February 03, 2021

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

Scrip Code: 519552

Dear Sir / Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

In Continuation of our letter dated January 12, 2021 the Company had organized a conference call with the Investors/Analysts on Monday, February 01, 2021 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.heritagefods.in

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

Thanks & Regards

For HERITAGE FOODS LIMITED

UMAKANTA BARIK
Company Secretary & Compliance Officer
M. No: FCS-6317

HERITAGE FOODS LIMITED
CIN : L15209TG1992PLC014332
AN ISO: 22000 CERTIFIED COMPANY
Regd. Off: # 6-3-541/C, Panjagutta, Hyderabad - 500 082. Telangana, INDIA. Tel.: +91-40-23391221, 23391222, Fax: 23326789, 23318090
Email: hfl@heritagefoods.in, Website : www.heritagefoods.in

"Heritage Foods Limited Q3 FY-21 Earnings Conference Call"

February 1, 2021

<u>MANAGEMENT:</u>

DR. M. SAMBASIVA RAO – PRESIDENT

MS. BRAHMANI NARA – EXECUTIVE DIRECTOR

MR. J. SAMBA MURTHY – CHIEF OPERATING OFFICER

MR. A. PRABHAKARA NAIDU – CHIEF FINANCIAL OFFICER

MR. UMAKANTA BARIK – COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Heritage Foods Limited's Q3 FY21 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 '*' 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 from Heritage Foods Limited. Thank you and over to you, Mr. Rao.

Dr. M. Sambasiva Rao: Good evening all the participants. Thank you for joining the call inspite of the preoccupation with the national budget today. I will start with quarter 3 standalone results which are anyway uploaded already on our website and published. The net turnover we have achieved Rs. 588 crores which is 11% lower than last financial year's quarter 3 which was Rs. 662 crores.

In terms of EBITDA we have achieved Rs. 76 crores against Rs. 36 crores of the last year same period. Profit before taxes core business level Rs. 61 crores versus Rs. 19 crores of last year. PAT of core business is Rs. 46 crores versus Rs. 15 crores of last year. Now I will take up 9 months' performance of standalone HFL Net turnover is Rs. 1,801 crores versus Rs. 2,038 crores of the last year nine months.

EBITDA Rs. 215 crores during the current year versus Rs. 114 crores of the previous year nine months. Core business PBT Rs. 168 crores versus Rs. 63 crores of last year. PAT Rs. 125 crores at core business level versus Rs. 50 crores last year. Now I would like to explain quarter 3 performance versus preceding quarter, that is quarter 2 on standalone basis. Net turnover is almost same Rs. 588 crores versus Rs. 593 crores. There is a marginal drop. EBITDA is Rs. 76 crores versus Rs. 86 crores of the quarter 2.

PBT core business Rs. 61 crores versus Rs. 71 crores. PAT core business Rs. 46 crores versus Rs. 52 crores of quarter 2. Now I would like to present quarter 3 consolidated level including Heritage Foods' both the divisions of diary, renewable energy and Heritage Nutrivet Limited which is a 100% subsidiary conducting feed business and Heritage Farmers Welfare Trust where activities are almost negligible. Net turnover for quarter 3 at consolidated level is Rs. 605 crores, a 10% drop compared to previous year's same quarter's Rs. 672 crores.

EBITDA Rs. 78 crores during this year quarter 3 compared to Rs. 34 crores of the previous year quarter 3. Core business PBT Rs. 61 crores versus Rs. 19 crores. PAT core business level Rs. 46 crores versus Rs. 12 crores of last year. If we look at nine month's performance at consolidated level net turnover is Rs. 1,854 crores, a 10.6% drop against Rs. 2,073 crores. EBITDA for nine months at consolidated level Rs. 224 crores versus Rs. 107 crores last year nine months.

At PBT at consolidated level is Rs. 170 crores versus Rs. 53 crores. PAT continuing business Rs. 125 crores versus Rs. 41 crores. At consolidated level if you look at quarter 3 performance versus quarter 2 performance, the preceding quarter, net turnover Rs. 605 crores versus Rs. 610 crores. There is a minor drop. EBITDA level Rs. 78 crores versus Rs. 89 crores. PBT Rs. 41 crores versus Rs. 22 crores consolidated after adjusting fair values.

PAT continuing the operations, Rs. 26 crores versus Rs. 2.7 crores higher impact of adjustments in the quarter 2. Overall the profitability of dairy has improved mainly because of the decrease in raw material cost compared to last year quarter 3 and better selling prices of milk and value added products compared to quarter 3 of last year. Now look at the volumes performance. Procurement of milk from the farmers is 11.71 lakhs liters per day during this quarter compared to 13.56 lakhs liters per day during the last year same quarter.

Milk sale volumes 9.72 lakhs liters versus 11.27 lakhs liters. Value added products contribution is 23.12% during this year's quarter 3 and 23.52% during the last year's quarter 3. Our production capacities if we see now schilling capacity is 2,046,000 liters per day. Processing capacity is 24.2 lakhs liters per day. Packing capacity of milk is 15.35 lakhs liters per day. Coming to the CAPEX investments, we have so far done Rs. 47 crores in nine months of this financial year in the HFL.

About 47 lakhs in the HNL which is 100% subsidiary. Coming to the long term debt as of 31st December 2020, our debt stands at Rs. 115 crores. And there is no utilization of working capital limits during this quarter as on 31st December. This is broadly the outlook of performance of this quarter 3. Now I open it for discussions. I request all the participants to make their suggestions, seek clarifications and give feedbacks. Thank you very much once again for participating on a precious day while everybody is busy with the analytics on the budget. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta: Two questions from my side. So I will just place them one-by-one. So first is that despite this being a fresh quarter as milk procurement is down sequentially and I understand we had scaled down on our operations in Punjab but why from versus 2Q in a quarter where milk production is at its peak are we procuring less and what is it really mean to us?

Are scaling up of our procurement operations in adjoining states like Maharashtra and as a corollary to that, sequentially your procurement price is again in a fresh quarter where there is a high supply of milk? Am I understanding was that sequentially we should see some moderation so just wanted some understanding on what exactly is happening out there?

Dr. M. Sambasiva Rao: The procurement point of view there are two aspects. One, last year there was significant quantity purchased from the bulk suppliers because of the scarcity. And this year we are not procuring bulk quantity from any suppliers like last year as the demand is yet to pick up. So we are procuring what is required for our markets in various territories. So secondly is about market itself as you were saying as you must have noticed the production season yet to start.

The real flush is not yet come and the milk prices also have gone up. That itself indicates there is availability issue in the market. But as of now whatever milk is required for conducting our market operations we are able to procure and we will be scaling up along with the increase in the sale volumes.

Sameer Gupta: Just a second question from my side. Sir, our revenue target of Rs. 6,000 crores by FY24, I see that that has not really changed and this is now going to require a CAGR of 20% and with us really not going all out in increasing our procurement operations rather we are also scaling down some of our previous acquisitions that we have done. So what exactly is our roadmap? I mean just some part on strategy on your end as to how we are going to achieve this Rs. 6,000 crores by FY24?

Dr. M. Sambasiva Rao: Yes, as we know the COVID has impacted heavily during this year and the scarcity impacted during the last year. We will have to recast the timeframe while keeping our eye on the Rs. 6,000 crores target without any distraction. We will be doing it in course of time and we will update you.

Sameer Gupta: Anything on your procurement sir? I mean scaling up of your procurement, anything on your strategy on that front? I know this is a COVID year and demand has been hit?

Dr. M. Sambasiva Rao: We will come back. It is a bit premature now to discuss on that topic. Let things becomes normal. As I said we do not take our eye on the target. It remains same but timeframes have to be readjusted. We will recalibrate the planning.

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

Prashant Kutty: Sir, just to take forward Sameer's question, sorry for again repeating this if it is but just to understanding on the milk procurement part again sir. So while if we look at it on a YoY basis while you said that last year you had procured higher from bulk suppliers. If you look at it last year also in Q2 also that number was higher but in this period sequentially there is a further drop in terms of your milk procurement.

So if it was 12 lakhs liters procured it has actually come down to about 11.7 lakhs liters. So just wanted to understand is there any other one off element apart from the bulk supplies which you do not do? And also want to ask you incrementally should we be at least expecting improvement in our procurement from here on?

Dr. M. Sambasiva Rao: Yes Prashant, certainly. It is that demand driven procurements. We can calibrate our procurement volumes as soon as we required. Currently we are going hand in hand with sales. Sales demand is reviving now as academic institutions are opening in most of the states across the country and COVID vaccine I also visible. The fear factor has come down in absence of kind of positive cases and the death rates coming down. So we do believe soon the demand will become normal with the summer setting in. Then we will accelerate the procurement also.

If we procure more now it again becomes surplus for conversion in to butter and milk powder at this stage. So we are also carefully moving forward on the requirement basis.

Prashant Kutty: So can we at least assume now that the demand is kind of now improving because just to kind of ask you a one point because if I look at the other listed company's reported numbers they have seen a sequential improvement in their demand. I do understand the states are different but just understanding the claim in our case our sales performance in terms of sequentially is largely.

I mean it has not really changed in that sense. So just wanted to understand that with the hearing about the overall Horeca channel kind of picking up and generally things opening up post Covid. Is it not the case that your demand on a month-on-month basis improving I mean can you at least give some trends that was December better than November or was November better than October, any trends on that, that will actually be helpful?

Dr. M. Sambasiva Rao: Yes, of course quarter 3 was a different scenario for us. October, November we had one after the other three cyclonic weather conditions and if you all recall what happened was in Hyderabad we were under water for 10 days, 12 days in most parts of the city. So weather was not favorable in October, November. So we could not move up our demand. And come December the temperatures were unusually low. So all the three months they were almost stagnant.

Now post Pongal season the temperatures have started changing and from this today many educational institutions are opening. So we see a gradual demand moving up day-on-day and week after week in this quarter but not in the quarter 3. Quarter 3 was subject to several external weather factors and things like that.

Prashant Kutty: And my last question is sir, in terms of you just said that procurement prices have also kind of slightly kind of come up may be it is still the flush season in Ceylon I believe but if you look at it from what we had actually kept in our previous month in terms of the milk which is converted to powder and probably kept, how much of that is would be there with us from an inventory perspective and how much could that help us in a rising price regime?

The reason I am asking this is because sir, if you look at our margin trajectory we have actually seen very good margin in the last couple of quarters in fact last three quarters have been actually seen record margins for us in the past. Just wanting to understand that can we actually look at a higher band of margin in a normalized year? Just wanted to understand that logic?

Dr. M. Sambasiva Rao: It is a bit complex issue you have raised. As far as milk powder stocks are concerned whatever we have manufactured during this year by utilizing the surplus milk and whatever we procured also from other areas. These inventories are more or less enough till August. So whatever price increase will happen from now for the milk powder will be a beneficial scenario for us in terms of margins. So we have secured adequate stocks for the next six, seven months' time.

And the margins structure is highly depended on the procurement prices of milk and right now there is a rising trend and there is a deficit production and procurement has not picked up. So if it is only a delayed flush and procurement moves up in this month, then price level may be same and we would be able to get benefit in the margins. It is something we have to watch in February, March in terms of milk production, milk availability, milk prices to forecast the margins which we do not wish to do at this stage without clarity on the production side.

Prashant Kutty: No but sir, the reason I am asking this is because if you look at our I mean you said that our inventory is there to till next six to seven months. So that is probably covered but like you also said procurement is something which we will have to keep doing and now the procurement will happen at a higher price. So does it mean that it will offset the benefit of inventory which we had? That is what I was trying to understand? And maybe that is why our longer term target of 38% margin which you said will probably be around those levels itself?

Dr. M. Sambasiva Rao: See share of milk powder is not so significant to offset the milk procurement prices. It would help to some extent. It would not offset totally. We do not use so much milk powder to milk ratio.

Prashant Kutty: What will be quantum sir if you may help us with that?

Dr. M. Sambasiva Rao: Yes, we will share with you. I mean this is a forum where certain information we have to hold for the commercial benefit of the company.

Moderator: Thank you. The next question is from the line of Sivakumar K from Unifi Capital. Please go ahead.

Sivakumar K: Sir, can you dwell upon the Horeca demand? Is it coming back in Q4?

Dr. M. Sambasiva Rao: Logically it should come back, Mr. Sivakumar. It is visible. It is moving back but not to the full scale yet as we have seen in a normal year but things are improving week-after-week, day-after-day.

Sivakumar K: Sir, can we get a sense of the debt levels and the cash levels post sale of futurical shares and what will be the use of cash now?

Dr. M. Sambasiva Rao: Yes, I will request CFO to address this.

A Prabhakara Naidu: The debt level is actually as of 31st December is Rs. 114 crores long term debt. Rs. 114.86 crores are long term debt as on 31st December. So we have not utilized any working capital as on 31st December. There is a negative working capital of Rs. 30.63 crores.

Sivakumar K: And the cash level, sir?

Dr. M. Sambasiva Rao: Would you like to supplement, Brahmani, something?

Brahmani Nara: So this is Brahmani here. What I wanted to also mention is that after having disposed shares of FRL the total realization was Rs. 135.88 crores and most of the proceeds are being used towards retiring long time debt and as Mr. CFO has mentioned, debt levels have come down to Rs. 114.86 crores as of 15th.

A Prabhakara Naidu: On standalone basis the cash and bank balances as on 31st December is Rs. 59.91 crores.

Sivakumar K: Sir, since you also asked for suggestions at the beginning of the call, I was of the view that this year has been a great year for Heritage and we know that the business is a business which throws up cash with a very respectable ROE on a yearly basis. I was of the view that since we got this lump sum term in the future retail shares and we have accumulated cash from some super normal profits that we have accumulated this year.

Why are we not considering a small buyback say even to the extent of 15% of the net worth say Rs. 65 crores buyback which will shave off 5% of the equity out there and which will also take away the weak ends which are **22:06** leading to this continues undervaluation? So as a concerned shareholder I was just trying to think whether the board at any point of time has considered this proposal of a buyback which has been a very normal corporate finance activity being done in the Indian capital markets? Your view, sir?

Brahmani Nara: Mr. Sivakumar, that you for this suggestion. We will definitely noted your suggestion on the buyback. The board has mandated as to first to gather the debt and based on resource availability this is something we will certainly consider and certainly take back to the board. So thank you for your suggestion.

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

Aniruddha Joshi: So what was the CAPEX that we have done till now and what is the guidance for FY22? Now considering we have scaled down operations in some of the geographies and in general there is some decline in the procurement. So do you see any need to incur any CAPEX for FY22?

Dr. M. Sambasiva Rao: Yes, there will be certain requirements to balance the growth requirement of certain pockets. Certain areas we have increasing demand and inadequate procurement infrastructure. In such areas we may have to do and some modernization and automation requirements, some infrastructure requirements for IT and replacement CAPEX certain equipments which need to be replaced, some debottlenecking.

There will be definitely some CAPEX requirements for the next financial year but it will not be like a normal year where we were spending Rs. 100 crores plus in the last few years. It might be half of it or closer to that or even lesser. We are evaluating the requirements, we go by the need basis. Certainly as you said it will not be like a normal year's requirement. It will be toned down significantly.

Management: As for the CAPEX required so far for the nine months in the current financial year is at Rs. 47.1 crores?

Aniruddha Joshi: And can we expect around Rs. 50 odd crores CAPEX as guidance for FY22?

Dr. M. Sambasiva Rao: Yes, it will be. It will be closer to Rs. 100 crores kind of thing because we have initiated number of projects in the last before the COVID and the projects have some of them have been completed, some of them are under completion. We have created an important backend infrastructure for curd making about 50,000 Kgs a day in Hyderabad area and 50,000 Kgs in AP State already.

Another 1 lakhs liters plant is getting ready in Maharashtra for meeting the market requirements. There is a significant infrastructure projects being completed during this year. They consume normal CAPEX which was there like last years but subsequent year, next year would be lower than this.

Aniruddha Joshi: And so last question from my side. Now if I look at current state wise revenue breakup so AP plus Terengganu still will be upwards of 60%. Is that thinking correct?

Dr. M. Sambasiva Rao: Yes, it will be around 60%, 62%.

Aniruddha Joshi: And Maharashtra, Tamil Nadu, Karnataka each of the states will be around 10%?

Dr. M. Sambasiva Rao: Yes. There will be some fluctuation month-to-month, quarter-to-quarter. It will be in that range.

Moderator: Thank you. The next question is from the line of Shradha Sheth from Edelweiss Financial Services. Please go ahead.

Shradha Sheth: Sir, just wanted to understand with Amul entering Andhra Pradesh and we have already seeing AP Amul Pala Velluva initiative having started in December and we are seeing the aggression only moving up where the Chief Minister is asking to be spread across almost all 13 districts. So how do we see the implication of this for us with AP being a major region for us?

Dr. M. Sambasiva Rao: Yes Shradha, I think you were more worried about the public policies?

Shradha Sheth: More on the competitive intensity because now it is only getting more, now it is for real and it is happening on ground so how do we see the implication across?

Dr. M. Sambasiva Rao: Heritage coexists with number of competitors in all the markets. This is one more competitor who is coexisting with Heritage in Maharashtra, Telangana, Punjab, Rajasthan, Haryana is also coexisting in another state called Andhra Pradesh. That is the first thing. We are not having monopoly in any states and Amul is not the first time competing with Heritage in AP.

And Andhra Pradesh is ranked as 5th largest milk producing state in India. So there is a massive milk availability in the state and as per the unconfirmed statistics available with industry close to 65 lakhs liters to 70 lakhs liters is the procurement happening in the state on a daily basis by cooperatives and private companies. In that 65 lakhs liters, 70 lakhs liters we may be getting 5 lakhs liters, 5.5 lakhs liters. So how much Amul can procure in Andhra Pradesh, 60 lakhs liters, 70 lakhs liters how much competition they can create for existing players, I leave it to you because they are also operating in multiple states outside Gujarat.

This will be one of their states additional states outside Gujarat. So how much money, how much effort, how much time Amul will pay for the state or it is just a media hype being registered in your mind. I leave it to you. And we are comfortable. In the last few months our volumes have grown up, grown in those districts and the state as well. Post Amul's entry we have gained volumes.

Shradha Sheth: Sir, do we see any expectation from the farmers?

Dr. M. Sambasiva Rao: I suggest this discussion is not very healthy talking about competitor by name. I have given enough whatever is required. I do hope you will appreciate and leave it there.

Shradha Sheth: No sir, it is a very state specific subject so I just wanted to understand?

Dr. M. Sambasiva Rao: There are so many political discussions happening. I do not want this call to become a political call. It is an investor's call for company's performance. I have gone a bit out of the way to explain the scenario context. We are comfortable, we are getting our volumes. Our farmers are with us. We have long standing relationships.

There is a value proposition from the farmers to be with Heritage beyond milk price we will do lot of activities for their well being for their income increase for the productivity improvement of the animals for enhancing the herd size of the animals, for insuring the farmer for insuring the animal. There is lot of activities we have been doing for decades. That helps us to retain our farmers and our volumes.

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

Nitin Gosar: Sir, just wanted to understand in recent times we have pulled out couple of stakes. What is your thought process (a) is it more to do with the demand or is it more to do with supply challenges that we are facing and (b) if we were to see it from interest perspective are those trades not able to scale up and so we wanted to pull out additional time or resource allocation was not making sense? If you can help us understand the cases?

Dr. M. Sambasiva Rao: When we pulled out, we pulled out of Punjab and Rajasthan last year just before the lockdown. One reason in Punjab was unviable distances in terms of operations. So the procurement is happening in certain areas. Sales are happening in certain other areas. This was inherited scenario from acquisition of the Reliance Dairy.

We tried to operate optimize those operations but we at the end of couple of years we realized the logistics cost and the sale areas and procurement areas are not coming to terms. The distance matters in the perishability aspect on the cost management of the product movement. That was one of the influencing reasons, major influencer for scaling down the operations in that state Punjab. And Rajasthan we were depending on a third party co-packer which was also the arrangement we inherited from the previous company.

That third party packing solutions were not coming out well. We were not comfortable in handling in a third party plant. From the quality perspective we do not operate in any co-manufacturing facilities for the milk except in that case it happened. There also we could not get things under control. We have to withdraw from there.

So if we have own operations perhaps we would have continued there also. So it was not in question of sales or procurement. It is more a viability issue.

Nitin Gosar: So, incrementally those states may still continue to remain on a radar but not right away?

Dr. M. Sambasiva Rao: Not right now. We have shrunk the areas of operations to Delhi and Haryana and adjoining parts of Delhi in Uttar Pradesh that Noida and all that areas. We are trying to optimize on our existing own plant in Haryana on the outskirts of Delhi. So we have significant capacity available and potential is there. Milk procurement also should happen as per our policy from the nearest areas to maintain the freshness to the consumer as close as possible. So we have been stabilizing in that area.

Once we establish volumes with reference to existing plant and existing markets may be couple of years it will take then we can take a view whether strengthen the infrastructure to serve the same markets or get into additional markets. That is a call we have to take in the years to come.

Nitin Gosar: Sir, one theoretical question. You said the packaging capacity is 15 lakhs liters per day, 15.3 lakhs liter per day. And right now our liquid sales is around 9.7 or roughly 1 million. So should you consider this as the capacity like-to-like to compare like we will be operating 10 out of 15 today?

Dr. M. Sambasiva Rao: These are all mismatches in the sales and the infrastructure created. So for example we have created a 1 lakhs liter UHT plant. You do not get 1 lakhs liters every month every day. UHT milk fluctuates from season to season and time to time. So similarly in a particular market we have 2 lakhs liters plant but sale is only 150,000 liters. That will accommodate future operational requirements. So each because we are operating in multiple locations. Close to 17 locations plants are there.

Each plant will have 50,000; 30,000; 20,000 surplus to meet the incremental increase and the previous peak seasons will be there in a year where you go to 12 lakhs liters, 12.5 lakhs liters also. Then it will come down in the flush season. So it meets the seasonal cyclical nature of the business and mismatches to the existing sales and the plant capacities. Some cushion for accommodating the growth. And in a particular plant let us say we have reached 90%, 95% capacity we will immediately add a 50,000 liter expansion.

To utilize that 50,000 liter expanded capacity it will take couple of years again. So it would not be, if it is a single plant, single location we can optimize to 90%, 95% but in multiple locations and smaller capacities these additionalities will remain. And we engage manpower and we utilize the power, steam, water etcetera as per the needs. This will not create any operational costs etcetera.

Nitin Gosar: One last question. Sir, I have been following this company for years now and we have seen the kind of distant approach you had to the business. But standing at where we are today, what is the top agenda on Heritage's mind? Is it the growth or is it sustaining the existing market share? What comes first now from next five year's perspective?

Dr. M. Sambasiva Rao: It is a balanced mix of all. We do not dilute bottom lines for the sake of growth. We do not dilute growth for the sake of bottom line. We take a call quarter-to-quarter in a balanced manner so that growth is healthy.

Nitin Gosar: And did you mentioned that by fourth quarter or first quarter you will be coming up with the revised plan for the outlook?

Dr. M. Sambasiva Rao: I will not put time frame but now that distress is behind us which was caused by Covid and demand is getting normal. Once operations are all normal, everything looks good we will have sessions to look forward the strategies and timeframes to deliver our targeted revenue. In course of the coming year we will come back to you.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Apologies for harping on the same point again. Sir, my understanding is that the demand was not optimum this quarter because of weather and unusual patterns but sir, more fundamentally our procurement as you said is more calibrated towards demand but my understanding was that we have a policy of no milk holidays and we do not turn down our dairy farmers whoever come to give the milk to us.

And this has been a USP of the company in getting that loyal dairy farmer base which do not as you said that whenever competition comes we have enough incentives given to the dairy farmers. So does not this calibrated approach raise questions or doubts on future sustainability of this loyal dairy farmer database?

Dr. M. Sambasiva Rao: No, there are two elements in what I said. One is demand based scaling up. Second is accepting milk what you said about accepting milk from our farmers. Last year because of the scarcity we had to depend on certain bulk milk sourcing. This year do not have such kind of volumes in bulk milk sourcing. So comparatively it looks lower than last year but actually if you see own milk procurement today it is better than last year. That is one aspect.

Second is this year flesh is not set in fully even now validated by increasing prices. Normally in January, February milk prices will not go up. They will be stable from December. So now the prices are moving up is only testifying the fall in production. If production is better and our farmers are delivering better milk, we would never say no and that is the policy and that will be the policy. This fluctuation in procurement is a reflection on fluctuations in the production, not on our policy.

Sameer Gupta: Just one follow up on this. How much of the milk is procured by third parties and how much of it is procured directly by us?

Dr. M. Sambasiva Rao: Typically 95% will be our own milk, 5% to 4% will be bulk sourced milk again to balance the requirement. In a particular area in a season our procurement would be less than the sales. We will supplement in that area with the bulk milk. May be 5,000 or 50,000 or 20,000 shortfall instead of moving from long distance. I give an example. Let us say in Bangalore area I have 20,000 liters surplus production than the sales but in Vishakhapatnam area it is reverse. Still we do not prefer to transport milk from Bangalore to Vishakhapatnam.

One perishability, second time lapsed to transport then the costs. Instead of that we prefer to buy from somebody who is reliable, quality certified partner there as a business relationship, business associate. 20,000 liters in Vishakhapatnam and meet the sales demand of Vishakhapatnam in that season. This will not remain same every year. In a following year equations could be exactly opposite. Bangalore area milk sale is higher, procurement is lower and Vishakhapatnam area is reverse. So again we would move milk from Vishakhapatnam to Bangalore. We try to supplement in Bangalore in that year.

It is a highly fluctuating demand supply management we do on a daily basis, weekly basis and it is not stable. It is not like cement, steel I can move from one end to other end. So in this scenario 5%, 6% of milk in a season would be coming from other sources and it cannot be same very year, it cannot be same in same region. Therefore I would not give direct responses to this. It is a part of managing the business efficiently in terms of logistics, in terms of quality. Certainly without saying no to, our farmer associated with the company.

If our farmers have excess milk for any reason or our farmers give more milk which we cannot use, we still take it and convert into powder, butter, and hold it for the season. If our powder plant is not capable of handling it is already full we hire third party power plants and take our milk there and convert it. We have done number of times where one tanker or two tanker, five tanker surplus is there on a day we move it to some other company's power plant and get it converted and take the product to us.

We have those contract arrangements with most of, yes, I was almost completed. I was asking whether the response was useful and adequate or you want more elaboration?

Sameer Gupta: Perfect sir. This is something that I wanted to clarify.

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

Vikrant Kashyap: I have just one question. We have seen a lot of volatility in our profitability in recent past since we are seeing the distress is behind us and we are seeing a recovery week and week. So do we expect some stability in our profitability?

Dr. M. Sambasiva Rao: Could you repeat please, the last part?

Vikrant Kashyap: Do we expect stability in our profitability going forward?

Dr. M. Sambasiva Rao: Stability is a function of multiple factors. One is milk procurement prices, milk availability and sale prices, demand revival, international prices, weather, Government of India export import policies, state government's support prices. So there are multiple factors influencing the dairy business in the country and it has become quite competitive.

So we always try to bring certain as I earlier explained a balanced growth between balanced approach between growth and the profitability. So both the levers are utilized in an appropriate manner when to press which way. So we will always try to and love to achieve that balance growth but certain years some factors are out of our control.

As I said most of the factors are beyond our control. So we will try to utilize the experience, knowledge available and do certain exercise and deliver these numbers. And this year's numbers are because raw material prices were low they are much better than last year but suppose coming year the price is stable, profitability will be stable. If prices are fluctuating profitability also fluctuates. It is a reaction scenario. And this is an essential commodity. Governments do intervene when the price trend is in a unidirectional way whichever way they can.

Vikrant Kashyap: So can we assume that this quarter's performance we can sustain and improve from here?

Dr. M. Sambasiva Rao: We are constrained from this futuristic statement.

Vikrant Kashyap: Any update on our deal how it is progressing?

Dr. M. Sambasiva Rao: We will deliver and show you what we can deliver.

Vikrant Kashyap: Any update on Novandie facility how it is booming?

Brahmani Nara: Yes, so the happy news is that the facility is more or less complete and soft launch of the product also was done in retail in the past week for one set of products which is fat yogurt and the trials for the agriculture product which is curd yogurt is under completion. So mid of February we will have an official launch while the products are being send out to the market already.

Vikrant Kashyap: So from February or say March onwards we can see product available in the shelves?

Brahmani Nara: Surely definitely.

Moderator: Thank you. The next question is from the line of Ronak from Awriga Capital Advisors. Please go ahead. Due to no response, we move on to the next participant. The next question is from the line of Ramkrishna V from Equity Intelligence India. Please go ahead.

Ramkrishna V: Sir, I have couple of questions. One is on this. What is the bulk buying in Maharashtra and Delhi, Haryana where you have a plant and how much is the sourcing from the farmers?

Dr. M. Sambasiva Rao: There is no bulk buying in those territories what you mentioned.

Ramkrishna V: Sir, what percentage is the cash and carry business ours?

Dr. M. Sambasiva Rao: Ours is 100% cash and carry business except in case of modern trade like Reliance or More, Spencer's. If these organized retails have terms of trade agreement signed with all the brands we give 20 days, 30 days kind of credit supplies through these modern trade channels where our sales will be around 8%, 9% coming from these channel, modern trade channel. That is the only channel where we have credit supplies for 20 days to 30 days depending on the agreements with them. The rest of the product sale is cash and carry basis.

Moderator: Thank you. The next question is from the line of Rajesh Ranganathan from Doric Capital. Please go ahead. Thank you. The next question is from the line of Ronak from Awriga Capital Advisors. Please go ahead.

Ronak: Sir, I have a couple of questions. One was on the spreads. Currently our spreads are at around 11%. So how do you see these spreads going forward? Will they revert back to Rs. 5, Rs. 6 which is our long term average?

Dr. M. Sambasiva Rao: It depends on several factors I have been explaining till now. Procurement prices of milk, availability of the milk, sale prices of products, demand revival, contribution of value added products to the overall revenue. There are multiple factors which we have to see how it moves. There is nothing certain are predictable today to say. It keeps changing on week-on-week, month-on-month.

Ronak: Sir, just a small bookkeeping question. So going forward this fair value movement will go away, right?

Dr. M. Sambasiva Rao: Which one?

Ronak: Sir, fair value movement in the P&L it will go away, right?

Dr. M. Sambasiva Rao: Yes, fair value movement may be this will be there till this quarter, accounting requirements. For the next year it would not be there.

Ronak: Sir, what about this discontinued business? So what businesses will be in this line item?

Dr. M. Sambasiva Rao: This is related to Heritage Farmers Welfare Trust. We used to conduct all the activities for the farmer's welfare through a welfare trust but now the instrument of spending has been shifted to company's procurement on inputs division. So this trust activities have been discontinued. This will get discontinued this year.

Another one is employee's welfare trust is there which also got discontinued where they used to contribute from the company's employees for the welfare activities. That trust and farmers welfare trust, these are the two trusts which are moving out of the activities were very insignificant in terms of values now.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. Sir, would you like to make any closing comments?

Dr. M. Sambasiva Rao: Thank you very much once again for participating actively in our quarterly earnings call and giving certain suggestions and seeking some information and we will continue you to update you once in a quarter like this. Till then thank you very much.

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

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