

Ref: SECT: STOC: 14-22 January 27, 2022

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 and Audio recording of Conference Call with the Investors/Analyst held on January 25, 2022

In Continuation of our letter dated January 10, 2022 the Company had organized a conference call with the Investors/Analysts on Tuesday, January 25, 2022 at 16.00 PM (IST) for Q3 & 9M FY22 Financial Result. 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.

In Compliance with the Regulation 30, Schedule III Part-A, Para-A (15) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we wish to inform you that the Company also uploaded the audio recording of the above said Conference Call on the website of the Company i.e. www.heritagefoods.in and web link of the same is as follow:

https://www.heritageloods.in/uploads/investors/pdl/16432631971Audio Link Q3&9M-FY22 EarningsCall.mp3

* We hereby inform that the above audio recording of the Conference Call is uploaded as a Zip file on the National Stock Exchange of India Limited (NSE)

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

Encl: a/a

About the Company:

Heritage Foods founded in the year 1992 is one of the fastest growing Private Sector Enterprises in India, with two business divisions' viz., Dairy and Renewable Energy under its flagship company Heritage Foods Limited and Cattle feed business through its subsidiary, Heritage Nutrivet Limited (HNL). Presently Heritage's milk and milk products have market presence in Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Maharashtra, Odisha, NCR Delhi, Haryana, Uttar Pradesh and Uttarakhand. It has total renewable energy generation capacity of 10.39 MW from both Solar and Wind for captive consumption of its dairy factories.



HERITAGE FOODS LIMITED

CIN: L15209TG1992PLC014332
AN ISO: 22000 CERTIFIED COMPANY





Heritage Foods Q3 & 9M FY-22

Earnings Conference Call

January 25, 2022







MANAGEMENT:

MRS. N. BRAHMANI – EXECUTIVE DIRECTOR, HERITAGE FOODS LIMITED

DR. M. SAMBASIVA RAO – PRESIDENT, HERITAGE FOODS LIMITED

MR. A. PRABHAKAR NAIDU – CHIEF FINANCIAL OFFICER, HERITAGE FOODS LIMITED

MR. S. N. KESAVAN – CHIEF EXECUTIVE OFFICER, HERITAGE FOODS LIMITED

MR. J. SAMBA MURTHY – CHIEF OPERATING OFFICER, HERITAGE FOODS LIMITED

MR. VINEY VATAL – CHIEF EXECUTIVE OFFICER, HERITAGE NUTRIVET LIMITED

MR. UMAKANTA BARIK – COMPANY SECRETARY & COMPLIANCE OFFICER,
HERITAGE FOODS LIMITED

MODERATOR: MR. HIRAL KENIA – DICKENSON WORLD



Moderator:

Ladies and gentlemen good day and welcome to the Heritage Foods Q3 and 9M FY22 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 Mr. Hiral Keniya from Dickenson World. Thank you and over to you sir.

Hiral Keniya:

Thank you Aman. Good evening, everyone. I welcome you all to the earnings call of Heritage Foods Limited for Q3 and nine months FY22. Today we have with us the management represented by Mrs. N. Brahmani – Executive Director, Dr. M. Sambasiva Rao – President, Mr. A. Prabhakar Naidu – Chief Financial Officer, Mr. Srideep M. Kesavan – Chief Executive Officer, Mr. J. Samba Murthy – Chief Operating Officer, Mr. Umakanta Barik – Company Secretary and Compliance Officer.

Before we get started, I would like to remind you that the remarks today might include forward looking statements and actual result might differ materially from those contemplated by forward looking statements. Any statement we make on this call today is based on our assumptions as on the date and we have no obligations to update this statement as a result of new information or future events.

I would now invite Dr. M. Sambasiva Rao from Heritage Foods to make his opening remarks. Thank you over to you sir.

M. Sambasiva Rao:

Thank you Mr. Hiral. Very good evening to each one of you who joined the call today to discuss financial and operating performance of Quarter 3 and first nine months of the current financial year. The results presentation has already been uploaded on the exchanges and on our website. Some of you must have got a chance to look at it.

Now I'll give an overview of the financial and operational highlights of Quarter 3 and first nine months of the year. Consolidated revenue for Quarter 3 grew by 10% on a year-on-year at 6670 million with the increase in sale of Milk and value-added products. EBITDA during Quarter 3 stood at Rs. 392 million as compared to 773 million in previous year Quarter 3. EBITDA margin stood at 5.9% as against 12.8% in Quarter 3 last year, on account of mainly higher raw material costs. During the quarter PAT stood at 208 million.

Let me now take you through nine months numbers; consolidated revenue for nine months grew by 7% year-on-year at 19,854 million on account of again higher sale of Milk and value-added products. EBITDA during nine months stood at 1550 million as compared to 2204 million in nine months of last year. EBITDA margin stood at 7.8% during nine months of current year. PAT during nine months stood at 839 million. Our wholly owned subsidiary



Heritage Nutrivet sales stood at 246.7 million in Quarter 3 as against 297.4 million during the last year same quarter. EBITDA stood at 11 million in the current quarter as against 29 million during the previous year. PBT during the current quarter this 0.3 million versus 20 million during the last year. Company has a strong balance sheet with debt free status and cash and bank balance of 662 million as on 31st December, 2021.

Now moving on with the volume performance; the average milk procurement during Quarter 3 was at 1.2 million liters per day as compared to 1.1 million liters in the Quarter 3 of last year. Average milk sales during the current quarter was 1.04 million liters per day compared to 0.97 million liters per day in the last year same quarter. Curd sales during the Quarter 3 was at 271 metric tons per day compared to 231 metric tons per day during the last year, registering a growth of 17% year-on-year despite the extended monsoon season along with several cyclones in our markets. During the quarter, value added product revenue surged by 21% year-on-year to 1647 million. During this quarter value added products contribution of the overall revenue also increased to 25% versus 23% of the last year same quarter. Despite the challenging business environment and the extended monsoon season Heritage Foods continued to grow and expand this value-added product portfolio. The company has strengthened its balance sheet by achieving debt free status backed by a healthy cash balance. The company launched several products across categories such as new pack formats of frozen dessert in various flavors and 'easy to digest' A2 fresh milk in select markets during this quarter. Now the floor is open for any questions and answers. If you have any queries or feedback post to this call you may please contact us or even Dickenson World which is our Investor Relations agency. Thank you very much.

Moderator:

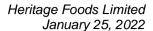
Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Aniruddha Joshi from ICCI Securities.

Aniruddha Joshi:

In terms of the profitability margins, we have seen there is a sharp correction in profitability margin of the daily business as well as the animal feed business and in fact we have seen margin section is higher than even the margin correction reported by some of the peers in south India too. Is there any one-off or something like that or it's a normal business correction? We also seen some of the peers have raised prices now post December. How do you see the price hike is happening in the sector and for Heritage too?

M. Sambasiva Rao:

It is true. Margin dropped mainly because of the milk procurement prices at the farm gate. They have increased significantly over the previous year and during the quarter we haven't passed on to consumers as it was a winter quarter. Usually, the sales will be on lower side of the year. Now in this quarter we started passing on in most of the markets to restore the margins to a better level. In terms of cattle feed, the margins dropped mainly because of the raw material prices increased. They are also now trying to pass on the price increase to the consumers in this month and coming months. It setting overall industry trend Quarter 3 was high raw material prices and Quarter 4 the consumer price hikes are now going on.





Aniruddha Joshi:

So, Heritage also raised prices and in spite of the season, obviously there was flush season in base also but in spite of flush season is there increase in milk procurement prices on a QOQ basis too?

M. Sambasiya Rao:

Could you repeat? First thing yes, we have increased. We have started increasing the sale prices to consumers. The second part you are saying about the flush season I couldn't get you fully.

Aniruddha Joshi:

There is a flush season but in spite of flush season, there is a price hike happening on a QOQ basis, is the correct assumption? So, do you see that probably the milk procurement prices, the cycle has turned and after a period of lower procurement prices for a period of 2 years, now the prices are expected to go, so will it be a fair assumption to make?

M. Sambasiva Rao:

It was more a correction issue during this Quarter 3, previous year prices went really low because of the COVID impact. Now they started getting corrected and coming to the normal levels.

Aniruddha Joshi:

The margin drop in Q3 is more of a one-off we can say or it's a structural issue in terms of milk procurement and higher milk current higher prices now?

M. Sambasiva Rao:

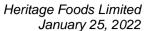
No there is no structural issue. It's a lag between the increase in procurement prices and sale prices. The lag is getting corrected now as the season is changing into favorable season.

Aniruddha Joshi:

Can you indicate the performance of some of the products that we had introduced like Alpenvie or even the cheese in retail packs that we had introduced and even we had introduced some variants of paneer also. So overall how is the performance as well as the performance of the products launched in JV Novandie?

Srideep M. Kesavan:

I'll address the questions regarding the products launched in the dairy business and as far as the JV Novandie is concerned, I request our Executive Director to comment on those. As far as the dairy business is concerned, President alluded to that in the opening statement that the growth momentum that we're seeing and value-added products is consolidating, it's increasing. This quarter we are seeing 21% growth and value-added products. That has been the primary driver of growth for us, not just in our core markets but even in our emerging markets whether it is Mumbai, Delhi etc. These growths have been as designed by us primarily led by the five categories that are a focus for us. When I say category, these are category clusters I would call them, curd, driven primarily by curd. Consolidated and faster growth we have had in paneer this quarter. We have had significant growths across other categories of focus such as ghee, beverages as well as ice-cream. We have had set back in terms of volumes in few weeks of the quarter due to inclement weather. You must have read about repeated cyclone attack in the eastern coast of the country. Had it not been for that our growth would have been even much





stronger. The strategies that we have put in place for driving growth and value-added product is actually paying results and we can speak about that if required.

N. Brahmani

Thank you Srideep. This is Brahmani here. I'll take the question on the JV. Despite many headwinds in the past three quarters since the launch of our stirred as well as drinkable yogurt, we've seen some good traction in our product. We've seen that especially our stirred yogurt across our flavors have been very positively accepted across markets. We have also launched newer variants of volume drivers going forward such as natural clean yogurt. We've also launched a product beyond the 6 cities where we were present across Maharashtra and Gujarat, in Hyderabad as well as the Bangalore market more recently and we are seeing some good sales in these markets as well. In fact, I'm happy to say Hyderabad's contribution has increased to 35% of the overall sales in a very short period of time. We're are really excited about the progress that we've made in the last couple of quarters despite many external challenges, especially in Mumbai market with the intensity of lockdowns was quite high. In terms of channels, we've actually done pretty well in modern retail format stores which contribute about 60% of our sales today. But we're also seeing some good traction in GT especially in Maharashtra market and now in Hyderabad and Karnataka as well. Going forward we're just entering the season for yogurts and fermented products. We are quite excited about the growth momentum that we're seeing going forward. Mainly growth will come on the back of diversifying our channel mix that is continuing to grow in modern retail format stores and growing much faster in general trade stores as well. That's improving net realization as we see more and more higher margin products and volume driver products such as natural yogurt grow. Of course, the scale comes with cost optimization and we're really excited about this. We are also involving our consumers in several engagement activities in store as well as online. Those campaigns to influencers have gone through quite positively. We will also drive growth increasing our throughput through existing channels as well as billing frequencies. We're really excited about the quarters to come and both partners are very excited about the season to come.

Moderator:

The next question is from the line of Binoy Jariwala from Sunidhi Securities & Finance Limited.

Binoy Jariwala:

Could you help me with the selling price per liter?

M. Sambasiva Rao:

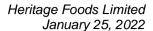
Per liter of milk, milk of course is sold in multiple variants, cow milk, buffalo milk, full cream milk, standardized milk, slim milk, double toned milk, A2 milk. So, we have multiple variants of milk but we can try to give you an average realization.

A. Prabhakar Naidu:

For this quarter Q3 selling price per liter is Rs. 46.71 paisa average for milk

Binoy Jariwala:

How would be the average milk procurement price?





M. Sambasiva Rao: Procurement also we have cow milk, we have buffalo milk, different percentage of fat or total

solids but we will try to give you average.

A. Prabhakar Naidu: Average procurement price of milk is Rs. 38.30 paisa.

Binoy Jariwala: This gross margin spread that is the average realization on milk, sales realization on milk plus

the procurement price, that spread has narrowed on a YOY and a sequential basis. What do you think to about Rs.8-8.50 per liter? What is the steady state spread that we should we

generally target?

M. Sambasiva Rao: We will let you understand the gross margin level which has other elements of cost into it.

A. Prabhakar Naidu: Gross margin for this quarter is 21.02%. Nine months also 22.41% as of now.

Binoy Jariwala: I understand the gross margin percentage. I'm not asking that. I'm trying to understand what

would be the steady state spread that we aim typically over the milk procurement price. Do we

look at Rs. 10-9-8-12, what is the kind of number that we generally work with our budgeting?

Srideep M. Kesavan: I will try to address this question from the strategic point of view on how we look at the

business. Two numbers that you read out are telling you only part of the story because the milk realization of Rs. 46.70 paisa that we spoke about is actually milk which contributes to 70% of

our realization. The balance realization comes from about 26% of value-added products and

4% plus from VAT. As far as we're concerned, we look at consolidated realization from our

products and more our value the product contribution goes up, the net realization that we have

from our business increases. Second even in terms of milk, the price that our CFO read out, is

actually only the liquid milk that we procure from our farmers. In addition to that as with the

seasonality and availability we always have, we use fats and solids from our stocks which also

needs to be considered because it is such a dynamic number is the reason why we look at

EBITDA. As far as EBITDA and gross margins, these are two numbers that we always track is

concerned I think we have been historically advising that our targets used to remain in the 7.5% to 8% EBITDA margin level plus or minus 1%. This quarter has been an exception in

that sense, our EBITDA margin has dropped by about a percentage from where we would have

wanted it to be. That is purely because as was asked by the previous investor, procurement

prices during flush season went up contrary to what ideally like in flush season prices should

have come down but in this flush season actually it has gone up vis-a-vis last year and our

inability to pass on the prices to a consumer at that immediate moment because of continuous

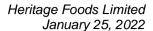
inclement weather and the longer winter season is the only reason why we have seen this. Now

that we have passed on the prices, we have taken price increase starting first week of January

across all markets hardly one or two markets remain for us, in most of the markets across all

product categories we have taken price increase and the EBITDA level should come back to

normal to same 7.5% to 8% is that we spoke about.





Binoy Jariwala: This price increase that you have taken beginning January, what is the quantum of this price

increase?

M. Sambasiva Rao: It may vary product to product prices, market to market, approximately you can say Rs. 2 per

liter kind of, it works out to that.

Binoy Jariwala: Rs. 2 per liter on the liquid milk, right?

M. Sambasiva Rao: All average put together. Some products may give more, some may give less.

Binoy Jariwala: Just wanted to understand your view on the milk procurement. How does it look the supply,

how does it look going forward? The especially from the point of view. So, we've seen a steep jump in the farm gate prices. Now do we think that will settle down or do you see continuing inflation into it, especially given that there has been torrential rains in south of India, so has

that disturbed the cycle by any chance?

M. Sambasiva Rao: We have to watch out and see, it's a very fluctuating situation. It is the flush season where

prices have gone up and summer months definitely there'll be fall in the production and there's

a fall in the production demand increases and prices are bound to go up further.

Moderator: Next question is from the line of Bhargav Buddhadev from Kotak.

Bhargav Buddhadev: My first question is, what would be the percentage share of curd in our overall value-added

product business and which would be the second biggest category in the value-added product

business and how much its contribution would be?

Srideep M. Kesavan: I think that the second part of the question, percentage of curd and value-added products and

what are the next important second important right, Bhargav?

Bhargav Buddhadev: Yes. Which is the next biggest product in the value-added category and how much is the

revenue contribution?

Srideep M. Kesavan: The curd actually the contribution is increasing every quarter. Currently it stands at about 20%

to 21% of the contribution that we have in terms of revenues. The second biggest in terms of revenues for us would be ghee as far as the product contribution is concerned. We also have seen aggressive growth in paneer. That will be a third category that's very important for us.

Bhargav Buddhadev: Now that we launched many product categories in the value-added side, from here on what

would be a strategy? Would it be to sort of increase the acceptance of these products in the market and that's how we will take our so the value-added up or we would also be looking at

sort of coming up with more new product launches in the coming year as well?



Srideep M. Kesavan:

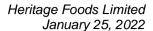
I think we have reiterated that our growth strategy depends on growing a share of value-added products in our portfolio. I wouldn't want to put a number to it but you will see significant growth in the share and contribution of value-added products quarter-on-quarter. This is one line item, one metric that we will continue to report as well. As far as our growth strategies are concerned primarily, we are driven by grew our growth algorithm which is very simplistically if I could put is based on driving availability as well as demand. Here I'm oversimplifying it for the sake of explaining. As far as availability is concerned at this point in time, we have multiple strategies in enhancing our availability or increasing our availability for value-added product categories across markets. Our primary go to market strategy has been through our milk distribution channels but we are aggressively building other channels of distribution. For example, now we have 300 plus strong distributor network which is building our product reach to A+ grocers and standalone modern trade in addition to the strong channels that we have in terms of modern trade and e-commerce. That network is only growing month on month which is enhancing the growth of our product reach. In addition to that we are aggressively expanding the presence of our neighborhood distribution stores. You will see this expanding in most of our non-core markets our growth strategy will be based on expanding the network of our neighborhood distribution stores. At the same time, we are also strengthening the relationship with our customer partners in terms of whether it is our national as well as regional partners in terms of modern trade accounts, we are expanding our presence in e-commerce and aggressively growing in quick commerce. Quick commerce is one channel which is seeing very fast growth and we are significantly focusing on that to drive our growth. So that's on the availability side. On the demand side you will see going forward more and more consumer centric work coming from our side, not just in terms of product design where we are getting our products even more sharper and closer to our consumer needs. We are working on several projects which will increase our penetration across consumption occasions through the day. While earlier were serving two occasions, we are looking at opportunities how we can serve four locations through the date for the consumers. We are looking at innovations which will cater to consumer needs more sharply. That starts with understanding consumer needs in terms of several studies we're doing with our consumers and understanding their needs in these occasions. Eventually finally a science-based approach in creating products that meet these demands in these occasions at the most affordable price. That's on the demand side and on the availability side. This algorithm of driving both demand as well as availability is going to be the primary driver for our growth and value-added products.

Bhargav Buddhadev:

In terms of brand spend, are we looking to significantly up the brand spend because our brand spends as of now is sort of fairly low as a percentage of revenue?

Srideep M. Kesavan:

Primarily demand I spoke at a very high level in terms of consumer needs and product designs, but of course all of this is built on the back of effective communication reaching out the consumer in connecting with them in a more meaningful fashion. That starts and ends with the brand. As far as our master brand Heritage is concerned is something that has very high equity.





We are at this point in time also working on developing some sub-brands for some of the sub-categories that we are building. Definitely there is going to be increased investment as far as connecting with the consumers and marketing is concerned.

Bhargav Buddhadev:

Lastly is there any target, in the next 3 years how much contribution we are targeting from this value-added product segment?

Srideep M. Kesavan:

So currently we are at 25%. In fact, for the quarter that passed by we were at 26% and internally we are looking at anything upwards of 35% to 40% as a contribution that we should have in the next 3 years. In fact, at this point in time we are concluding our 3 year plans and strategies and numbers. We are looking in the range of value-added products contribution growing up to about 40%.

Moderator:

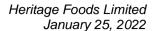
The next question is from the line of Sameer Gupta from IIFL.

Sameer Gupta:

My question is more upon the strategic front. So, within the previous quarter we saw a press release from the company stating that you want to foray into non-dairy FMCG. So, if you can elaborate a little more on this, what kind of products are we looking at? Are we also looking at creating new brands? What exactly the right to win in a non-dairy space on these aspects if you could elaborate?

Srideep M. Kesavan:

The launch of those products is still a couple of months away, so I'll not be able to give very specifics about exactly what's the nature of the product that we are going to launch. I hope you will appreciate that. But broadly if I tell, this venture is purely in line with expanding our business within the scope of the vision laid out for the organization which is nourishing every home and our consumers with fresh and healthy products and empowering our farmers. The products that we have created will help us achieve this vision even more strongly, both on the consumer side in terms offering healthy and nutritious product at the same time strengthening our, deepening our relationships with the farmers in the regions where we are procuring our dairy. As far as the core drivers of this business is concerned, we have picked up, we are looking at categories and product segments which will help broad base our business but at the same time that help us leverage our relationships with the existing customers. We are not going to get into any category, we are not going to get into any product segment which will require us to create new customer segments. Secondly, we are looking at a business which helps us leverage the synergies in our supply chain even better, whether it is in the procurement side or in the sales and supply side. The third thing is, strategically you spoke about the right to win, as well as the right to win is concerned we are looking at categories and segments that allow us complement category to our current portfolio of dairy nutrition. That gives us, I spoke about very specifically building occasions through the day. So earlier while we were with milk, liquid milk we're just focusing on morning occasion. But with dairy foods we are now opening multiple occasions through the day. Some of the new products that we are looking at might offer complementarity for those new occasions. We'll be stronger in those occasions whether it





is in terms of building out our channels or building out our consumer reach. That's primarily the strategy. But as far as growth numbers and absolute revenues are concerned for the next foreseeable 2 or 3 years, I should say that it will be predominantly dominated by dairy.

Sameer Gupta: Basically, this is not going to be a meaningful contribution in the next 3 years and maybe it is

going to be incremental in your efforts to build on growth?

Srideep M. Kesavan: That is right.

Sameer Gupta: Won't eat a lot of capital also in terms of branding, communication, building a new route to

market etc.

Srideep M. Kesavan: Yes, and I should also be I think we had spoken about this earlier as well. We are looking at an

asset light model for this business. We are not looking at any capital investment. We are building this business through a network of third-party manufacturers with whom we will have a strategic partnership. And yes, so from that point of view will not be too much of capital

allocations for this business.

Sameer Gupta: Margins also, it won't be dilutive to the existing business?

Srideep M. Kesavan: No, absolutely not. In fact, in terms of gross margins I can only expect this business to

contribute more.

Sameer Gupta: The second question back to diary. You mentioned Rs. 38 milk procurement price. So, while I

understand this is like more of a correction that you mentioned but I haven't seen Rs. 38 milk procurement price for past several years for Heritage. What has changed? Is it more of a buffalo milk mix, something structural that has happened here? Are we paying more because

of increasing competition? What exactly is happening here?

M. Sambasiva Rao: Earlier also it was there. The buffalo milk mix is what is increasing. The cow milk is available

at Rs. 30, buffalo milk is around Rs. 45-47-48. There is no different from any year.

Sameer Gupta: Any particular reason why the buffalo milk mix is increasing? Because my sense is that the

excess fat we are selling at a very low margin and that is the reason why our gross margins

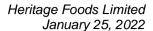
have declined this quarter?

M. Sambasiva Rao: No, there is no increase in share of buffalo milk. It is more or less same like last 3 years.

Sameer Gupta: But then Rs. 38, this is last whatever years I look at, the milk prices have been in the range of

Rs. 30 to 35 so 38 and specially in a flush quarter seems very high. Is it just broad inflation that is catching up on milk also as a category or is there something structurally changing in terms

of competition and hence paying more to the farmers?





M. Sambasiva Rao: None of that, it's all correction only.

Moderator: The next question is from the line of Prakash Kapadia from Anived Portfolio Managers.

Prakash Kapadia: If you could comment on the growth in the HORECA segment in our key markets? What

trends are we seeing currently? What is the contribution of HORECA versus say 2 years ago?

Srideep M. Kesavan: Contribution in HORECA segment is insignificant actually. In fact, we did not do any bulk

selling to any of our...we might be through the retail segment. Our distributors must be selling

into smaller restaurants and all of that.

Prakash Kapadia: Couple of quarters we had laid out a plan and a vision we want to become a 6000 crores sales

company directionally and then there was lockdown and we didn't have visibility. Is it fair to say next 4 years assuming we get there with the focus on value-added products and at a steady state 8% EBITDA margin we can do a 500 crores EBITDA? Is that the direction what we are working on and is there enough visibility confidence in the current scenario or this gets

differed and still it's at the drawing board stage?

Srideep M. Kesavan: So, it gives me actually I have great confidence that the timelines can be met. I really see no

reason why we in 4 years we cannot achieve that milestone. We had a setback and not just us, the industry and several others due to COVID but that's not withstanding the foundational work that we have done in the last several quarters is going to help us accelerate the

momentum going forward and you should be able to see that in the next many quarters.

Prakash Kapadia: The next 4 years; so, by FY26 we seem to be confident of achieving that as a direction.

Srideep M. Kesavan: Internally, that's what we are working on.

Prakash Kapadia: You always maintained more like a 7.5% and 8% EBITDA is kind of a steady-state margin;

obviously that goes up or down depending on the procurement price and end product prices of dairy. With the focus now on value-added products, how does that directionally change with scale? Because you are already seeing we are at 25% so is it fair to assume this can be directionally better if we achieve that scale over a period of time with value added products?

directionally better if we achieve that scale over a period of time with value-added products?

M. Sambasiva Rao: We have expenses to build this growth so during the growth period that additional incremental

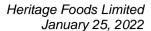
gains we want to use it in the growth and maybe after that stability 2026 then you can harvest

the gains of this effort not during the growth phase itself.

N. Brahmani: I would like to add and repeat what Mr. Srideep had said earlier that most of this growth will

come from a consumer centric razor-sharp approach which means that we will have to spend on certain resources. Internally be it people, be it marketing as mentioned by one of our

participants in the past etc. I think the change in focus from just being a milk company to being





a consumer focused FMCG approach will lead us to maintaining probably the same margins. However, as we strive to look at higher value-added products, we will also look at better margins but realistically speaking in the near future as at least this will be the trend.

Prakash Kapadia:

In our endeavor to become a whole day consumption kind of a player for the consumer. These products are still in the pipeline should happen say by Diwali of this year, in the next 12 months? How are we looking at new product to increase our wallet share from consumers?

Srideep Kesavan:

You must have observed this that we have been launching products in every quarter. In every quarter we have some new news. The idea is we are not like saving a launch for a day. We look at sequential launch of our products. We have a good, strong pipeline and some of the new products that we will be working on, will start hitting in next quarter itself. In fact, in Quarter 4 and there will be some in Quarter 1 of next financial year etc. There will be continuous new product launches that you will see.

Moderator:

The next question is from the line of Sandy Mehta from Value Investment Principals.

Sandy Mehta:

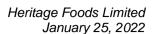
As a shareholder I must say that I am little concerned that in your presentation for the quarter as well as your prepared comments; there was no explanation of why the earnings and the margins were down? In your presentation for the quarter, you talked about the highlights, the positives but with margins down quite substantially and earnings down, there was no explanation of why that was or whether it was temporary. I think you have answered lot of those questions on the call. My question to you is you are net cash company right now and you are generating a lot of free cash flow. What about dividends? It doesn't seem like there's a lot of CAPEX requirements. Can we expect as the cash piles up and you are generating this free cash flow can we expect higher dividends going forward?

N. Brahmani:

As you must have noticed the closing cash and cash equivalent so is about 65 crores-ish. What I want to clarify here is that, about 80% of that cash is required from the payments in the first week of the following month itself towards our farmers and in the form of incentives and salary for employees. So, there is only about 15% to 20% of that which is available which is also required for other working capital requirements, also including purchase of some commodity such as the milk powder etc. Coming to the question on dividend policy, which is already up on our website. It is very clear policy and the board takes a decision on that depending on what resources are required for growth and sustenance of the business. That is something that the board will review from time to time and recommend.

Sandy Mehta:

The dividend policy earlier the company had debt. But now that you are net cash position, I understand that there are working capital requirements but I presume that cash will continue to increase. Would the board at some point, is it likely to increase the payout ratio? What is the CEO's thoughts on that please?





N. Brahmani: I think board has different options in mind and will keep you posted as and when we have

some decision or thought process about it from the board.

M. Sambasiva Rao: Just to supplement, already in this year I think interim dividend has been announced, keeping

that in view.

Moderator: The next question is from the line of Disha Sheth from Anvil Wealth Management.

Disha Sheth: When you mentioned that the procurement rise is at 38.3 and is corrected. But the trend of Rs.

(+38) should stay or is this corrected back to around 35-34 level? And second question, I wanted to ask that our vision of 6000 crores in next 4 years and that 40% value add which requires a CAGR of 24%, then on value-added products which is just 25% right now. It will be 32%, compounded growth if we see. So, in your view is that achievable in the next 4 years as it

requires a very high growth rate. And currently we are growing at around 12% to 15%?

M. Sambasiva Rao: On the procurement prices, yes it was more of a correction as I explained earlier. And during

this quarter, we would have typically higher share of buffalo milk compared to cow milk as

this is the season for buffalo milk.

N. Brahmani: And growth of value-added products going forward. You are right the growth in value-added

products needs to be high and we have seen high growth, north of 30% in the past barring the last 1.5 to 2 years because of external factors and we are confident we will be able to achieve those growth from our star product which is curd. Also, from a more diversified set of value-

added products such as paneer, ghee, beverages, drinkables, dairy foods etc.

Disha Sheth: Procurement side, sorry I didn't get. The 38 should correct to 35 level? Is that what you meant

in Q4 onwards?

M. Sambasiva Rao: Not very clear.

Disha Sheth: Rs. 38 per liter should correct to Rs. 35 per liter for Q4? Is that what you mean?

M. Sambasiva Rao: No, it was actually reverse. It moved up during the Quarter 3 and it may move up further in the

summer but in future there will be some change in the ratio of buffalo and cow. In summer months cow milk ratio will increase, buffalo milk will come down. That would lead to some

amount of correction again.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: The first question is on top of my mind. Two quarters before I did ask the question on the

Novandie JV. I hope by now you have some idea. How this business look like next 2 to 3

years? And quick feedback any products what has gone into Gujarat and Maharashtra market?



What is the earnings, what is the size and scale which can expect or if you can share in some commercials around that business now?

N. Brahmani:

I explained this in length in the beginning but happy to go through it again. As we know the products have been launched during the peak of the second wave of COVID in the Maharashtra area but we have seen some very good traction especially in curd-yoghurts and we are seeing that all flavors have done well. I am also happy to mention that we have expanded our range of curd-yogurts into clean natural yogurts as well in bigger pack sizes as well as existing pack sizes. We have also launched our products across newer markets and in the Hyderabad as well as Bangalore and we are seeing very good traction within a very short period of time. We are present across modern retail format stores. We have also introduced the products across e-commerce channels and e-commerce players and now we are going through the growth phase of not just improving our distribution across these players but also a general trade which will lead to better margins, better growth going forward and that's what we are really looking forward to. And since we are just entering the summer season, we believe that this season will be an actual measure of our sales and we are quite excited about the season as well as the next FY as partners of the JV.

Shirish Pardeshi:

Just wanted to understand, what is the quarter run rate we are expecting in next two-three quarters?

M. Sambasiva Rao:

Can you repeat please, it's a bit flurry.

Shirish Pardeshi:

What is the quarter revenue run rate we are expecting after two quarters?

N. Brahmani:

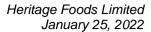
I think I can share that we are able to increase our revenues by 2.5 to 3 times in the next couple of quarters to come especially because like I said we are entering the season and we are looking forward to growths in these new markets as well.

Shirish Pardeshi:

My second and last question is on in between we were addressing that we are trying to enter into the new product categories and adjacencies. Just more curious to look around. What are the adjacencies which you are looking? Is it related to dairy or it is non-dairy completely value chain which we are developing? And more importantly if we are getting into non-dairy how are you going to build the distribution channel? Modern trade is one of the common parallels which is very helpful but building a different channels will take time. So that's the question which I have.

Srideep M. Kesavan:

Thank you for that question. Some parts of this question we had already addressed. I will repeat that just for the benefit of clarifying. We will have innovations both on the dairy side as well as on the non-dairy side. In fact, I had mentioned that in terms of growth numbers, in terms of absolute revenue additions in the next couple of years or the foreseeable future, bulk of it will come from dairy. It is not that the innovations are going to happen only in non-dairy





foods but it will happen significantly in dairy foods as well. In dairy foods, dairy side of the business, we have looked at category clusters where we have an advantage to serve our consumers as far as nutrition is concerned. That makes business sense for us in terms of profitability. And these if I can largely cluster them would be food opportunities in terms of dairy based food opportunities like whether it is curd, paneer or many other sub-segments that make part of this, creating more occasions for consumers through the day. The other large dairy segment in which dairy category cluster in which you will see a lot of innovations from us; even the beverages space and beverages at this point in time most of the dairy companies have traditional dairy beverages whereas we may be looking at science based new innovative beverage formats going forward. These and likewise, we are looking at other categories like ice cream, frozen desert and all of that but bulk of our dairy growth will come from food occasions as well as drinkables. Similarly in the non-dairy space, I spoke to you about categories which create complementarity as far as our dairy business is concerned both in terms of channel actives as well as consumer occasions. We do not see any challenge at this point in time in building out that business. I mentioned about 300 odd distributors that we have, very recently appointed and aggressively growing that number in terms of getting us reach of distribution to grocery channels, standalone modern trade, national modern trade, regional modern trade accounts. These are the same channels which will sell our dairy products as well as the complementary food products that we are planning to enter. So, we will have, I really do not see any challenge at all in that being an additional burden on us. In fact, we are very particular that we do not want to create anything that requires any unique or special investment or focus.

Moderator: The next question is from the line of Sameer Gupta from IIFL.

Sameer Gupta: If you could help me with your current geographical mix in terms of Hyderabad, rest of AP and Telangana, Northern India, rest of India or any other geographic which is gaining

importance in the current mix?

Srideep M. Kesavan: We have a wide footprint. In fact, we are present with sales offices across 11 states in the

country and in fact beyond much, many more number of states through modern trade channel networks, through wholesale partners. This is primarily spread across Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Kerala, Maharashtra, Delhi, Haryana, Punjab. We have quite

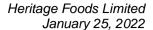
spread-out market as far as our product presence distribution is concerned.

Sameer Gupta: My question was more on the revenue mix. How much does it come from Hyderabad today,

rest of AP and Telangana, Northern India, rest of India, any other market which you have

prominence?

M. Sambasiva Rao: Sameer we will share with you one-to-one. This is becoming an issue for us.





Moderator: We have the next question from the line of Siddharth Bhattacharya from Anvil Wealth

Management.

Siddharth Bhattacharya: I wanted to ask, enquire about the competitive intensity on ground? In terms of milk

procurement how has the trend emerged post this COVID phase?

M. Sambasiva Rao: During the first wave and second wave, there was an issue for farmers to sell their milk, not

many takers were there. Those who were organized companies like ours picked up all the milk or farmers gave and it has created surplus scenario and we had to convert the milk into powder and hold it. That was the first wave-second wave. But the third wave, this came with less impact on the movement of people or movement of goods or markets. Therefore, there is no issue in terms of procurement or marketing challenges for the farmers now in this third wave. All the players and organized, un-organized, co-operative, everyone is active and procuring well and most of the SMP stocks got exported before the commencement of the flush season. There's a demand for a milk powder also, continuously growing. Therefore, currently there is no issue in terms of farmers for selling their milk availability etc. is all good, competition is

also good. All are active.

Siddharth Bhattacharya: So, just an associated question. Could it be that there could be increased competition in terms

of offering better prices for raw milk in the coming quarters by your competitors and the co-

operatives?

M. Sambasiva Rao: We will also offer not only competitor. We are also increasing farmer price last 2 months-3

months. Every month we have been increasing price to farmers. There was a lag in passing on that increase to consumer, that is also happening now. The coming months seeing the overall scenario, as the lactation comes down naturally from the animal by March and from April summers, temperatures will increase. Production will fall demand, will increase. Prices will

also increase. There's a natural phenomenon, all will follow including us.

Siddharth Bhattacharya: You are not seeing any challenge in passing on the prices. It's not affecting demand for your

product, right?

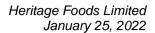
M. Sambasiva Rao: There was a delay in passing on as earlier Srideep explained; we had gone through severe

cyclones in November, rains extended into December. There was colder winter and Omicron hit in between. So, there was some delay in passing on the increased cost. But now the season is changing. The temperatures are changing, rains are over. Passing on started and it will be

complete by end of January or so in all the rest of the markets also.

Siddharth Bhattacharya: It is being absorbed easily, if I conclude?

M. Sambasiva Rao: Sorry?





Siddharth Bhattacharya: It is being absorbed easily by the consumers. As in there is no fall in volumes for you due to

increased prices, right?

M. Sambasiva Rao: Consumers have no choice; it's not easily absorbing. What did you do when petrol prices went

up from Rs. 70 to Rs. 110? Did you not buy petrol?

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the

conference over to Dr. M. Sambasiva Rao for closing comments. Thank you and over to you.

M. Sambasiva Rao: Brahmani, would you like to conclude?

N. Brahmani: Sure. Thank you so much to our valuable participants for all your discussions, feedback and

questions. I would like to reiterate that despite harsh external conditions of monsoon, a colder season, a colder extended winter as well as the onset of the so-called third wave of COVID, we have been able to show some interesting growth especially on the back of growth of value-added products. We as a company as Heritage Foods and management stay committed to our stakeholders and our vision of delivering fresh and healthy products to our consumers on a daily basis and empowering our farmer. This is coming through a specific consumer centric approach as mentioned during our calls and also by tightening our relationships with the farmers that we have had over the past 3 decades. During the last 1.5 to 2 years, we have continued to do extensive activities and roll out loaning, subsidized cattle feed, subsidized insurance for animals etc. and we haven't stopped doing all these empowerment activities with our farmers. In fact, we have also launched an app called the VET+ app which now has

(+80,000) unique registered users. We are always open to answering questions.

Moderator: Thank you very much. We thank everyone for joining us today for this call. In case of any

further questions, clarification, suggestion or feedback you can connect with Mr. Umakanta Barik, Company Secretary and Compliance Officer, Heritage Foods or Dickenson World.

Ladies and gentlemen on behalf of Heritage Foods Limited that concludes this conference.

Thank you all for joining us and you may now disconnect your lines.