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24<sup>th</sup> October, 2023

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

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

**Scrip Code: 519552**

**Scrip Code: HERITGFOOD**

Dear Sir/Madam,

**Sub: Transcript of Conference Call with the Investors/Analyst**

Dear Sir / Madam,

In Continuation of our letter dated October 9, 2023 the Company had organized a conference call with the Investors/Analysts on Friday, October 20, 2023 at 10.00 AM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been available on the Company's Website at [www.heritagefoods.in](http://www.heritagefoods.in).

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

Thanks & Regards,

**For HERITAGE FOODS LIMITED**

**UMAKANTA BARIK**

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

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 10.70 MW from both Solar and Wind for captive consumption of its dairy factories.



**HERITAGE FOODS LIMITED**

CIN : L15209TG1992PLC014332

**AN ISO: 22000 CERTIFIED COMPANY**



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# HERITAGE FOODS LIMITED

## Q2 FY24 Earnings Conference Call

October 20, 2023



### MANAGEMENT:

**Mrs. N Brahmani** – Executive Director

**Dr. M Sambasiva Rao** – President

**Mr. A Prabhakara Naidu** – Chief Financial Officer

**Mr. Srideep M Kesavan** – Chief Executive Officer

**Mr. J Samba Murthy** – Chief Operating Officer

**Mr. Umakanta Barik** – Company Secretary & Compliance Officer

**Mr. Upendra Pandey** – Chief Executive Officer, Heritage Nutrivet Limited

### MODERATOR:

Mr. Anuj Sonpal – Valorem Advisors



**Moderator:** Ladies and gentlemen, good day and welcome to Heritage Foods Q2 FY24 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anuj Sonpal. Thank you and over to you Anuj.

**Anuj Sonpal:** Thank you. Good morning everyone. A very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Heritage Foods Limited. On behalf of the company, I'd like to thank you all for participating in the company's earnings call for the second quarter and first half of the financial year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management.

Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We firstly have with us: Mrs. N. Brahmani, Executive Director, Dr. M Sambasiva Rao, President, Mr. Srideep M Kesavan, Chief Executive Officer, Mr. A. Prabhakara Naidu, Chief Financial Officer, Mr. J. Samba Murthy, Chief Operating Officer, Mr. Upendra Pandey, CEO of Heritage Nutrivet Limited and Mr. Umakanta Barik, Company Secretary & Compliance Officer.

Without any further delay, I request Dr. M Sambasiva Rao to start with his opening remarks. Thank you and over to you, sir.



**Sambasiva Rao:**

Thank you, Anuj. Good morning to everyone. We are pleased to welcome you all to this earnings call for the second quarter and first half of financial year 2024. The financial results and earnings presentations have been uploaded on the exchanges and the website of the Company and I hope you must have had a chance to look at them by now.

Let me take you through the financial performance for the quarter and the review first. Heritage Foods achieved its highest ever quarterly revenue, which on a consolidated basis stood at INR979 crores, representing a growth of 20% year on year. This was driven by continued strong growth in value-added products.

EBITDA for the quarter was INR47 crores, which grew by 18% year on year. EBITDA margins were reported at 4.81%. Net profit for the quarter was INR22 crores, which grew by 18% year on year, with PAT margins reported at 2.29%. For the first half of the financial year 2024, our consolidated revenue grew by 16% year on year to INR1,902 crores. EBITDA was 87 crores, representing a strong growth of 37%, with EBITDA margins improving to 4.6%.

Net profit for the first half was INR39 crores, which has seen a significant improvement year-on-year of 49%. Now moving on to the performance on the operational front, the value-added products portfolio witnessed strong growth of 18% year on year, contributing INR258 crores to the overall top line, with the overall VAP contribution standing at 26.8%.

The average milk procurement during the quarter under review was 1.48 million litres per day as compared to 1.46 million litres during Q2 of the previous financial year, while the average milk procurement price during the quarter stood at INR43.22 per litre, which increased by INR2.57 paise per litre over quarter 2 of the financial year 23.

And average milk sale price increased by INR3.89 per litre year on year. The revenues from the sale of liquid milk for the quarter stood at INR571 crores, which grew by 8.5% year-on-year.

During the quarter, the company launched new products like premium buffalo milk with 7% fat and 50 ml and 100 ml ghee jars. Lastly on the distribution front, we continued our efforts for enhancing our geographical reach and added 437 new distribution points in the general trade.

Now the floor is open for interaction. Thank you.



**Moderator:** The first question is from the line of Aditya from Securities Investment Management. Please go ahead.

**Aditya:** Yes, so my first question is regarding the gross margins. So on a Q-o-Q basis, our procurement prices have dropped by INR1.3. So even then, our gross margins have reduced. So I know the VAP share is lower in the second quarter as compared to the first quarter, but still some benefits should have been seen in the gross margins. If you could just elaborate what happened. And any connected question to this is, there has been a sharp jump in the fat revenue as well. So is this one of the reasons why the gross margins have not expanded that much?

**Management:** Did you hear the part two?

**Srideep Kesavan:** Yes. Part two. Yes. Well, the second part of the question, Aditya, is concerning fat sale, right? Is that right?

**Aditya:** Yes. Yes, right.

**Srideep Kesavan:** So, thank you very much, Mr. Aditya, for this question. Yes, we saw that towards the end of quarter 2, the raw milk procurement prices have started coming down. In fact, we registered a marginal improvement on account of that, but most of quarter 2 still was managed with high raw milk procurement prices.

So if, you know, because you're looking at the quarterly numbers, you're not looking at the month-on-month improvement, but I can assure you that towards the end of the quarter, actually there was significant improvement in terms of gross margin.

But that said, a couple of other factors have impacted. For example, you know that in the first quarter we had value-added product contributing close to about 30%, whereas that has come down in quarter two as is expected. That is one. And number two, we have also had losses, higher losses on account of fat sale, which amounted to about INR11.8 crores for this particular quarter. And that is another factor which also impacted the gross margin.

If I, out of this INR11.8 crores, we were continuing to liquidate the inventory of butter that we were sitting on, you may recall that we have close to about 360 crores of inventory at the beginning of the financial year, which have substantially reduced and in fact it has become half as we speak at the close of Q2, the liquidation of butter as the prices came down has happened at a loss as well. And that is the other factor which is impacting. So overall business, if I look at in isolation, the consumer business that is growing and that is growing strongly in profitability as well.



**Aditya:** Got it sir. And sir if you just talk about how the flush season started for us. So there have been reports that the rainfall has been uneven this year. So considering that do you expect a better flush season this year compared to last year? And how are the procurement prices trending?

**Samba Murthy:** Yes, as this is Samba Murthy, so as mentioned by Mr. Srideep, then this procurement prices started now coming down end of September, from mid of September onwards. So there is a drop actually if you compare with Q1 to Q2, there is a drop of procurement price at about INR1. Then further we are expecting further drop is going to be there in Q3 as well.

So procurement prices are coming down overall and the procurement volumes are going up and building. And so that is why overall demand side, commodity demand side, also commodity like butter, the demand also has come down. People are again converting it and the commodity prices also coming down. So because of this flush season, so hoping that the further prices will come down during this quarter, Q3.

**Srideep Kesavan:** See if I could just add to that what COO has actually told you exactly what's happening in the market, but overall for the business, the good news is that the raw milk prices are coming down. The flush season is looking very normal this is a there's going to be a very normal procurement season for us which means that's good news on the raw milk procurement side while it's on the commodity side are softening good news is that we are like you know we are very low in terms of stocks that we are sitting on. So we are actually very well poised to enter the flush season at this point in time.

**Aditya:** Got it, sir. And so how are the cattle feed prices trending? So are they also seeing a downward trend? Because if the cattle feed prices remain high, the milk prices wouldn't see a drop. So if you just elaborate, what are the cattle feed prices trending now?

**Srideep Kesavan:** I'll request Mr. Upendra to take this question.

**Upendra Pandey:** Yes, so what we see is that in next one month, one or two months time frame, cattle feed prices will be stable. Maybe from quarter 4 onwards there may be some corrections, but at least in this quarter it should be remain stable.

**Aditya:** Okay, got it. And so one last final question. So if I cut your liquid milk sales, so the last three quarters growth in liquid milk sales in volume terms hasn't been that great. Can you elaborate what is leading to this?



**Srideep Kesavan:** In fact, in the first quarter, we had reported degrowth in milk volumes, which has actually turned around. If you've seen that we have reported one percentage positive growth in this quarter. So for us, actually from a minus one to plus one is actually a good swing of about plus 2%.

The minus 1% that we recorded in Q1 was primarily because of sequential price increases that we have to take to correct the profitability or to bring it in line with the raw milk prices, that market situation has stabilized. And now all the expansion that we are doing in terms of distribution is what is helping us grow.

Now, while we have, you should imagine that a number which was at minus 1%, if we ended with a quarter, quarter average of plus 1%, which means that through the months of July to September, it must have been an upward swing.

So I can very well assure you that number is double that number at this point in time. So we are continuously growing milk volumes as we speak. In quarter three as well, we expect that trend to continue. So things are stabilizing much better now.

**Aditya:** Right and going forward as the procurement prices come down, will you pass on some of this benefit to the customers?

**Srideep Kesavan:** See we will, the usually market milk price correction happens in terms of MRP, which is the consumer price. But the net realization of the company is net of what we spend in the market to achieve our sales. So because we have the comfort of margins at this point in time, we have the luxury to spend a little bit more in terms of market expansion. But as far as consumer prices are concerned, I don't think that we will be doing any correction.

**Moderator:** Next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

**Viraj Mehta:** Yes, hello, sir. So my first question is that your procurement is kind of not growing, and it's at around 1.48 million liters per day. This is very contrary to what you said at the start of the year with high single digit to low double digit growth in volume. So, can you please elaborate on this?

**Samba Murthy:** Yes see here in currently overall procurement is about 14.45 lakh liters per day and last year it was 14.62 lakh liter per day which is including the skim milk. Skim milk we purchased and converted into milk powder, SMP, and that also taken into the procurement. So the difference is actually we are growing and the difference basically because of the skim milk actually this time we have not purchased and we have not converted because we are having milk and we are internally our own milk we are procuring it.



So that is why the difference actually not visible. Otherwise we have grown by 9.8% actually in the milk procurement volume without skim milk.

**Viraj Mehta:**

And Sir, if I look at the operating margin of our company, the kind of improvement we have seen in our peers numbers, and I am not even talking the absolute numbers that some of the peers are reporting, double digit margins, I am saying just the improvement in margin for some of the periods is significantly higher than ours. We are still below 5% in margin.

And on top of that, I'm worried that you are saying that we have comfort of margin. So at 4.5% or quarter to 5%, I see no comfort of margin. Our aspirational number, as you had said some months ago and even a few quarters ago, was 7% to 8%. So there is no question of margins. Can you please throw some light on this?

**Srideep Kesavan:**

Okay, sure, sure Mr. Viraj. See, I am speaking with the perspective of today, right? And I understand that you are looking at the numbers that got reported in retrospect. Probably that is the reason why the perspectives are slightly different. And I shouldn't have said what I said because I'm speaking with the insight that I have of what is happening today.

Now, let me just clarify. First of all, you've seen that in terms of PBT, we have improved from let's say about 2.55% in quarter one to about 3.14% in quarter two, right? Which is actually a improvement of about 0.6% or 60 basis points, you can say that. But if you recall in quarter one, also we said that out of the INR360 crores of inventory that we were sitting on primarily butter, we had liquidated part of that and we had incurred close to about INR10 crores of losses in that in terms of booking, in terms of mark to market prices.

And subsequently in quarter two, we had an additional loss of about INR7.7 crores on account of the same, which is actually, see this was this is what, this was a business call at a point in time when the raw milk procurement prices were going up and it was sequentially going up. Every single week the prices were going up and we had showed up inventories to face a difficult year.

Now, as it turned out, the milk production became normal starting from April, May itself, and the prices started coming down, this is why, as per accounting practice, we have booked those losses against the mark-to-market prices.





Now, if I were to, it is not, you know, the profits are just 3.14%, whatever we have reported, but assuming that in a continuing normal business, we do not have these kind of commodities going up and down. As we speak now, Mr. Viraj, let me assure you that we are not sitting on any inventory of commodities, not much of inventories of commodities as well as you would have seen in a balance sheet, the raw materials have come down to INR180 crores.

Now, assuming that we take this out, and this means that our profitability in Q1 would have been 3.62% in terms of PBT, and in Q2 would have been 3.86% without the butter losses that we would have incurred.

Now, the reason why I said I have the comfort right now is because this 3.86 also is a weighted average of the profitability in quarter two across three months. Whereas as the Chief Operating Officer said sometime back, the prices have started coming down in the month of September, which means that our profitability is sequentially improving month on month after that.

We are expecting the prices to further come down in quarter three, which means that the quarter three should actually report much better than this. This is the reason why I said what I said. But coming back to because you also mentioned about comparison with other companies, you know, we wouldn't like to compare ourselves with other companies, because none of the companies have, you know, a comparable structure, apple-to-apple, different companies are operating in different regions, which might give competitive advantage in certain times of competitive disadvantage in certain other times.

Different companies have different portfolio structure, which will also have its own advantages and disadvantages. But as far as we are concerned, what I want, I would like you to hold as accountable as a company is that we are committed to growing our value added products. And you must have seen that in every quarter, we have registered significant growth in value added products and this quarter again we have grown value added products by 18%.

Good news is with raw material prices coming down sequentially and if you are able to sustain the level of growth that we are recording at this point in time. So you know that in H1 itself, we have registered close to about INR2,000 crores of revenue. If you're going to keep this kind of very high revenue and if profits normalize, then we are going to eventually book the profits that the market expects.



**Viraj Mehta:** Sure, sir. Thank you so much for your explanation. Just one last thing, sir. By what time, as in five quarters, six quarters, couple of years, or what revenue target do you have at which you think you can do that 8% margin?

**Sambasiva Rao:** Well, that's speculative, but let me tell you that in the coming quarters, we expect the profitability to improve for sure. This is what we are seeing, basis our growth momentum. This is basis the value added products that we continue to grow. Every month it is growing for us. So I know that this is actually improving. Procurement prices are coming down. But by when we will reach that 8% will be totally speculative to say at this point in time.

**Moderator:** Thank you. Next question is from Sameer Gupta from India Infoline. Please go ahead.

**Sameer Gupta:** Hi, good morning, sir. And just wanted to understand this gross margin thing a bit more in detail. So you mentioned that there was a fat loss of around INR12 crores this quarter and if I remember correctly in the last quarter also, we had booked a provision because of the fat prices coming down and that had affected our previous quarter margins also. So unless there was a sharp markdown again in Q2 versus Q1 in fat, this INR12 crores wouldn't have arisen. Am I, is this understanding correct?

**Srideep Kesavan:** Yes, your understanding is absolutely correct. There was sharp is a very strong adjective to use, but I would say that, there was a further markdown in quarter two. So if I could just put the numbers, we had an additional close to INR7 crores of additional price reduction in quarter two on account of this. Yes, you are right. So in quarter one, as per accounting standards, we had booked based on the mark-to-market price.

But in quarter two, we actually liquidated the fat. And you must have seen that close to what, INR72 crores is the revenue that we have booked on account of fat sales as well. And the eventual loss that flowed was higher than what we had provided for. And that's what is got booked.

**Sameer Gupta:** Got it sir, just to get this number right, it is INR12 crores losses in 2Q of FY '22, 2Q of this quarter?

**Srideep Kesavan:** Yes, so it's total is INR11.8 crores, but you could say that out of that about INR7 crores. INR7.02 crores is on account of bulk butter Other losses that you're seeing is our regular consumer sale, which is our ghee and other things, which also we were trying to ramp up and we cut down the prices in line with the market.



- Sameer Gupta:** Okay, got it, sir. And second question, a follow-up on this. So basically now there is a butter inventory, which you said is around INR180 crores on the books. And if milk procurement prices are going to go down as per expectation, there will probably be again a loss on this fat inventory. So probably in third quarter also, this issue will impact our margins?
- Srideep Kesavan:** No, see, there could be a little bit up or down, but the INR180 crores of inventory is on account of everything that we are holding at this point on time. Out of which, bulk butter is INR20 crores.
- Sameer Gupta:** And what was this number, let's say, in the start of the year, that's INR20 crores?
- Srideep Kesavan:** More than INR100 crores.
- Sameer Gupta:** Got it, sir. Yes, I have a second question. A lot of it has been asked and answered, but just on the outlook of milk flush, so I understand that the initial push in this direction has been good, but just on the outlook on milk flush, given that, there is a larger rainfall deficit in southern area, where which is the primary reason where we operate. Are we still very confident of seeing a milk flush this year?
- Sambasiva Rao:** Yes. Procurement and all overall it is good. Now all the parts of our operating areas, the procurement is increasing and prices also as we mentioned that, it's coming down and everywhere our growth is there in the procurement areas. So everywhere it is increasing because of good rains actually, good monsoon we had and continuous times.
- Sameer Gupta:** Got it sir, that's it from me. Thanks everyone. I will come back in the queue if I have any follow-ups.
- Moderator:** Thank you. Next question is from the line of Resha Mehta from GreenEdge Wealth Services. Please go ahead.
- Resha Mehta:** Yes, thanks. So again on the fat sales, right? So historically, if I recall correctly over the last several years, we've all booked fat losses annually. So on an average, you could call out what have been your fat losses over the last five years, six years, seven years?
- Sambasiva Rao:** This season is not is a bit different from earlier years because we have accumulated the fat stocks over a period of seven months, eight months and disposed in this quarter that has caused the one time bulge of this loss. Otherwise it would be one year, it will be a little lower, one year it will be a little higher over a period of five years, six years. Ranging from let's say INR20 crores to INR40 crores per annum kind of loss.



**Resha Mehta:** Also is the highest.

**Sambasiva Rao:** Yes, it ranges from INR20 crores to INR45 crores per annum. Different years behaves differently depending on the milk availability commodity prices.

**Srideep Kesavan:** And this year, it is only looking like that because we just went through a very high procurement price and then suddenly it's all come off. It's been like the turnaround in terms of prices have been significant, that is why it is so starkly standing out.

**Resha Mehta:** Right but if we look at your historical average of INR20 crores to INR45 crores of losses annually right, so this year also, we are pretty much on track to do that right. So maybe we can expect a little bit of more fat losses in the coming two quarters?

**Sambasiva Rao:** No, it was not booked in the earlier periods as the stocks were sold in a short time of one month.

**Resha Mehta:** Okay. So, right. So in H2, basically Q3 and Q4, do we expect a lot more of fat losses like to the tune of let's say INR10 crores to INR20 crores put together?

**Srideep Kesavan:** See, we do not have at this point in time any more butter that we need to dispose-off. Whatever we are having is, you could say that input is pretty much matching with output because we are continuously liquidating whatever surplus fat we have. That said, I wouldn't like to speculate in terms of, what would be the change in prices and what kind of losses we would have.

Of course, our intention is to sell all our consumer fats in profit and consumer sale of whether it is ghee or butter and all are growing month-on-month basis. So if that happens and if we are able to sell most of our fats in terms of consumer fats, then the losses would be very minimal. But if that doesn't happen and if you have to liquidate and if it's a falling market then we might continue to have a little bit of losses booked month-on-month going forward as well.

But we will not have like president said presently, we don't have the accumulated nine months or 10 months of fat to dispose-off anymore. It's only whatever transaction will happening on a month-on-month basis.

**Resha Mehta:** Understood, very clear. And second on the milk sales growth, right? It's been very separate at around 1% volume growth, right? So is this because of the high milk inflation over the last 15 months, do you see consumer sentiment being muted at least on the



liquid milk front? And that is why also, we may had to take more promotions and higher trade margins to boost top line growth there, and which in turn has impacted our gross margins?

**Srideep Kesavan:**

No. In fact, actually milk margins have improved tremendously. Let me assure you that, we are not -- whatever we are spending in terms of driving milk growth is in line with what we have always spent. So there's no extra spend there but the numbers volume growth have come down because of the inflation.

Yes, the numbers have come down because of two reasons, number one is because of prices going up and consumer appetite to consume had come down. Number two is, we had achieved some of the inner increases by reduction of pack sizes. We call it a shrinkflation effect. And many of the packs, we have actually shrunk by almost 10% or 15%, which means that the number of packs that the consumers are buying remains the same, but volumes have shrunk by about 10% or 15%.

So a combination of that is what has caused the volumes to come down. And now we are growing the numbers, like you could say about upwards of 2% is the kind of volume growth, we are seeing. But in terms of transaction growth, most of the packs are growing in a very healthy double digit transaction growth.

**Resha Mehta:**

Got it, what was your milk procurement price in Q2 of last year?

**Sambasiva Rao:**

Price is INR43.22 now.

**Resha Mehta:**

Got it. It's INR43.22 right now, right?

**Sambasiva Rao:**

Yes.

**Resha Mehta:**

Yes. And lastly, on the EBITDA margins, So, we had kind of embarked on that journey of reducing 10% of total costs or thereabouts, right, by gaining efficiency, trying to reduce sales and distribution costs and also reducing conversion costs. So where are we in that journey out of the ambition of 10% cost reduction? How much have we achieved and how much more room is left?

**Srideep Kesavan:**

We are progressing on that. Several initiatives are now operating full-blown. We are about, we must have covered about one third of the journey in that.



**Resha Mehta:** Right, and the balance journey is to be covered over the next six months or 18 months or what kind of a time period?

**Srideep Kesavan:** At any point in time, we have several projects that we are running in terms of value creation initiatives, which many of them will come online in Q3 as well. So that's a continuous process as far as we are concerned.

**Moderator:** Thank you. Sorry to interrupt you, Resha. I'll request to come back for the follow up question. Thank you. The next question is from the line of Anushka Chitnis from Arihant Capital. Please go ahead.

**Anushka Chitnis:** Yes, I just had one question that I wanted to ask. What is the share of cow milk and buffalo milk procurement in this quarter?

**Sambasiva Rao:** Cow 81, buffalo 90.

**Anushka Chitnis:** Just for this quarter I wanted to know what was the share of cow and buffalo milk procurement?

**Srideep Kesavan:** You could say roughly around 80-20 is the ratio.

**Anushka Chitnis:** 80-20, okay, thank you so much, that's all I wanted to know.

**Moderator:** Thank you. Next question is from line of Kaustubh Pawaskar from Sherkhan Limited. Please go ahead.

**Kaustubh Pawaskar:** Good morning, sir. Thanks for giving me the opportunity. I have a couple of questions. First, on value-added products. What was the contribution of the curd for this quarter and what was the growth at on year-on-year basis.

And my second question is, should we expect the contribution of value added products to improve in the quarter three considering the overall mix might improve because the fact said would be lower than quarter three considering that also even the mix should improve in Q3?

**Srideep Kesavan:** Okay, thanks for the question. So let me answer the second question first. See, we will continue to drive high growth of value-added products as we go, continuing forward, you could expect us to continue to drive value-added products growth at a very high teens level, 18%, 19%, 20%. This kind of growth you could expect us and this is what we are working on.



Now, ratio of value-added products in terms of their contribution to the overall revenue will be a function of other things as well, right? Which is either the revenue, here you have seen that we have taken higher revenue increase in milk compared to value added products. So contribution per se of value added products might be looking a little suppressed or if because of festive period, fat sales might go up and hence contribution might look a little muted. But value-added products will be the one that will continue to drive growth of the revenue or top line for our company.

And the first question was contribution of curd. Curd has grown at 10.5% for us in this particular quarter.

**Sambasiva Rao:** Curd has grown by 16%. Overall value, overall value-added products have grown by 18%.

**Kaustubh Pawaskar:** My last question is on the capacity expansion you just recently did. So I just want to understand, how it is going to help you and whether we might see some efficiency coming up through this expansion?

**Srideep Kesavan:** New markets. Yes, so see the capacity expansion has – is a net addition of about 25,000 liters per day because we have also decommissioned certain capacities and reorganized towards markets which we are looking at expanding. So this particular plant where we have added or commissioned new capacities is in Chittoor district, a place called Bkothakota, which gives us access to the Rayalaseema market. That's the market where this plant would be catering to. This again is a part of our growth strategy in terms of markets that we are focusing on.

**Kaustubh Pawaskar:** Right, so in that context, the farmer addition what you normally talk about, just a comment on that, where are we currently and what is our target on that front?

**Srideep Kesavan:** Did you mean farmer addition?

**Kaustubh Pawaskar:** In a sense, the procurement, in terms of procurement of milk, from the suppliers what we have?

**Sambasiva Rao:** Already we are having procurement in that area we are already procuring it we have just created that packing facility, curd production facility over there. This is more about processing and packing capacity not procurement in that area.

**Kaustubh Pawaskar:** Okay, thanks.



**Moderator:** Thank you. Thank you. Next question is from the line of Nainav Vandit from Alpha investments, please go ahead.

**Nainav Vandit:** Hello. Thank you for the opportunity. I just have one question being what kind of procurement number do we look by FY'26, two years out?

**Srideep Kesavan:** See, we are – some time back mentioned that our ambition is to grow at the rate of 15% to 16% year-on-year. And we expect half of that growth to be driven by volumes and half of it to come from price or shift towards value added products, right?

Now, which means that we will have to continue growing our procurement volumes in line with the volume requirements of our company which means that it will be either in high single digits or like, low double digits so you can say about 8%, 9%, 10%, 11%, 12% kind of growth we'll have to sustain to fuel this growth. And we are well on track for that.

**Nainav Vandit:** And what kind of capex number do we look for? Say for FY'25 to FY'26?

**Srideep Kesavan:** Yes, we have been tracking around 100 crores year on year. And we think, that's sufficient to fuel the organic growth that we are seeing or that we are anticipating.

**Nainav Vandit:** Okay, and one last question. I think we have been doing really well on the value-added product side. If you can just talk about some initiatives which are really pushing this kind of growth because I think for the last two, three quarters year-on-year we've been doing a decent number. So should we speak about what has been driving this kind of a growth?

**Srideep Kesavan:** Several things. See, first of all, I think that we are committed to offering the best product that is there in the market, which starts with understanding the consumer in terms of continuously improving our product quality. And this is not just in terms of the inherent product quality, but also the packaging and the presentation of the product to the consumer. So that is one thing that we have been continuously working on. In the last many quarters, we have actually improved whether it is curd, paneer, ice cream, many of these products have gone through multiple rounds of revisions and this is a continuous process at our end.

Secondly, in terms of distribution expansion, is something that we are continuously focused on. So while, you could call the core of our business, which is the fresh products is primarily driven through traditional channels, whether it is Heritage parlors or





Heritage distribution and distributor network. We have added or we have invested significantly in growing the distribution through grocery channel and many other emerging channels such as e-commerce and quick commerce and all of that in the last several quarters.

So whether it is in terms of adding of distributors, which has today we have close to about 50,000 outlets reach in the grocery channel. We have also added close to about 160 plus Heritage happiness points. We have heritage happiness points that are distribution centers, which neighbourhood distribution centers, which act both as a retail store as well as a redistribution center.

We have also expanded our presence across e-commerce, quick commerce and modern trade channels. We have now even in cities like Delhi NCR and all of that, you can pretty much buy most of our products, our value-added products on whether it is Big Basket and Zepto and Blinkit etc. So those are all the things that is driving growth for us as far as value-added products are concerned.

**Nainav Vandit:** Sir, what could be the percentage revenue that we're getting from e-commerce and modern trade channels?

**Srideep Kesavan:** Close to about 10.5% is the revenue that we get from this channel.

**Nainav Vandit:** Sure sir, thank you so much. I will come back to you. Thank you.

**Moderator:** Thank you. Next follow up question is from Ramesh from Retail Investor. Please go ahead.

**Ramesh:** Hello, thanks for the opportunity. So I have a couple of questions. The first thing is you have told third growth at 16% value. What is the volume growth you had? What do you think?

**Srideep Kesavan:** It's 10.6%.

**Ramesh:** Because I understand that the brand it is going in the market, people are moving more to buying curd instead of buying milk. I heard from you guys only in the previous calls, in previous quarters. Is it market driven growth or it is a market growth that 10.5%?



**Srideep Kesavan:** Okay, so it's both. So, I really don't know exactly what the market is growing at. Definitely there is momentum in the market because the packaged curd consumption is on the rise and which is primarily driven by some of the leading brands. Right, which also includes Heritage somewhere right at the top. So, it's a function of a bunch of brands, including Heritage, driving this growth and consumer adoption is happening.

**Ramesh:** Okay, and the second thing is on butter, means I know so many questions came in this call. Only thing is how much metric ton of butter we sold in Q-on-Q?

**Srideep Kesavan:** Roughly close to 2,000 tons.

**Ramesh:** So, the same question, Sameer had asked you a question. INR10.5 crores, I did not get how much last year in last quarter, as I remember. So, this quarter you're saying, we have booked INR11.8 crores loss. Is it after setting up that provision what we have made in Q1, or is it additional to that provision that INR11 crores?

**Srideep Kesavan:** So the two numbers are different. See INR10 crores that we mentioned in Q1 was notional loss on butter stocks. That was not the fat loss. Because the fat loss likely higher than that because we also sell in consumer packs ghee and butter and all that, right? And in the INR11.8 crores that you're calling out in Q2 is the total fat loss out of which only INR7 crores is on account of butter.

**Ramesh:** It's into INR10 crores loss of Q1, you're saying INR7 crores additional loss in Q2?

**Srideep Kesavan:** You could say that cumulatively in H1, we might have had to book a loss of about INR16.5 crores on account of the butter prices coming down.

**Ramesh:** Okay, understood. So my follow-up thing was, can't we use this butter as our advertising strategy for milk and curd or some value-added, we can use our butter or fat products for our advertisement instead of spending in other advertisements? Just a suggestion or something, can we use?

**Srideep Kesavan:** No, it's a good suggestion, but see at the end of the day, we have to balance everything, right? See, what is not visible here is the revenue growth that we are seeing in terms of our consumer packs. So we also sell 100 gram, 200 gram butter, like you see the Amul butter, right?

So if you come to our core markets, whether it is Hyderabad or Bangalore or Chennai and all, you will see strong presence of Heritage Butter on all shelves, retail shelves. The



consumer pack of butter for us is growing very strongly. But, in a month, we sell close to 60 tons to 70 tons of butter in consumer packs. Now 60 tons or 70 tons which is roughly you could say about 2 tons, close to 2 tons per day is what we sell. It will still not like you know I hope you understand the mismatch in terms of numbers.

**Ramesh:** I understand that.

**Srideep Kesavan:** So we are growing, the consumer packs are growing for us in very high double digits, or even in some cases, even triple digits. But still those numbers are not significant enough to compensate this kind of huge inventory that we might have.

**Ramesh:** Okay, understood, thanks for the answers.

**Moderator:** Thank you. Next question is from the line of Avinash from NAFA Asset Management. Please go ahead.

**Avinash:** Thank you, sir. Thank you for this opportunity. So I noticed that your value-added products grew at 18% while your milk has grown by 9%. Could you just give us a break up on margins from each of these Q-on-Q and Y-on-Y? Thank you.

**Prabhakara Naidu:** Q2 EBITDA margin of milk is 5.36% and the value-added products margin is 8.34%. Curd, particularly curd, 7.92%. Buttermilk, 12.74%. Ice cream, 11.67%, overall 4.37%.

**Avinash:** Thank you. Similarly, Y-on-Y?

**Srideep Kesavan:** Okay, these are EBITDA percentages that we've said. We are not talking about the change.

**Prabhakara Naidu:** No, these EBITDA percentages.

**Avinash:** Fine, okay, sir. Thank you.

**Moderator:** Thank you. Next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

**Aman Vij:** Good morning, sir. My first question is on the procurement volume. So you talked about in order to achieve 15% to 16% overall company level growth. We need a high single digit or low double digit kind of procurement growth. At the same time, you talked about the impact of inflation that although the number of packets are growing at double digit but the volume growth is very low single digit, 1%, 2% only. So if you can talk



about from which quarter is it like Q3, Q4 or it will happen only next year, do we see this high single digit kind of growth in procurement?

**Srideep Kesavan:**

No. See, there are two different things. I think, see one, I was responding to the gentleman who asked about what would be the procurement in 2026. Okay, so I was, when I said the high single digit or low double digit, the number was you could say, with a long term perspective, right?

Now, that means, it doesn't mean that every quarter or every month we'll be growing at that rate, right? The procurement will be growing or slightly growing less based on the simplicity of the milk supply that is there. So that's the raw milk supply side.

The second question what you're asking about is the growth, right? Even though milk is growing at 1%, value-added products are growing strongly in double digits in terms of volumes also, right? Just now you heard that curd itself is growing at 10.6%. So overall our requirement of milk per se is continuing to grow. So we'll have to bring in the milk to cater to that demand. That growth is only going up for us.

So there was a small tapering of growth at the time when we took the consumer prices up. For the last several months, consumer prices are stable, or rather the increase in consumer prices have been marginal and we continue our distribution expansion and our volume growth on the market side is continuing to grow, which means that going forward we will require the raw milk in that at that rate.

**Aman Vij:**

Okay. So for H2 what kind of volume growth do you see in procurement?

**Srideep Kesavan:**

So sir, that's what I was saying, that we will need to grow our raw milk procurement at the rate of 8%, 9%, or 10% to sustain the market requirement of growth because market will also grow at that rate, right, and are sustained over a long period in time. I mean it may not be talking about one quarter or two quarters here. I'm talking about slightly longer perspective if you look at it that's the kind of growth that we'll have to drive both in procurement as well as sales side.

**Aman Vij:**

Okay. So H1 maybe was an aberration and you're saying maybe H2 onwards you'll see that kind of growth because we need these growth to continue our growth in value-added products?

**Srideep Kesavan:**

Yes, okay. H1 was a long period so you should look at Q2 and Q1 separately, but that's fine.



**Aman Vij:** Sure, sir. My second question is on the value-added side. So, out of the INR260 crores kind of sales we did, if you can talk about the non-curd portfolio. So, how are, you have talked about margins, but in terms of growth, which are the segment example, paneer, ice cream, which are growing quite well for us? And also, sir, I'm linking this with the margin you talked about in different value-added products.

So it seems much lower than what other players make. I understand we don't have the scale yet, maybe in some of the products like ice cream and all those things. So on the whole basket value-added, if this kind of growth continues, do you think say, in the next year or year after that, we can see a good double digit kind of margin on this value-added portfolio, rather than high single digit?

**Srideep Kesavan:** Sure, so I'll take the second part of the question first and then we'll give you the growth numbers we are seeing in the Chief Operating Officer will call out some of the growth that we're seeing in some of the products. Maybe not all the products, but some of the products, right?

So see in terms of margins, we have most of the time, value added products will roughly deliver double the margins of milk, right? Now, while we took milk prices up, corrected the milk prices in line with the raw milk price increase, we did not do so much of correction in the value-added products because we are still continuing to drive volume growth in value-added products, right, that is why the gap between value-added products and milk in terms of percentages have come down a little bit, like milk EBITDA is close to 5.6%, value-added products is about 18.5%.

So, but at this point in time, we are in a very strong position as far as value-added products are concerned. And at any point in time, we can make those price corrections and all of that, and that EBITDA will consequentially improve as we are going forward.

And the idea is to bring more-and-more contribution from value-added products so that weighted average EBITDA of the company grows and moves towards the 8% margin.

**Samba Murthy:** Yes. Valued products other than the curd, paneer is growing by 28% and ice cream is growing by 45% and the total drinkables, it is growing by 28%. So there is a good growth in the value-added products other than curd as well.

**Aman Vij:** Sure, sir. Thank you.



- Moderator:** Thank you. Next follow-up question is from the line of Aditya from Securities Investment Management, please go ahead.
- Aditya:** Yes, thanks for the follow-up. Sir, what would the procurement price at the start of the quarter say in July? And what would be at the end of the quarter in September?
- Sambasiva Rao:** Overall Q1 to Q2, INR1.36 per liter has come down. Probably July to, Yes, that is. We'll have to verify.
- Srideep Kesavan:** Yes, we'll have to come back to you on that. But you could say that there was a good decline from July to September.
- Aditya:** Got it, and so this 43.5 which we gave in our press release, so that is for the average of the quarter, right?
- Srideep Kesavan:** That is right.
- Aditya:** Okay. Yes so the spread per liter which we are making on liquid milk and VAP product like now, are we back to pre-COVID levels or at a level which we make in a normalized environment or we are still some time away before reaching those levels?
- Sambasiva Rao:** Pre-COVID level volume?
- Srideep Kesavan:** Are you talking volumes, Mr. Aditya? Could you please clarify?
- Aditya:** The spread per litre which we make on liquid milk or in wrap products like curd?
- Sambasiva Rao:** Yes, spread per litre.
- Srideep Kesavan:** Spread per litre. We are still below COVID numbers actually. So we are still way below that
- Aditya:** Okay. Okay. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to Dr. Rao for closing comments.
- Sambasiva Rao:** Thank you very much to all the participants for raising interesting questions and giving details. So we look forward to interact with you again after the next quarter. Thank you all.
- Moderator:** Thank you very much. On behalf of Heritage Foods Limited, concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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