



Heritage Foods Limited

Q4 FY2022 - Earnings Conference Call

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MANAGEMENT:

MS. 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. SRIDEEP N KESAVAN – CHIEF EXECUTIVE OFFICER, HERITAGE FOODS LIMITED

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

MR. UPENDRA PANDEY – CHIEF EXECUTIVE OFFICER, HERITAGE NUTRIVET LIMITED

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

MODERATOR: MS. SONAM RAGHUVANSHI – DICKENSON WORLD



Moderator: Good day ladies and gentlemen, and a very warm welcome to the Heritage Foods Q4 FY2022 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 Ms. Sonam Raghuvanshi from Dickenson World. Thank you and over to you Sonam!

Sonam Raghuvanshi: Thank you. Good evening everyone. I welcome you all to the earning call of Heritage Foods Limited for Q4 and financial year 2022. Today we have with us the management represented by Mrs. N. Brahmani - Executive Director, Dr. M. Sambasiva Rao- President, Mr. A. Prabhakara Naidu – CFO, Mr. Srideep N Kesavan – CEO, Mr. J. Samba Murthy – Chief Operating Officer and Mr. Umakanta Barik– Company Secretary and Compliance Officer.

Before we start I would like to remind you that the remark today might include forward-looking statement and actual results may differ materially from those contemplated by the forward-looking statement. Any statement we make on this call today is based on our assumptions as on date and we have no obligation to update these statements as a result of new information or future event. I would now like to invite Dr. M. Sambasiva Rao of Heritage Foods to make the opening remark. Over to you Sir

Sambasiva Rao: Thank you Sonam. A very good afternoon to everyone joining us today on this call. We welcome you all to this earnings call of Heritage Foods to discuss the financial and operating performance for Q4 and the FY2022.

With so many of us faced with the mounting pressures of navigating the pandemic while keeping up with a fast-paced lifestyle, consuming the right nutritious food has never been so important whilst we cannot always ease up the pressures of life, we can look up to the nature to help improve our general vigor and good health after all the secret to a healthy lifestyle starts with consuming the right food.

FY2022 has been the year of Heritage brands continuing journey to make this easier by bringing the fund back into variety of dairy value added products in innovative formats. I would like to draw the attention of all the participants on a special event of Heritage Foods. By end of this week, we will be completing Glorious 30 years of Heritage. Three decades are done. Our journey was so good. We never stepped away from our stated vision and mission. We have been in the forefront for supporting the farmers, always procured all the



milk they have given without any milk holidays in the last thirty years. A farmer who joins Heritage Foods is assured of 100% powered linkage, marketing their milk whatever may be the quantity even in the flush periods. We have maintained our record of making payments on payday, the punctuality is one of our hallmarks in our journey. The fairness and transparency with which we procure milk, we assess the milk of the farmers basing on the quality and quantity is another unique proposition offered and we achieved it. On this proud occasion of 30 years we will be celebrating internally with all the stakeholders soon by end of this week and entering an exciting fourth decade from next Monday.

Now let me give you an overview of the financial operational highlights for Q4 and FY2022. While the company performed considerably well on the topline front, it faced several headwinds that proved challenging on the EBITDA and profitability front during the year, which is evident from the financial results published already you must have seen in our website and the stock exchanges.

The consolidated revenue for Q4 grew by 12.4% year-on-year at Rs.6959 million. This was supported by a very strong growth across the categories including milk and value added products. Clearly, our products were well appreciated in the market place and our market share continues to grow nationally. On the contribution front, our EBITDA for Q4 stood at 298 million compared to 443 million in the Q4 of previous year down by 33% year-on-year. Our EBITDA margin stood at 4.3% as against 7.2% in Q4 of previous year. Looking at our bottomline our PAT for Q4 stood at 126 million compared to 242 million during last year Q4 this is also down by 48% year-on-year.

Now coming to the FY2021-FY2022 performance, our consolidated revenue for FY2022 grew by 8.4% year-on-year at 26830 million, for the same period our EBITDA came in at 1848 million as compared to 2647 million during the previous financial year down by 30% year-on-year while our EBITDA margins stood at 6.9% during FY2022, the full year's PAT stood at 965 million compared to 1539 million during the previous year down by 37% year-on-year.

This year's performance including Q4 was primarily impacted by higher milk procurement prices, margins were also further hit by the flare up and all time high prices of ingredients and imports cost especially in the petroleum, petroleum-based products like plastic, packing materials etc. The company has taken several steps to recover its margins and profitability with value creation initiatives across its wide procurement network, improving its manufacturing efficiencies and aggressively scaling more profitable value added portfolio in advantage markets.



Coming to Heritage Nutrivet our wholly-owned subsidiary, sales revenue stood at 946 million as against 1215 million during the previous financial year while EBITDA came in at 48 million for the same period against 135 million during the previous year. Our PAT dropped sharply during the year and stood at 11 million vis-à-vis 72 million during the previous year.

Moving on to the performance of our business segments, the revenue from dairy segment dropped at Rs.26413 million compared to Rs.24065 million in FY2021 up by 10% Year-on-year . And our expansion strategy I am pleased to inform you that we have acquired Suguna Dairy's business in FY2022 which gives us access to profitable and geographically adjacent markets of interest to us.

Now moving on to the performance on the procurement side, the milk procurement during the financial year increased by 2.77% and stood at 1.3 million liters per day. Our average milk sales during the financial year raise by 5.8% i.e., to 10.16 lakh liters per day compared to 9.6 lakh liters per day during the previous year. Curd sales during this year raised 286 metric tons per day compared to 244 metric ton per day during FY2021 registering a growth of 17.2% year-on-year.

Our renewable energy segment recorded a decent growth. Its revenue came in at Rs.90 million during FY2022 compared to 68.8 million during the previous year up by 31% year-on-year. More significantly our VAP revenue increased by 19.45% year-on-year to 6958 million during FY2022 compared to 5825 million during FY2021. VAP contribution in dairy revenue came at 26.3% during the FY2022 compared to 24.2% during FY2021.

Heritage is fast becoming a brand that speaks the language of wellness. Our branded portfolio of highly purposeful range of value added products include several innovative food options that provide nutrition and well-being with convenient and taste. This includes harnessing immunity from nature, early foraying into microbiome wellness through our yoghurts, the power of freshness through superior packaging, logistics and digital engagement through Heritage Tuch and protein rich value added food such as Paneer and Milkshakes. During FY2022 the company launched several new products like Tikka Paneer, Malai Paneer Shrikhand, Amarkhand, a premium Badam Milk with nuts, A3 Fresh Milk, strengthening the value added portfolio manifold. A widespread consumer appreciation of our innovative food options is reflected in growing sales numbers.

The company's plans of expanding geographic footprint into Maharashtra and North India are also growing from strength to strength. With a positive track record, a solid portfolio and strong positioning, we are confident of promising growth in the coming years. The



company has a strong balance sheet debt free status and a cash and bank balance of Rs.356 million as of March 31, 2022. As a result your company continues to have sufficient headroom to raise capital as and when required to meet up with its strategies.

At this point, I would also highlight the decision of the Board of Directors to recommend 100% dividend during the current FY2022 like in the previous year. We believe in constantly rewarding our shareholders and overall our medium to long term growth opportunities look promising, the various cost efficiency initiatives instituted over the last year places well to deliver enhanced value for our stakeholders. As a leader in science of dairy based products, we are unlocking nutrient to nourish who need extra care, fill nutrition gaps and provide innovative products to enable Indians to live their healthiest lives. In this process, we intent to become an iconic brand synonymous with well-being.

Now we open the floor for question and answer session. If you have any queries a feedback post this earnings call, you may connect us or Dickenson World, our Investor Relations Agency. Thank you very much for your time and attention.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ankit Shah from JHP Securities. Please go ahead.

Ankit Shah: Thank you for taking up the question. I have couple of questions, my first question is based on our channel check, we have noticed that there is a healthy stocking of value added products in the current Q1 FY2023, what is your observation on the same?

Sambasiva Rao: Mr. Ankit can you repeat the question, there was some disturbance.

Ankit Shah: Based on our current channel check we have noticed a healthy stocking of value added products so in the current quarter Q1 FY2023 what are your observations on the same?

Sambasiva Rao: You are talking of stocking or portfolio width something is not clear to us.

Ankit Shah: Based on our channel check, we have noticed that there is a healthy stocking of value added products in the current quarter FY2023, so any observation on the same?

Sambasiva Rao: Stocks in the market?

Ankit Shah: Yes.



Sambasiva Rao: His observation the availability is greater in the market in this summer that is what I understand from him? Now the COVID regulations have gone, COVID impact is almost negligible, markets are open and this year the summer is a bit long and also temperatures are quite high so the sales outside the home have come back to pre-COVID period like whatever we have seen in 2019 summer something like that is available now, the products availability is great, placement is good and sales are picking up in this summer much better than last two summers which have gone in the COVID, so the out of home product availability, accessibility, visibility is definitely higher and we have been pumping stocks into market. I hope I have answered the question.

Ankit Shah: Yes. What is the volume growth in value added products in Q4 FY2022?

Sambasiva Rao: See, if you are asking about the current ongoing quarter we will not in a position to comment. I think he is asking Q4 of last year?

Ankit Shah: Yes.

Brahmani Nara: As my team looks up the volume numbers as we mentioned earlier the revenue contribution had increased Q4 year-on-year from 26.55% to 27.18% which was quite high, so Mr. Ankit your previous question, I think one of the thing that has also happened for us is the fact that we had built our sales force, our distribution network etc, to show growth in Q4 itself for the last financial year because of which you are probably seeing more visibility of our value added products in the market aside from external factors also looking quite positive this year like a normal summer normal non-COVID period etc. I will pass it on to my team now.

Sambasiva Rao: Specific answer to your question, Mr. Ankit is that we are growing 16% in value added products in Q4 and as we had mentioned earlier that that growth of our value added products portfolio specifically the products that we are focusing on such as curd, paneer and all that have been growing from strength to strength, in fact, quarter on quarter the growth is only increasing in these product category that we are focusing on.

Ankit Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir wanted to draw your attention to note No.7 of consolidated results wherein sales at a provision of 9.1 Crores was made on account of disputed liability mainly due to GST so basically I want to understand that this additional liability of 9 Crores was this included in the other expenses or did it have any impact on our margins for this quarter?



- Prabhakara Naidu:** Good morning Sir. This is Prabhakara, CFO. 9.14 Crores which we have provided in the month of September that is when we are announcing this Q2 results that is related to transportation issue of flavored milk GST, related to VAT, GST from 5% to 12% kind of things we have provided but still we are disputing it, then that is not interrupting the other expenses. So in this quarter
- Keshav Garg:** It has nothing to do with fourth quarter number...?
- Prabhakara Naidu:** No. In the fourth quarter one more thing is fourth quarter other expenses include the provision for doubtful debts this is related to some juice with FRL Future Retail because of the NCLT decision based on that actually we have provided it, the only doubtful still we are pursuing it around 6 Crores, 5.88 Crores has been provided in the other expenses in Q4.
- Sambasiva Rao:** Yes, that would impact the margin, out of Future Retail, because of the closure of the business in insolvency process began we provided it as a doubtful debt, which had impacted margins not the 9 Crores which was in Q2.
- Keshav Garg:** Sure. Sir also our operating profit has come down from around 64 Crores which we did in Q2 of last year to around 35 Crores if we exclude this 6 Crores one time bad debt so Sir basically it has halved so basically on a steady state basis moving forward on a quarterly basis what kind of EBITDA can we expect going forward?
- Sambasiva Rao:** See it should come back as soon as the prices farm gate prices cool off summer last few months prices have gone beyond normal levels, as the monsoon started and starting now the procurement flush season begins in two month three months time the procurement prices will cool off that is what will improve the operating profits, that is what impacted us as I explained in the introductory talk.
- Keshav Garg:** Sir basically we are not trying to take any price hike and we are just waiting for the input to go down?
- Sambasiva Rao:** Some amount of price hike was taken. The entire price increase was not passed on.
- Keshav Garg:** So Sir by how much did we increase the prices in Q4 broadly?
- Sambasiva Rao:** Numbers?
- Keshav Garg:** Yes, I mean just broadly like 1%-2% I mean across the portfolio on an average basis?



- Sambasiva Rao:** It has been passed on in a straggled way in different markets at different points in time. Full benefit of the price hike and the benefit of the procurement price drop they will accrue during the current year at different points in time.
- Keshav Garg:** So Sir how much did we pay to acquire this Suguna Dairy?
- Sambasiva Rao:** Suguna Dairy cost of acquisition is 2.32 Crores.
- Keshav Garg:** Sir it basically does not seeing very significant, and Sir lastly just wanted to share I mean that the company can consider a share buyback because our stock prices at the level where it was in 2015 whereas our networth has tripled during this period and now we are debt free so instead of expanding outside like putting new plants I mean there is so much capacity inside the company itself and if this is available at a throw away price of less than 1400 Crores on a debt free balance sheet so it makes more sense to just buyback the own shares of the company and extinguish them, Sir so your thoughts on the same?
- Brahmani Nara:** Brahmani here. Thank you for this suggestion. We will propose the same to the board and discuss the same. Basically it really depends on a couple of different things as you are probably aware. One is the growth prospects of the company and the amount required for opex and capex funding for the growth of company and now as we become more and more consumer centric the extra money we will have to spend on marketing etc., having said that this is the proposal that we will put forward to the board and come back to you later. I just want to discuss this, one of the previous point you mentioned Mr. Keshav which is the net realization increase which we have seen for the quarter compared to last year in milk was about 3.9%, the price increases that we have seen and that in the other significant product which is curd is 3.6%. So the overall increase in procurement cost could not fully be passed on to the market as my colleague had mentioned it was in a staggered manner in different markets. This is a general average.
- Keshav Garg:** Okay Madam and this was taken during Q4 or during the last full year?
- Brahmani Nara:** Q4 versus Q4 of the previous year FY2021.
- Keshav Garg:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pranjal Garg from ICICI Securities. Please go ahead.
- Pranjal Garg:** Thanks for the opportunity. Madam, I have just a book-keeping question, can you help me with the average realization of per liter milk and average milk procurement price during the quarter?



- Brahmani Nara:** During the quarter Q4, the average milk realization per liter was Rs.48.07 versus Rs.46.27 Q4 FY2021. In terms of cost I would request our CFO to answer.
- Prabhakara Naidu:** It is Rs.38.46 paisa per liter this year. Previous year it was Rs.37.25 paisa of Q4 FY2021. There is an increment of procurement price by 3.25 per liter.
- Pranjal Garg:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rupen Masalia from RN Associates. Please go ahead.
- Rupen Masalia:** Thanks for the opportunity. I have a couple of questions, Sir in your opening remark you said that company is increasing its market share nationally so just wanted to know like what is the market share or what sort of increase you witnessed during FY2022 and within that within you home markets, Southern AP, Telangana have we been able to maintain or improve upon our market share, that is question No.1?
- Sambasiva Rao:** Yes, we have been able to increase our market share in a specific region markets that we are playing in so that reference in the opening statement was with regards to the markets in which we compete and as far as our markets are concerned different markets are at different levels of market share. For example Hyderabad city is the market where we enjoy the highest market share and probably Mumbai is the market where we enjoy the lowest market share but across these market segments we have been able to increase market share in the range of .5% to 1% in relation to the competition in these specific markets. So that does not mean market share gain in terms of overall dairy portfolio in the country. I hope I am clear?
- Rupen Masalia:** That is helpful. Second question is with increase in the overall proportion of value added dairy products in the dairy mix ideally what sort of margin trajectory can one expect going forward in the medium term may be not on a quarterly basis or a single year but over the next three to five years, because I think we ended FY2022 with around 26.5% kind of proportion of value added dairy products which we probably enrich double the liquid milk EBITDA so and on the one hand the company is planning to increase the proportion of value added product substantially on the other hand penetrating during the growth phase, you will have to commit more towards marketing in Ad spends so what sort of margin trajectory can one expect in the medium term?
- Srideep Kesavan:** This is Srideep here, the CEO. If I can just give you first of all , very broad strokes, how the business operates, the EBITDA that we have been having average is in the range of 7% to 8% and this is what we have always guided in terms of long term. That is a function of milk and value added products at a particular ratio and this historically was in the range of 22%



to 25% and as you would know the margins that we would enjoy in value added products is roughly around double that of milk. Now this is what the current scenario is whatever margins that we make on milk is roughly half of what we make in value added products so naturally it goes without saying with more and more ratio shifting towards value added products, the weighted average should continue to increase. Now that said, it is a function of a lot of things. We are in 18 categories starting from, so even in value added products we are in from curd to buttermilk to lassi to flavored milk to milkshakes to cold coffee to ghee to butter to cream to ice cream so it is a variety of the range of our product portfolio is quite large and the competitive intensity and the complexity is quite high as well because of which and with different growth trajectories and different margin structures in each of these categories, is very difficult to predict but overall I can say that with more and more percentage share of business shifting towards value added products the weighted average margins in the business will continue to strengthen. Currently, like you rightly said this year we are close to 26.5% and it is our ambition to take this closer to 40% in the next three year time and every quarter and every year you will see a significantly progressing towards this market.

Rupen Masalia:

Okay. Thanks that is it from my side and all the very best for future.

Moderator:

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

Sameer Gupta:

Sir, and thanks for taking my question. Sir we have seen a gross margin contraction of around 300 BPS I understand you mentioned about input prices or procurement prices going up but when I compare this with the likes of your competitor namely Dodla and Hatsun, they have seen a flat gross margin this quarter and I assume that the input cost situation in terms of milk procurement would largely be similar so have we lagged in terms of price hikes versus competition if so why? And going forward also we seem to be relying more on procurement prices coming down rather than looking at any kind of confidence of taking price hikes, so what exactly our thoughts here regarding our brand positioning and going forward pricing action?

Srideep Kesavan:

Sameer, actually we will have to disagree with the margins you mentioned about our competitors and you must see that if you look at milk procurement prices where costs have increased in similar fashion as well, with that said, different companies have different strategies in procurement, their procurement footprints are different, our procurement footprint is different from that of the competitors that you might have in mind. There is a different phasing of buffalo and cow milk flush and each one moves at a different phase and our footprints and our ratio is on buffalo milk and cow milk gives us a unique trajectory as



far as the prices are concerned. Now that said at this point in time the milk procurement prices are at an unprecedentedly high, one of the highest that the industry has ever seen and this is also evident from many of the statements released by many of the national and local dairies regional dairies cooperatives as well. Your second question alluded to a fact that we are waiting and hope that the procurement prices will come down, No, we did not say that I would like to clarify very clearly that in the opening statement announced by President, we mentioned that we are proactively taking several initiatives, number one in terms of smart procurement initiatives across our wide network in reducing the cost of procurement and by managing the mix of cow and buffalo milk number one. Number two in terms of several initiatives that we have taken in enhancing the operational and production efficiencies which increases our margins in operations, third in terms of aggressively growing our value added products portfolio. I am not at a liberty to say how it is progressing at this point in time but when I make the statement you can probably hear my confidence in our strategies succeeding. As far as passing on the price the consumer is concerned we have already increased our prices in parity with all our peer group. In fact, we have actually passed on prices in many markets where even peer group has not increased the prices. So our growth outlook is aggressive and our actions are commensurate to that.

Sameer Gupta: Thanks Srideep this is very helpful. A second question is just a book-keeping one, so can you help me with the current geographical mix of our revenues in terms of AP plus Telangana rest of south and Rest of India?

Srideep Kesavan: We will speak to you separately Sameer.

Sameer Gupta: Thank you.

Moderator: The next question is from the line of Siddharth Bhattacharya from Anvil Wealth. Please go ahead.

Siddharth Bhattacharya: I have a couple of questions, firstly in the presentation Q4 FY2022 I see that the curd sale mentioned is around 286.34 metric tons per day and the comparable number last year was 244.28 as mentioned in the presentation but when I look at your Q4 FY2021 presentation the number seems to be different so am I reading it right?

Sambasiva Rao: From where other number you saw?

Siddharth Bhattacharya: Last year Q4FY2021 the number given was 278.6 metric tons per day....

Sambasiva Rao: I think there is an error in reading the correct number is 303.



Prabhakara Naidu: 303 Q4 curd metric ton.

Sambasiva Rao: Okay we will have to check and come back. Curd is one of the categories we have actually grown strongly we will recheck and confirm.

Siddharth Bhattacharya: Sure, thanks for that. The next question is with regards to your newly launched products which you have launched in the last couple of quarters, I am referring to specifically the paneer variant, paneer and its variant and also the products that you have launched under Novandie so how are they faring as of now could you help us understand their performance as of now?

Srideep Kesavan: I will take the question on Paneer and I will leave the question on Novandie to Brahmani. As far as paneer is concerned we have launched a couple of variants one is the paneer Tikka which is a heat and eat variant. We received a good consumer feedback and at the same time we are looking up, we have done certain product notifications based on the consumer feedback and we are looking at re-launch or rescale up of the same across all metros in the coming months. It is actually looking good for us but I do not think that it has achieved a kind of scale that deserves. We will be giving that push in the coming months.

Brahmani Nara: Moving on to our JV with the Novandie, Heritage Novandie Private Limited, our product mix is looking very encouraging, in fact as you know we launched our products during a struggle period between the second and third wave of COVID in markets which were most affected Mumbai etc., but I am happy to say that the products have been well accepted both curd as well as yoghurts in those markets and that has in fact encouraged us to launch these products in other markets as well in the last couple of quarters including Hyderabad and most recently in Bengaluru. We have also in fact launched new added sales as well such as a natural plain yoghurt under the same JV and of course we could have done better, external factors were kind of a challenge for us but I think operationally also we have seen an improvement in our business, we have strongly come back in terms of gross margins which are north of 24% in Q4 itself which is a significant increase compared to before. Now that external factors are back to normal and some was pretty strong and continues to be strong in our areas of operation and given the fact that Mumbai and all other cities are back to normal, this quarter, the first quarter was looking exciting.

Siddharth Bhattacharya: A follow on question on the same thing, so basically I wanted to understand how does the management and how does the company think about new products and how do they evaluate their success, so I mean would it be a turnover number, would it be, how do you look at it I mean 50 Crores on certain products is good for you for let say Paneer or how do you look at when you launch products?



Sambasiva Rao: If I can take that question and thank you it is a very interesting question Siddharth. Because we play across different categories the success matrix in each case was slightly different, for example, as far as ice cream is concerned we are a very regional player and the strategy that we have in ice cream would be very different from let say the kind of strategy that we adopt in curd where we have ambitions to be a national number one player. So the success matrix for every for innovations in each of this product category would be different, in different cases it will be market share, in certain cases it would be revenue and topline in certain cases it would be hitting a certain level of plant productivity, but in all these cases it is all part of the long range plan that we have got approved internally and that gives us a very clear roadmap for our growth trajectory for the next three years. So the innovations that you have talked about are many other things would be coming in is all part of that plan, those three year plan.

Siddharth Bhattacharya: Thanks. If I may add one more question so basically also wanted to understand what happening on the Nutrivet front, how do we see the roadmap ahead and the scalability ahead from these levels?

Sambasiva Rao: I request Mr. Upendra Pandey who recently joined as CEO to respond to this.

Upendra Pandey: Thank you Siddharth. Thank you for asking this question. So Heritage Nutrivet I am sure you are aware that we have two state of art plant in Andhra Pradesh and we have co-packing unit in Maharashtra also, so that gives us the lot of confidence in terms of having the right product portfolio in the market. Now the aspiration what we have is that we have gone through 500 plus Crores company by FY2026 with the healthy profitability target around 4 Crores to 5 Crores.

Siddharth Bhattacharya: Sorry I missed that, what did you said in terms of revenue what are we looking at?

Upendra Pandey: 500 Crores plus.

Siddharth Bhattacharya: And what timeline?

Upendra Pandey: 2026, four years from here.

Siddharth Bhattacharya: Okay got it. Thank you so much gentlemen for answering my questions.

Moderator: Thank you. The next question is from the line of Ram from R Consultants. Please go ahead.

Ram: Sir, I want to know can you share the key contributors in value added products.



- Sambasiva Rao:** The biggest contribution is from curd, which delivers is to about 75% of our value added products. After that we have several products which are almost equal in size. They comprise paneer, ice creams, in drinkables we are very strong in flavored milk, we have lassi and buttermilk. The other contributors to value add product portfolio would be sweet, in sweets we have a strong presence in certain regional markets with fruit pedda and milk cake, as well as a many of the new products that we have introduced are also growing so rapidly that they will become a major contributor in the near term. For example cold coffee is one product even though in volume terms it is small we are hoping that in next three years it will be a major contributor in terms of revenue.
- Ram:** Thank you.
- Moderator:** The next question is from the line of Neha Sharma from Pearl Global Investments. Please go ahead.
- Neha Sharma:** Sir, can you share the roadmap for the Future and also the kind of revenue guidance for FY2023 and FY2024?
- Sambasiva Rao:** We aspire to grow about 20% year-on-year for the next two years and gearing up for the required expansions in the backend wherever required and frontend providing the infrastructure in outlets to achieve that.
- Neha Sharma:** Okay and Sir one more. How do you see the export business potential, can you explain how are your R&D spend is in your exports?
- Sambasiva Rao:** We are not looking at exports as a vertical to grow we are trying to cover the domestic requirements only and we do not see much because there is so many a cycles, sanitary requirements are there in terms of dairy products to go to western markets so we are currently focusing on domestic only. R&D efforts are also aimed at adding more and more new products to our portfolio and improve the existing products wherever required.
- Brahmani Nara:** Brahmani here, if I may just add a point over there this year to actually build a strong B2C business, not a B2B business that is even more the reason that we should be focusing on domestic markets where we are more visible and available to the consumer, we are building experiences to the consumer etc., and hence the huge focus on consumer centric approach so it is highly domestic at this point in time, because essentially because we want to build a B2C business.



- Sambasiva Rao:** If I may also add actually, see this is important to understand from the perspective. India is the largest dairy and dairy products market, it is the largest and on top of it India has the fastest growth among all large markets so it is growing at as the country itself is expected to grow at 6.5% year-on-year over the next five years and the organized sector is expected to grow at 14% to 15% CAGR. I think that if we are able to take meaningful share of this growth, I think our business would be double in size in three years time itself, we are actually busy with all of this at this point in time. So exports, is actually not very attractive for us from that point of view. I hope it is very clear. We have made this strategic priority and the choice is actually coming from our strategic priority.
- Neha Sharma:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Disha Sheth an individual investor. Please go ahead.
- Disha Sheth:** Sir I wanted to check what is the percentage of value added for the quarter Q4 FY2022 because if we see the whole year number FY2022 which is given in the presentation which is 695 Crores and then the value added comes to around 30% this quarter so where is the differences, you may correct me if I am wrong somewhere?
- Sambasiva Rao:** The value added products contributed 27% to Q4 in revenue within dairy. I am talking about consolidated within dairy and for the full year it was 26.4%, so Q4 like I have mentioned earlier quarter-on-quarter we are growing in our value added products portfolio, so you will see that as in remember this number in next quarter earnings call it will keep growing.
- Disha Sheth:** Also how much of the price hike taken in the current quarter like in April-May if you have taken any price hike on margins?
- Sambasiva Rao:** April-May we would not be able to come out now. I think your question is about, is it about last quarter or current running quarter?
- Disha Sheth:** In last quarter we do Rs.2 per liter price hike in January which you mentioned in the concall?
- Sambasiva Rao:** It is the current running quarter we would not be able to share.
- Disha Sheth:** Okay, and Sir we stick to a guidance of 6000 Crores in coming four years?



- Sambasiva Rao:** That is what I mentioned just now. If we just stay focused on what we are doing right now it could double our business in three years time, so that is what we are focused on. And even on our conservative level we think that we should be able to grow at 20% year-on-year.
- Disha Sheth:** Sir just last question, I missed one point that the curd contribution is how much percentage of value added 75% you mentioned?
- Sambasiva Rao:** That is right.
- Disha Sheth:** Thank you. That is it from my side.
- Moderator:** Thank you. We will take the last question from the line of Ramesh Thota an individual investor. Please go ahead.
- Ramesh Thota:** Thanks for the opportunity and first of all congratulations for completing thirty years to the team.
- Brahmani Nara:** Thank you very much.
- Ramesh Thota:** Actually I have couple of questions. What I heard from Srideep is, this procurement is looking favourable currently, means what is your outlook for the current year FY2023?
- Srideep Kesavan:** I will just recap and actually I will handover to President Sir to conclude, if I can say procurement at this point in time is in extremely different phase and it is not just for us for all players across the country including the cooperatives, because the whole country is going through an unprecedented shortage of milk and high prices, that said , the rains have started as you may know that in many parts of the country we are having early monsoon and because of which we are seeing cooling off and carving as well as milk coming into our market reducing the prices and softening the prices. We are hopeful that this trend continues and the prices cool off drastically over the next two or three months but beyond that it is very difficult to make predictions because it is such a large industry so we are hopeful that the prices will come down over the next few months, but that said, I will repeat again that we are not sitting and waiting that the prices will come down, we are working on all plans of continuing with our innovations, continuing but scaling up of our business aggressively, expanding our geographical footprints, growing our business, growing our value added products portfolio, expanding the margin by driving efficiencies and operations and looking for procurement efficiencies by going to the lowest price markets. So we are doing our work but the market will pay what it is. I will handover to President for his comments.



Sambasiva Rao: I mean it is a cyclical business. Every year milk prices will, the milk availability decides the milk prices, availability is greater in winter months and the prices cool off, in summer the milk scarcity will set in prices go up. It happens every year, and once in five years that becomes extreme either availability will be so high and milk will be so much in the market, or scarcity will be so high and there will be so much of shortage. If you take 15-20 years of Indian dairy there were years where exports were incentivized by government to push the stocks out of country. There were years where imports were made duty free to bring milk powder and butter oil at affordable prices to domestic market so it keeps fluctuating, it is not a stable industry, the production cycles depend on the monsoon and the prices depends on the production. So every year we have to watch and see in which way the production is moving, prices are moving, quarter to quarter situation will alter, year on year situation will alter, there are certain export-import policies that influence the milk prices and margins there are domestic state level policies that also influence the local conditions etc. So it is not in unique directional way like FMCG products goes.

Ramesh Thota: When I look at FY2021 and FY2022 what is an average procurement cost of your milk?

Sambasiva Rao: FY2021-FY2022 was subject to lot of vagaries of COVID that you cannot take it as any reference. It went to as low as Rs.34-Rs.33 in FY2020, FY2021 it went to Rs.34, now it went to Rs.40 four five rupees fluctuation year on year and last two years were highly influenced by the COVID situation where the out of home demand crashed, only the home consumption was there, now only from the March-April we are seeing some semblance of normalcy in terms of demand.

Ramesh Thota: Thanks for that and one other thing is where we procure the most milks is it, since our base is in Hyderabad will we procure more in Telangana and AP or we rely on any other states?

Sambasiva Rao: Our procurement operations are today spread over nine states like Tamil Nadu, Karnataka, Andhra, Telangana, Maharashtra, Punjab, Rajasthan and Haryana; these are the nine states where we have operations of procurement depending on the market condition.

Ramesh Thota: How much percentage of our revenue is constituted by milk in dairy business Sir?

Sambasiva Rao: Milk revenue will be around 65%.

Ramesh Thota: I also heard that we acquired Suguna Dairy in FY2022 and how much percentage of our capacity it has increased means what effect it had on our operations?

Sambasiva Rao: It is very insignificant. It is about 15000-20000 liters per day.



- Ramesh Thota:** Okay and one interesting thing I heard from Srideep was regarding this BMCM mix, can I know little bit what is BMCM mix?
- Sambasiva Rao:** Again that fluctuates. The cow milk the flush season states in October that time buffalo milk ratio will be higher and in summer buffalo milk goes down and cow milk increases and it depends on the areas of operation. It is not a stable number and it is not fixed also, it is fluctuating and changing from season to season, year to year.
- Ramesh Thota:** Thank you Sir and one last thing, I tasted our Heritage Ice Cream and it was so good actually how much percentage this ice cream contributes to our revenue?
- Sambasiva Rao:** As Srideep explained 75% comes from curd remaining 25% is contributed by all this categories ice cream, paneer, lassi, flavored milk, buttermilk so it will be a smaller in that 25% within the value added products.
- Ramesh Thota:** Thank you so much for your answer Sir.
- Sambasiva Rao:** Thank you for appreciating the ice cream.
- Moderator:** That was the last question in queue, I now hand the conference over to Dr. M. Sambasiva Rao for closing comments.
- Sambasiva Rao:** Thank you very much for all the participants in spite of a busy day today with large number of companies announcing results, you could participate in our call and show your interest and we will be happy to clarify couple of questions we left and I am sure we will be subsequently doing it close to individuals, Mr. Siddharth and Mr. Sameer and thanks a lot once again.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Heritage Foods Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.

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