locally and incentives for exports to the extent of 20% export incentive was offered last year. So situation got corrected rather more stocks went out of country which led to very less opening stocks for the current year. So the last year intervention is now proving to be counterproductive for the current year. So current year again representations are made, discussions were held at various levels in the government in the industry either to allow a short term imports or not that finality has not come yet. If suppose the decision is taken to allow imports at a reduced duty or zero duty the prices will cool-off and demand for milk also will be depressed. So it brings normalcy faster if it is not done the situation may continue for a period of one or two quarters more like this. So we have to see the interventions of the government through Exim Policy.
- Shiv Kumar:** Sir the situation is it leading to a consolidation among the industry wherein the marginal players are finding it difficult to actually procure milk and supply?
- Dr. M. Sambasiva Rao:** That is related to the local loose milk suppliers and small chilling centers, bulk coolers owners only. At companies level this may not have any impact.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Sir firstly just want to ask in terms of the liquid and procurement side of it the procurement has seen a decline of almost about 6% I think until now we were at least seeing a procurement increase in the last few quarters, any reason for this drop in procurement?
- Dr. M. Sambasiva Rao:** This is the point which I was trying to tell. There is overall drop in the production of milk in many, many areas attributed to seasonal issues of last season. Extended monsoon rains into October and heavy rainfall in certain states led to washing out a fodder crops and fodder availability was low and in addition to that the feed prices have gone up by almost 30% to 35%. The contribution of feed also is an issue in terms of milk production. So the green fodder was damaged due to rain, the feed prices have gone up discouraging farmers to spend more money on the feed and the lactation cycle also got shifted because of this rain there was a delay in lactation cycle and the production cycle got altered. So we have not felt the arrival of flush



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yet and many areas even the state cooperatives which used to get more milk are now finding it difficult to get milk. I have seen today in the newspaper our local state minister has asked for a review why they are getting lesser milk this year compared to last year. So it is not us many players in these geographies I think except in state of Gujarat there is an overall drop in the production of milk thereby the prices have gone up still the procurement levels are not increasing.

Prashant Kutty: So when you are talking about that your production is down even talking about even North and in case of Maharashtra also where you are looking?

Dr. M. Sambasiva Rao: Yes Maharashtra is a lowest in terms of production output this year and the maximum price hike we have seen in Maharashtra, Punjab, Rajasthan these are the states where the Maharashtra price is Rs. 38 per liter of cow milk procurement milk which was Rs. 24, Rs. 23 last year at the same time. So that kind of increase is there in prices because production has fallen drastically and there is a severe competition from the powder plant companies who can stay more because their realizations are record high. Now they are realizing Rs. 320 a kg for milk powder which was Rs. 180 to Rs. 190 last year same time. So the powder plants are absorbing more milk at a higher price that was one of the reasons for drop in the procurement for liquid milk companies.

Prashant Kutty: In here situation is changing right now sir because like you said there has been a delay in flush any of these action which you just told about?

Dr. M. Sambasiva Rao: Yes we have seen some improvement in Andhra Pradesh, the procurement is increasing in Andhra Pradesh now because these are all buffalo milk region. Normally the increase should have happened in November, but we see now increase is happening in December end and January month. January there is a good improvement in procurement in AP part of it, but Tamil Nadu, Karnataka we have not seen anything. Maharashtra of course is quite slow. This milk is increasing in Punjab too.

Prashant Kutty: So North you are probably seeing an improvement, but not seeing it up at the other region actually?

Dr. M. Sambasiva Rao: AP, Gujarat, Punjab we are now seeing incremental volume increase week after week.

Prashant Kutty: So in likelihood this continues the procurement, so just want to ask you if you look at it from a last 3, 4 quarters perspective procurement targets have been way off versus whatever our expectations are, are we making any changes to our procurement targets going forward?

Dr. M. Sambasiva Rao: We are basically looking at balancing the sales volumes and procurement volumes. If we procure more milk and convert into powder, we also saddle with the butter which is not helpful



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to us. So because of the balancing of procurement sales our impact adverse impact on the margins through butter sale is contained. So we are not changing anything as much as we require we are procuring we are not procuring more than business requirements.

Prashant Kutty: And last question from my end one is on the margin front what is your outlook incrementally and what is the last price hike which you took in milk if you can just highlight that, that is about it?

Dr. M. Sambasiva Rao: In terms of margins yes as I explained earlier we may recover another 2% we may recover for the Quarter 4 and overall year we may reach around 6 at EBITDA level versus 7.3 last year and price hike wise we have taken I will request Mr. Murthy – our dairy vertical head, he has more facts on hand on the price hikes.

J Samba Murthy: We have increased the sales prices of milk and the curd and other products in January month onwards and 21st onwards and we are also increasing in Karnataka from tomorrow onwards from 1st onwards like that all the parts of market areas we have increased it now.

Prashant Kutty: What is the quantum of price increase?

Dr. M. Sambasiva Rao: Yes price is approximately around Rs. 2 per liter and volume will be around 13 lakh liters total.

Prashant Kutty: You have increased within 13 lakh liter volumes?

Dr. M. Sambasiva Rao: Yes.

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

Aniruddha Joshi: Sir, just one question so do you see this problem is a structural and probably it may repeat the lactation issue, etc., may repeat on a regular basis now because we had heard the similar comments since past two years, so do you see it being a more of a structural issue?

Dr. M. Sambasiva Rao: It is an issue, but rectifiable by using Exim policy. So there is a remedial route available if that policy is used at right time for seasons depending on the year. Like one year last year government has used the Exim policy by offering export incentive does that rectifies the last year scenario. This year same Exim policy can be used our foreign trade policy is called now by importing at lower duty or zero duty. So this balances it is a country where the demand is increasing, production cycles are getting affected by the weather patterns. So to nullify the weather impact, we have to use the foreign trade policy for either export or import.



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- Aniruddha Joshi:** Sir, second question with higher palm oil prices as well as higher SMP prices, so do you see any impact on the ice-cream business in Q4 because the raw material prices have gone up maximum for the ice-cream business?
- Dr. M. Sambasiva Rao:** As far as heritage is concerned ice-cream is a smaller component of overall revenue it will be less than half a percent. So it will not have much impact on net turnovers or margins, but to address the increased raw material cost we are all planning now to increase sale prices by close to 15% on the ice-cream product from this week and overall industries is also I think moving towards increasing the sale prices to absorb this increase costs.
- Aniruddha Joshi:** Sir, just last question from my side if I have to look at all the price hikes which we have taken in this year so there was a 5% to 6% price hike taken post the central elections then in January you have taken another round of 5% to 6% price hike and we are looking at 15% odd price hike now in ice-creams, so is it correct?
- Dr. M. Sambasiva Rao:** Yes correct.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Sir if I look at the breakup of sales that we have given the volume sales of milk liquid milk has increased by around 1.5% and the liquid milk price that has increased is around 9%, so this translates to around 10% increase in your liquid milk sales and your branded value products has increased by around 16%, but your total sales is on the 9%, so what is it that has declined in your portfolio?
- Dr. M. Sambasiva Rao:** Fat products butter, cream, ghee.
- Sameer Gupta:** And what would be the reason for that sir?
- Dr. M. Sambasiva Rao:** That is the reduction in the procurement of milk do not have the excess surplus fat. So what happens is when we buy milk we buy milk from farmers with a high fat content let us assume 7% the fat content in the milk from buffalo. When we sell milk some milk is sold at 3% fat called toned milk, some milk is sold at 4.5% fat standardized milk, some milk is sold at double tone milk at 1.5% fat, some milk is sold at slim milk with zero fat. So in all the milk variance we accumulate the surplus butter, the surplus butter quantity is lower this year and whatever margins or sales changes are because of this.
- Sameer Gupta:** And one more question sir so milk procurement is down 6.5% and there is a liquid milk sales of 1.5% so you have probably used SMP from your stocks to manage this kind of a growth, would that understanding be correct sir?



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- Dr. M. Sambasiva Rao:** Perfect.
- Moderator:** Thank you. The next question is from the line of Sarika Mukherjee from Elara Capital. Please go ahead.
- Sarika Mukherjee:** Sir, if I got it right you said that your liquid milk procurement realizations have gone up by 2% sequentially from third quarter which would made somewhere like around Rs. 44.5, is that number right on 42.49?
- Dr. M. Sambasiva Rao:** 42.49 selling price, but in Quarter 2 alone it accumulates increase. We have been increasing from Quarter 1 itself in the month of May itself we started cumulative increase is 42.49.
- Sarika Mukherjee:** Right which is in your third quarter the realization of your liquid milk first right?
- Dr. M. Sambasiva Rao:** Correct.
- Sarika Mukherjee:** And sir from there you have further increased Rs. 2 in January?
- Dr. M. Sambasiva Rao:** Rs. 2 means our realizations were little lower yes average is like Rs. 2.
- Sarika Mukherjee:** And sir your average procurement size in third quarter was 36.5, could you tell me what was the procurement size range in January or what do you see it to be around till I think the next last season which will again start in August, September?
- Dr. M. Sambasiva Rao:** We will have to see I mean as I was explaining to you this price line will depend on the import milk of milk powder, if no import happens there may be another spell of increase of procurement prices. The import happens there may be some stability or cool-off. Next is availability of milk is also improving in certain states that might also play a role in the price moment in the coming month how long we can sustain the growth whether again the higher temperatures in the coming month may impact to the production availability. So we want to see month-on-month and evaluate very carefully as this year being a very volatile year.
- Sarika Mukherjee:** And many different factors, but then sir from the guidance that you were giving let us say fourth quarter we will do slightly better margins and then for the year we will probably do fix the improvement in the margins, so just wanted to understand then your difference or the gross spread between your liquid milk sales and procurement which is currently standing at Rs. 6 a liter the different between a realization procurement, does that improve in the fourth quarter like from Rs. 36.5 procurement price what was the run rate in January let us say?
- Dr. M. Sambasiva Rao:** My earlier response was for a longer span of time you asked up to August or so, but for this quarter we have almost come one month is over another two months and we have done the



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price hikes in the last one week and some more will happen tomorrow day after. So we are hoping to recover another half a rupee Rs. 1 in the coming couple of months hoping this procurement side prices remain stable.

Sarika Mukherjee: So somewhere around Rs. 37 is where your procurement price is now?

Dr. M. Sambasiva Rao: Right.

Moderator: Thank you. The next question is from the line of Arun Vaid from Bank of Baroda. Please go ahead.

Arun Vaid: Sir, as per news reports Amul has opposed this plan of lowering the duty on SMP, so do you think this will be accepted by the government in that case?

Dr. M. Sambasiva Rao: See there are views and counterviews on this. The overall government of India usually get guidance NDDB which is a sectoral body NDDB deals with National Dairy Development whereas Amul, Nandini, Avin, Vijaya, these are all the brands of the states where they have cooperatives for each state each state has a brand. Every brands has its own view, the cooperatives view is one particularly led by Amul because it is the largest volume player in the country they have given a view and there are private companies which are handling almost equal quantity of milk in the country. If NDDB takes a view that cooperatives are handling 50% of the volume and private companies are handling 50% in the organized sector and both are presenting different views. Different views are based on different rationale. For example when government of Gujarat offered Rs. 50 per kg of SMP exported last year it was only restricted Amul. It was not given to private companies or any other body. So you are not on a level playing field between a cooperative like Amul and private companies like us. So the views of different companies come from their own workings, their own objectives. So they have whenever they want they go to like you take Nandini in Karnataka government of Karnataka is offering Rs. 6 per liter support price to the farmers. So when a private company purchases milk in Karnataka we have to pay farmer x price when a cooperative like Nandini procures they pay x minus Rs. 6. The Rs. 6 comes from the State Government to the farmer. So they will say do not increase, do not import the powder because they are getting milk with the support of the State government or Gujarat Amul is getting support of State government for exporting their surplus stocks. So in this scenario National Dairy Development Board will evaluate both the views. One argument is based on the government support which they get from time-to-time. Another argument is based on their effort so we have to take funds from the bank to meet the cost and we have to find our solutions. So NDDB is expect to take a balanced view, rationale view to meet the consumers demand and the nations interest. So let us see what guidance they give to government of India and what government of India will do. This is not



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first time this happens several times in the last two decades, but the divergent views are presented to the government. Government takes a view on assessing the situations.

Arun Vaid: So in case government accepts their view then in that case do you think the procurement prices will go up much more from here from Rs. 37 odd right now?

Dr. M. Sambasiva Rao: Most likely both consumer prices and procurement prices will increase hand-in-hand.

Arun Vaid: So it will be pass through if that happens?

Dr. M. Sambasiva Rao: Yes may not be fully like whatever we also do when procurement prices go up we would not be passing on the increased cost very next day. There is a lag time to look at the end of the month, end of the week payment cycles etcetera. Secondly when procurement price goes up by Rs. 4 a liter we would not be passing on entire Rs. 4 in one go we will take Rs. 2 this month and Rs. 2 next month. There is a time lag, there is a spread. So during that period price margins will come under pressure for a while and again restore after two, three months of time. So this kind of things are happening, and we are very cautious not to burden consumer on one go like a Rs. 40 milk we cannot sell at Rs. 45 in one go we will be spreading it. So we have our own method of passing on in a reasonable way to the consumers which we have been doing last 9 months.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Birla Mutual Fund.

Nitesh Jain: Sir, two questions from my side number one is the example which you gave of the Nandini Dairy in Karnataka that the government is subsidizing them I guess the similar thing is there in your core market also like in Andhra Pradesh the State Government is subsidizing some of the Dairy cooperatives, so basically my question is like how big is that pie in the overall I mean Andhra market, is it significant say whatever the market is I mean is it 5%, 10% of the markets or it is like very minuscule?

Dr. M. Sambasiva Rao: See Andhra Pradesh milk procurement in a normal period is around 60 lakh liters per day, state cooperative federation contribution in that was around 3 lakh liters.

Nitesh Jain: So this basically this 3 lakh liter is being subsidized by the government?

Dr. M. Sambasiva Rao: Yes that is a cooperative.

Nitesh Jain: And the balance 55 remains on a level playing field essentially?

Dr. M. Sambasiva Rao: Not all there are some other cooperatives called Vishaka Cooperative, Vijaya Cooperative, Vijayawada Sangam Dairy then Balaji Dairy, etc., there are number of other cooperatives there



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are not cooperatives as of now. They started as cooperatives when the movement started during the course of time they moved out of cooperative act and got into producer companies and they are now functioning under companies act without government nominating directors, without government appointing managing directors. These are done by the companies themselves. They are not yet classified as cooperatives. So they will have around 12 lakh liters of milk and cooperative federation which is under the state AP, state federation is around 3 lakh liters so 13 plus 3 will be there shares. The rest of it is private companies in different names.

Nitesh Jain: And sir secondly basically I heard the entire call and looks like with this year seasonal problem is more acute compared to say past cycles, so do you think that given the situation assuming nothing happens on the Exim side like no change in duty structure and all that, you think that this is going to be a long lasting thing or you still believe that you know 6 months down the line the problem gets solved and the milk product basically this question is all about milk production outlook for the country as a whole what do you think?

Dr. M. Sambasiva Rao: If you take the lactation cycles in India typically in the month of October is a cows and buffalo carving and milking starts in October. So it will be increasing day by day till January. October, November, December, January are the months where we get the best of the volumes and slowly the volumes start declining from February, March and they decline severely in the summer May, June, July month, August month. So again from September, October new lactation cycles begins and milk flow increases. It is a cycle of one year a 6 months of good year, 6 months of good milk, 6 months of low milk that is how it behaved. So if situation continues to be like this the pressure continues till August, September month and October is a natural beginning of the next lactation cycle where thing should be normal. So we have an 8 month journey to meet the next flush which begins in October.

Nitesh Jain: So basically the thing is we are right there in the winter I mean the winter is not over and the situation is like that the milk prices has gone up by 30% even in the winter itself then going by that maybe in some peak summer months there could be like crazy increase in prices a possibility of that?

Dr. M. Sambasiva Rao: That is what all industry represented through Indian Dairy Associations of all the companies and CII also approached government and ice-cream manufactures approach biscuits and chocolates I think they approach every manufacturer approached government to review this current situation and take a view on the imports. So which maybe almost busy in the budget exercise let us hope during the budget, after the budgets this gets attention and some resolution.



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Nitesh Jain: And sir lastly can you comment on the SMP inventory in I mean with the local dairy companies or some of the cooperatives how is it, is it heavy or is it I mean at the average level or already been stored at a very high level, would you have any idea?

Dr. M. Sambasiva Rao: We do not have authentic numbers to pass.

Nitesh Jain: Yes just your I mean understanding of it?

Dr. M. Sambasiva Rao: Pulse of the market is it is on the lower side. The inventory on the lower side which normally buy this time of the year it should be on the higher side, but this year it is on the lower side because we started year with almost nil stocks because of the last year export incentive policy this year started on a low note and continuous to be lower and even many of them are not offering for sale bigger volumes because they do not have it.

Moderator: Thank you. The next question is from the line of Rupen Masalia from R N Associates. Please go ahead.

Rupen Masalia: I have couple of questions one is you know the status of proposed JV for yogurt like at what stage we are in like initially I think we were expecting to start commercial production from Q1 of FY21, so just wanted update on that?

Management: So basically we are looking at a slight delay in the launch of the product primarily because of the aggressive monsoon that happened in Maharashtra specifically in the Mumbai area, so the construction of the project got a little delayed because of that, but we are confident we will be able to launch the product in Q1 of next financial year around June, July is the time that you are looking at which coincides with the summer seasons the peak season in the Maharashtra area and surrounding market and now construction is going in very good progress, the critical team is in place. We have a general manager also for the project both the market strategy is under finalization. So we are looking forward to the launch anywhere in the first quarter of the next financial year.

Rupen Masalia: And then currently you know curd accounts for lion share of value-added dairy products revenue that is approximately 80%. So probably next couple of years probably in 3 years' time where do you see the overall mix for value-added dairy products?

Brahmani Nara: As you probably know curd, curd definitely contributes towards major part and we are seeing growth year-on-year healthy growth and we are also seeing growth in other categories of value-added products such as flavored milk, paneer, other fermented products such as lassi, butter milk, etc., and there is a huge opportunity in ice-cream as well and frozen desserts. So definitely curd will be a major share because it is quite essential Indian product, it is a big part of our culture and moving from unorganized to organized is something that we are seeing



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happening rapidly. So if you continue to be anywhere between 75% to 80% of our value-added products portfolio. However, what we are seeing is that value-added products itself as revenue contribution is increasing significantly.

Rupen Masalia: And last question any update on the stake of FRL I think we currently holds approximately 3.75% stake in future retail and lock in is going to come to an end by the end of this fiscal, so any decision at the board level?

Brahmani Nara: The board is considering several options you are right. We are close to the expiry of the lock in period. There are several options obviously on the table and I think a lot of it also depends on the outcomes of the upcoming budget session. So we are really waiting for that to happen as well before the boards decides on an option and we will communicate the same as soon something that is clearer.

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

Nitin Gosar: Just taking cue from the previous participants question on the future retail stake I believe the intent was to sell it off there is no deviation from that?

Brahmani Nara: At this point we are not able to comment on it again the board needs to decide there are several options. There are options of either what you mentioned or be might think at that point in time that it might be more beneficial to just stay on it depends on the price also. So the option is still on the table and I think more concrete decision will be taken by the board in the upcoming quarters.

Nitin Gosar: And our future CAPEX program I think it is 500 crore kind of CAPEX program that we have highlighted, and funding was supposed to happen from internal accruals largely, would this stake sale help us in funding those CAPEX programs?

Brahmani Nara: The CAPEX vision that we had going forward was about 100 odd crores at the year and this will continue to be there irrespective of stake sale or not. Our internal accruals along with the debt component will be able to comfortably fund this at the matters that you are looking at.

Nitin Gosar: One more question on the macro level last time previous year when we were going through a flush reason the outlook was that there are lot of local players who pop up during the flush season because they happen to procure at a lower price point, and they can sell it in the market. What happens during this kind of time period when the flush season all of a sudden turns up into a deficit kind of season, how does local market behave, what happens to the organize player, can you please throw some light on this sir?



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Dr. M. Sambasiva Rao: Usually during this kind of scenario they abandon their activities temporarily and wait for the change of the season for next year and the consumers who are depending on them will turn to the organized brands.

Nitin Gosar: And this the organized brand act more maturely in terms of ensuring the price arbitrage between the local player and the branded players stays so that consumer once it gets recruited to the branded player does not go away very easily?

Dr. M. Sambasiva Rao: Sorry could you repeat.

Nitin Gosar: Idea was just to understand you know these are kind of opportunities which help you to recruit more consumer to the brand, so does organized guys behave more maturely in terms of ensuring that the price gap between the local guys versus the branded guys stays so that the consumer once recruited the branded player does not immediately move towards to see local guy whenever there is a flush season?

Dr. M. Sambasiva Rao: Now the organized people are not in a position to look at them. We are looking at our own procurement price and sale price realization because procurement prices are spiraling and unorganized lose milk suppliers vanish. So there is no need to compare with them and consumers have no choice today that is why in spite of this kind of rash increase they are continued to buy. This is very unheard of kind of price hike in 9 months we have taken 10% hikes close to 10%, 11% hike in 9 months' time not even 9 months maybe 8 months. So that kind of increase happened during this year because of the raw milk price and the milk powder price. So we are struggling to cope up with our own procurement cost and satisfy both farmer and consumer. An unorganized player is not in under the radar even now.

Nitin Gosar: And when was the last time when such a steep price hikes was taken by the sector?

Dr. M. Sambasiva Rao: This is the first time at least in last two decades.

Nitin Gosar: So there is unprecedented situations that we are into right now?

Dr. M. Sambasiva Rao: Yes correct.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain: Sir, one last thing this 100 crore CAPEX every year which you do, can you give some more details like what exactly you are spending on what kind of CAPEX program you are running every year?



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- Dr. M. Sambasiva Rao:** Usually CAPEX has 4 components. One component is village level milk collection center infrastructure. For every village we spend approximately Rs. 1 lakh Rs. 90,000 to Rs. 1 lakh to give milk analyzer, weighing scales, cans, etc., for village and for second investment happens in the chilling centers. Chilling centers are 3 types, chilling centers, bulk coolers, mini chilling centers, rapid milk centers, chilling centers like that depending on the size and technology we have different types of chilling facilities. Typically a 10,000 liter chilling center may cost anywhere between 30 to 40 lakh investment. So we have to create 1 lakh, 2 lakh liters of capacity at the chilling level year-on-year to cope up with our asking rate for the next year and the third place where money spent is a packing stations where milk is processed, packed into different types like toned milk, double toned milk, full cream milk, standardized milk and products are also manufactured like curd or flavored milk or paneer etcetera. So this infrastructure gets expanded in the existing plant or in the new plant wherever we are creating additional capacities. This is a capacity expansion and cold storage facilities in the processing and packing stations and fourth one is replacement CAPEX. Every year some equipment needs to be replaced generators, transformers, pasteurizers, chillers, packing machines of the yester years which are getting old and inefficient, taking more maintenance cost and down times they will be replaced year-on-year some CAPEX is earmarked for replacement CAPEX. These are the 4 areas where money is spent and beyond this we have to provide certain infrastructure in the frontend. I hope you got the feel of it village level, chilling center level, market level at the backend.
- Nitesh Jain:** I just missed one point is how much it cost for 10,000 tons of chilling center?
- Dr. M. Sambasiva Rao:** 10,000 liters of chilling center it depends on location it is around 30 lakh you can take average.
- Nitesh Jain:** So lastly on the milk selling side what is the current geographic I mean mix for us like how much is Andhra, Tamil Naidu and Karnataka broadly?
- Dr. M. Sambasiva Rao:** We have around 30% from Andhra and Telangana each and about 11, 12 from Karnataka, Tamil Naidu each then rest is split between Maharashtra, Punjab, Haryana, Delhi, Orissa, Kerala smaller volumes where they account for another balance of it another 15% we can group all other states.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraint that was the last question I now hand the conference over to Dr. M. Sambasiva Rao for closing comments.
- Dr. M. Sambasiva Rao:** Thank you very much for very active interest and participation in our company's development and we look forward to be in touch with you during the course of the time and we will come back with the annual results later. Thank you very much, thank you all.
- Moderator:** Thank you. Ladies and Gentlemen on behalf of Heritage Foods Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.