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July 21, 2025

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

Sub: Transcript of Conference Call held on July 18, 2025 - reg.

Dear Sir / Madam,

In Continuation of our letter dated July 7, 2025 the Company had organized a conference call with the Investors/Analysts on Friday, July 18, 2025 at 11.00 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.

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

Thanks & Regards

For **HERITAGE FOODS LIMITED**

Umakanta Barik
Digitally signed by Umakanta Barik
Date: 2025.07.21 14:37:53 +05'30'

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

Encl: a/a

HERITAGE FOODS LIMITED

Q1 FY'26 Earnings Conference Call

July 18, 2025

<u>**MANAGEMENT:**</u>

Mrs. N Brahmani – Executive Director

Dr. M Sambasiva Rao – Whole Time Director

Mr. Srideep Kesavan – Chief Executive Officer

Mr. A Prabhakara Naidu – Chief Financial Officer

Mr. J Samba Murthy – Chief Operating Officer

Mr. Umakanta Barik – Company Secretary & Compliance Officer

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

<u>**INVESTOR RELATIONS REPRESENTATIVE:**</u>

Ms. Garima Singla – GO India Advisors

Moderator: Ladies and gentlemen, good day, and welcome to Heritage Foods Q1 FY '26 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Garima Singla. Thank you, and over to you, Ms. Singla.

Garima Singla: Thank you. Good morning, everyone. I am Garima Singla, and it's my pleasure to welcome you on behalf of Heritage Foods Limited. Thank you for joining us today for Quarter 1 Financial Year '26 Earnings Call. This call is being hosted by Go India Advisors. Please note that today's discussion may include certain forward-looking statements. Therefore, they must be viewed in conjunction with the risks that the company faces.

Today on the call, we are joined by Mrs. Nara Brahmani, Executive Director; Dr. Sambasiva Rao, Whole-Time Director; Mr. Srideep Kesavan, CEO; Mr. A. Prabhakara Naidu, CFO; Mr. J. Samba Murthy, COO; Mr. Upendra Pandey, CEO, Heritage Nutrivet; and Mr. Umakanta Barik, CS and Compliance Officer.

I now invite Dr. Rao to present the company's business outlook and performance, after which we will open the floor for Q&A. Thank you, and over to you, sir.

Sambasiva Rao: Good morning, everyone. Thank you for joining us today. Heritage Foods steps into financial year '26 with renewed energy entering its 34th year. At Heritage, this quarter marked the celebration of 33 years of purpose-led growth built on farmer empowerment, strong corporate governance and innovation. While quarter 1 was shaped by weather-related challenges, including an erratic monsoon and an unseasonably cool summer across our core markets, we view these are short-term disruptions within an otherwise resilient growth trajectory. The core of Heritage remains unchanged. That is a robust procurement network, deep consumer trust, strong brand recall and disciplined execution.

Despite a muted seasonal start, I'm pleased to share that company delivered its highest ever quarterly revenue of INR11,368 million, our third consecutive quarter of double-digit revenue growth. This performance reflects the strength of the core business and agility of our supply chain networks. Early rains temporarily impacted demand for value-added products such as curd, butter milk, flavored milk and ice cream.

However, June brought a clear recovery with volumes rebounding across most of the categories. As a result, revenues from value-added products, including ghee and butter consumer packs stood at INR4,540 million, growing at 7.4% year-on-year and contributing over 40% to the top line.

On the profitability front, EBITDA came in at INR739 million with a 6.5% margin and PAT stood at INR405 million with a 3.6% PAT margin. Year-on-year margins were softer due to seasonality, input cost inflation and a temporary product mix shift, but are expected to normalize in the coming quarters as volume-led operating leverage kicks in.

On the operational side, milk procurement rose 10% year-on-year to 17.8 lakh liters per day. supported by quality-linked sourcing from over 300,000 farmers across 9,000-plus villages. Milk sales grew at 2.8% year-on-year to 11.6 lakh liters per day with average realizations improving to INR56.4 per liter, reflecting strong pricing power and stable demand. Over the past year, several strategic actions have laid the foundation for the next phase of our growth.

I'll list out a few. An additional 44%.4% stake was acquired in Heritage Novandie Foods Private Limited, increasing the holding of Heritage Foods to 94.4% and ensuring a strategic control of the yogurt supply chain. The upcoming greenfield ice cream facility expected to be operational by end of calendar year '25 is set to unlock new product and market opportunities for us.

360-degree brand campaigns were rolled out across our core states, Andhra Pradesh, Telangana, Tamil Nadu and Karnataka, enhancing visibility and deepening consumer engagement. The Heritage Livo Healthy Living platform was introduced with a fortified flavored milk range with vitamins A and D and high-protein yogurts targeting the growing healthy conscious consumer segment -- health-conscious consumer segment.

Heritage Nutrivet Limited, the Animal Nutrition subsidiary continued its stellar performance. Revenue during quarter 1 grew at 26% year-on-year to INR533 million. Profit before tax surged to 130% year-on-year to INR67 million. This vertical is quickly becoming a strategic differentiator driving farm-side innovation and deepening supplier loyalty. Further, Heritage was recognized among India's Best Workplaces in FMCG 2025 by Great Place to Work Institute, a reflection of our inclusive culture and high-trust workplace environment.

Meaningful progress continues on our Vision 2030 road map anchored on four strategic pillars: premiumization, digitalization, sustainability and people-first governance. Digital-first delivery systems are being deployed. Last mile logistics are being strengthened and farmer engagement is deepening, all contributing to a traceable farmer-first supply chain and long-term sustainability. FY '26 is not just a continuation, but a consolidation phase, aligning strong operating momentum with strategic depth and focused execution.

With an expanded portfolio, a strong consumer patronage and an unwavering commitment to innovation and farmer empowerment, Heritage is well positioned to deliver positive momentum and strengthen its growth trajectory through the rest of the financial year '26 and beyond.

A heartfelt thank you to our farmers, consumers, customers, team members, partners and shareholders for your continued trust and support.

Now I open the floor for question and answers. Thank you.

Moderator: The first question comes from the line of Sameer Gupta with India Infoline.

Sameer Gupta: Sir, firstly, on milk procurement prices, now the feedback in early May was that these milk procurement prices are kind of moderating. But in your case, you're not seeing any such moderation. And in fact, they are up sequentially. So has anything changed versus in the middle of the quarter? Or is it specific to your geographies of procurement and outlook going forward?

Srideep Kesavan: Yes. Thank you, Sameer, for this question. Nothing has changed actually. The raw milk prices had -- I should say that if you look at a year-on-year change, it is just 4.74% a tad higher than what we would have liked, but I won't say this is anything extraordinary. And usually in quarter 1, in the months of May and June, it goes up a little bit because that's actually the peak of the lean season.

If you recall, the raw milk prices had started going up from the month of December. December and January, we saw some price increases, then again, a bit of increase in April and May. Nothing extraordinary, except that on a similar proportion, we were not able to pass on to the consumer because of multiple reasons, which in our opening statement, we called out. Number one, due to the mix change, primarily because value-added products came down-- significantly from what we would have expected.

Second is in certain cases, certain deliberate decisions made to hold prices to drive sales volume growth happened and the mix change. Apart from that, nothing extraordinary happened as far as the farm level prices are concerned. It was as expected.

Sameer Gupta: Okay. And just a clarification, the pricing changes are primarily in value-added products or liquid milk or both?

Srideep Kesavan: In both, but primarily more in value-added products. We did not change any prices. I was just saying that certain deliberate choices to hold price increases to ensure volumes stay strong during the April, May month. This is only the initial period of the quarter 1 that I'm talking about. By the month of June, all numbers had normalized actually. In fact, they were looking pretty strong.

Sameer Gupta: Got it, sir. Second question is on fat sales. Now these are up 73% on a Y-o-Y basis. Typically, this is a quarter where consumption of branded fat is lower -- ghee and butter. So -- and just a quantification of the bulk fat sales this quarter. Also, if you can quantify the fat losses at a gross margin level?

J Samba Murthy: Bulk fat sale -- So it's about 620 tons we have sold during Q1.

Sameer Gupta: Sorry, come again. I didn't get that number?

J Samba Murthy: 620 tons of bulk fat -- bulk butter has been sold.

Sameer Gupta: And any value here?

Srideep Kesavan: yes, while we come back on the value, actually, in terms of margins, we actually improved. The losses declined by about 6 percentage on a- year-on-year basis

J Samba Murthy: Yes. Bulk fat, so the revenue is about INR36 crores.

Sameer Gupta: Okay. Got it. And just if you can also quantify the loss amount. I understand it has declined by 6%, but what is it?

Srideep Kesavan: The total loss in fat is about INR8.5 crores.

Sameer Gupta: And this is at a gross margin level, you're saying?

Srideep Kesavan: No, these are all PBT level numbers we are talking about.

Moderator: Next question comes from the line of Aniruddha Joshi with ICICI Securities.

Aniruddha Joshi: Just taking the question from earlier participant forward. So how do we think about the milk procurement prices over the next 12 months? Do you see inflationary pressure and hence, there will be impact on the margins on a year-on-year basis? Or do you see that there is a possibility to maintain the margins?

Secondly, the company has taken a small price hike. But as I understand, cooperatives have taken price hikes higher than the private sector companies. So is there a potential to raise the prices further to maintain the margins or reduce the impact of inflation in milk procurement prices? That is question number one.

And then secondly, what is the outlook on this Novandie -- Heritage Novandie business now. Now it is almost as good as Heritage Food Company. So what happens to the brands like Mamie Yova or Yo Pop? And I guess now we have introduced new brand like a Livo kind of a brand. So whether the earlier brands are discontinued and now a new brand has started or what will be, in a way, future of this joint venture now?

Srideep Kesavan: Thank you. I'll answer the first part of the question, and I'll hand over to our Executive Director to address the last question. On milk procurement, we are seeing stable milk availability across the regions where we are present, right? See, this is the first thing that you should note. That said, as we speak now, we are going through a lean period in certain parts of the country, right?

As you know, that usually August and September are lean months. And usually flush availability starts to appear from September, October onwards, all indications because the monsoon actually has been a little too good for our liking. Actually, on the sales side, we would have wished it was a little less. But on the farm side, this is actually going to be impacting very positively in terms of supply of milk is concerned.

As far as prices are concerned, there might be some short-term increases. We are expecting at this point in time, a little bit of increases, but nothing extraordinary. See, we should understand that 4 percentage or 5 percentage year-on-year increase in milk prices is normal and it is actually healthy as well, right? So -- and if you go back about 18 months, the prices had not increased from June of 2023 till about December of '24.

So it was natural that post December, there were some price hikes and this 4.74% that we have seen in quarter 1 is a result of that. So nothing extraordinary. We don't expect anything extraordinary in the months to come. Predicting up to 12 months is difficult, but I can say from here till December, we expect milk availability to be decent, right? The second part of the question was about market prices.

As far as we are concerned, our brands are priced at a premium compared to all cooperatives. I don't think there is any cooperative who is selling at the same prices as we do. And in many cases, the cooperative pricing is a catch-up on the pricing that we have done. The price increases made by many of the cooperatives in the month of March and April was a catch-up to the price increases that we had done -- already done in the month of December and January.

Yes, you're right. In the normal course of business, we may have done one more price increase, let's say, towards the middle or end of quarter 1, which we did not do this time because of the sales side pressure because of very, very inclement weather. And if I can just call out some numbers, if that gives you a sense of the kind of inclement weather that we faced on a weighted average basis, in the month of May, the temperatures that we faced in our markets were about 3.5 degrees lower than previous May.

And even if I take a 10-year average, it was 2.6 degrees temperature lower. In terms of rainfall, we had 152 millimeters of rain. Cumulatively, if I talk about April and May period, we almost saw about 180 millimeters of rain against the 65 millimeters of rain in the previous year same period. So this kind of unprecedented weather event, we haven't had in any time in the past. There is no other reason.

And the business had bounced back in the month of June. For example, our overall business growth -- revenue growth had bounced back to 15.1% in terms of revenue in the month of June. And value-added products also, which had the average number that you are seeing in quarter 1 is only 6.6% -- 6% whereas in the month of June, the value-added products had grown at 11%. All our products had bounced back by the month of June.

Nara Brahmani: Going back to HNFPL, yes, you're right, Heritage Foods now holds 94.4% shareholding in HNFPL. And we've been -- I'm happy to say that we've been successfully able to repurpose the business. And HNFPL has already started co-packing yogurts for Heritage Foods under the brand name now of Livo, which is our new sub-brand for high- energy nutritious products.

In fact, I'm quite happy to also share that our R&D team and marketing team very efficiently quickly turned around the project. And the initial launch of our yogurts in MRF channels as well as e-commerce channels is quite encouraging in terms of offtake. And it's a very attractive proposition.

It's a high-protein portfolio of yogurts with different flavors, currently available in snackable packs of 90 grams and in the future also available in 400 grams and other SKU sizes. So yes, the company has been repurposed and yogurts continue in the form -- in the brand of Livo under Heritage Foods driving sales.

Aniruddha Joshi: Okay. No, this is very, very helpful. Just one last question. Is the entire inventory of, let's say, SMP plus butter accumulated during the melt -- deflation period is largely over now? Or is there anything still excess inventory with the company at, let's say, June end?

Srideep Kesavan: Thank you. I'll hand over the question to CFO. But before I hand over, I'll just indicate one point, correction. The SMP did not accumulate. We always -- during flush season, we build up inventory stock. And during summertime, which is usually the lean period, we consume it. This time, because of the value-added product sales not happening to our expectation, that consumption of SMP did not happen. So we did not accumulate. That's just a correction and maybe CFO can elaborate

A. Prabhakara Naidu: As on 30th June, we have actually 6,197 metric tons of SMP. Corresponding year, actually, it was actually 4,586 tons. So as Srideep said, actually, then the consumption slightly, it has come down because of that, this much of stock we are keeping it. Going forward, actually, it is going to be consumed in the next Q2 and middle of Q3 also.

Moderator: Next question comes from the line of Pratik Kothari with Unique PMS.

Pratik Kothari: Sir, recently at our Foundation Day, I mean, first of all, congratulations to the team for completing 33 years. So in a press release, we had this statement during a Foundation Day about Vision 2030 and being the most admired dairy company backed by clear metrics and milestones. I mean this was what was mentioned in the press release. If you can just highlight more qualitatively, quantitatively, what is it that we intend to do or what's the plan that we have until, say, 2030?

Srideep Kesavan: Thank you, Pratik, for that question. As you rightly said, the Vision 2030 is to be the most admired dairy nutrition company in the country. There are certain parameters that we have. Number one parameter is to do with the revenue growth. So that's mostly to do with the size and salience of the business as far as the country dynamic is concerned. It's our intention and continuing with our past communication.

It's our intention to keep our growth in the double-digit space continuously over the next many years to come, not just next 5 years. And in the near to short term, we are looking at keeping it in the mid-teens. That's our ambition. We also have clearly laid out ambitions in terms of how we want to improve the farmer income in this period. There are certain metrics that we have drawn out as far as that is concerned internally. We are in the process of finalizing those numbers.

There are certain metrics that we have drawn out in terms of consumer metrics. We are already number one in all our markets as far as consumer loyalty is concerned. In fact, we enjoy 19% consumer loyalty in our markets, and this is done through an independent market research agency as part of our routine quarterly brand health track, which is the highest among all South Indian brands in our markets.

So we plan to enhance it further. We also have metrics which is related to our customers and partners in terms of the ratings that we have from them in terms of our Net Promoter Score. These are all parameters that we have for measuring our progress against this. And we also have ambitious targets as far as environment and sustainability is concerned. There are several things that we are working on at this point in time.

Pratik Kothari: Anything on the margins?

Srideep Kesavan: See, as far as the margins and shareholder wealth is concerned, that's primary focus of the company at any cost, and that goes without saying. We are in the process of scaling value-added products and it is just the beginning. The idea of the business is to constantly shift the narrative towards branded business, branded consumer business, which becomes resembles more and more like FMCG. So it's our intention to transition our margin potential also towards that -- in that direction, but it is a journey. And as far as milestones of 2030 are concerned, it's a little too early for us to communicate any number.

Pratik Kothari: Fair enough. Sure. Sir, coming to this quarter, again, anything to call out on the other expense? I mean it seems higher than our past.

Srideep Kesavan: That is right. 2 numbers are higher as far as that is concerned. One, as far as our marketing expenses are concerned, it's about INR7 crores higher than last quarter 1. A bit of it is intentional as well and a bit of it is because of the sales volumes not happening as we expected. We -- in the beginning of the quarter, rather actually end of quarter 4, we had already gone on air on television and all for our curd -- with our curd campaign. This is season three of that.

And in the middle of quarter 1, we started our first-ever milk brand campaign. I'm sure that you must have seen it, which was focused on driving purity. These campaigns are very essential for us as far our business is concerned because it is essential that we establish our superiority over other brands, including many of the start-up brands, which have started gaining momentum in some of the organized trade.

So the campaigns -- and we also ran certain consumer promotions in -- for curd, etcetera, during the summertime to sustain the volume. So all of this additional cost is about INR7 crores. If I remove that, actually, on a percentage basis, it will be very similar to 9.1% of revenue as similar to last year. So -- and this is one. And number two is freight. We had about INR4 crores in absolute terms increase over last year on freight.

But there is nothing much to read in that. It is only because the number of kilometers traveled were more and fuel rate changes and all that. So the big story is marketing expenses increased over last year Q1, which may look in the short term like a hit, but I can tell you that this is what is going to help us build the business over the long term.

Pratik Kothari: Correct. Fair enough. And sir, last on gross margin, right? So even if we compare Q-on-Q, I mean, our VAP share is higher than what it was in Q4. Year-on-year, I mean, it's down, but I mean it's gone from only 37% to 35%, right? So it's not that material that our gross margin knocks off by 160, 180 basis points.

So anything to call out here? I mean, is it this bulk because last year, I think we didn't have this much bulk fat loss. Is it bulk fat loss, which is kind of driving this? Or is this something more? Because I mean it's not that material that VAP has changed quarter-on-quarter or even year-on-year.

Srideep Kesavan: Okay, Pratik, no. Let me assure you, no, it is not the bulk fat loss, which -- that is not the -- if I compare on a quarter-on-quarter basis, yes, on absolute number, the total fat losses. Now here, I'm adding both bulk as well as, let's say, consumer fat losses, it's about INR8.5 crores compared to INR7.7 crores. But then the volumes, revenues have also grown at about 20% plus range. So on a per unit basis or a percentage basis, the profitability in -- or the losses in fats have reduced by 6%.

So no, there's nothing to read into this. The only difference is the value-added products decline compared to numbers. And here, I'm talking stand-alone numbers because the numbers you called out at 35% is on the consolidated number. But if I call out the value-added products, excluding fats to our stand- alone number, it stands at about 36.1% compared to 37.5% in same quarter last year.

And imagine that we are taking up our value-added product contribution 2% or 3% year-on-year. So ideally, we should have been at 39% or something. So that 3% swing is a big one, if I can tell. And so it's not just the direct -- the contributions that are driven by value-added products. That kind of absolute loss of volumes also impact our, let's say, cost absorption of our plant and operating expenses and all of that.

So it is the only element. There is no other element at all. And we have done all sorts of analysis. So if I could just break up for your information, we can break it down into 2 parts. One is we had -- if suppose value-added products revenue had happened as we expected, let's say, or the mix of value-added products continued at 15%, 16% growth as we were having in the last several quarters, then our overall net revenue would have been better by about 0.8%.

Similarly, if we had gained the volumes, which is a mix change, that itself would have been about 1.3%. The total impact is about 2.1% on a revenue basis itself. So nothing more than that. I think that we have already recovered half of that in the month of June. These are quarterly averages I'm talking about. And July onwards, we should be getting normalized on this.

Pratik Kothari: Sir, point completely taken on the cost and at the EBITDA level. And hence, my question was at the gross margin level, right? Because this swing, I understand we were to have 2% higher, we came in 2% lower and hence, the swing at EBITDA level. But this kind of doesn't explain the 160, 180 basis point knock that we took on the gross margin level. That was the only question which I had.

Srideep Kesavan: Everything is -- even gross margin, please understand is a function of volumes. So among all of this, we actually have a very good news to share. Despite such inclement weather, for the very first time in quarter 1, we crossed on a quarterly basis 510 tons per day on curd. This is the first time we crossed 500 tons. Last year, same time, we were knocking on the doors of 500 tons with 494 tons per day sale.

This year, we crossed 510 tons. So I'm saying that even in the face of all of this, we were able to grow volumes and do this. But imagine if we had done 550 tons or 560 tons or something, which is what is intended. The cost absorptions would be so much more better, right? That is what will deliver the gross margins as well.

Moderator: Next question comes from the line of Shirish Pardeshi with Motilal Oswal Financial Services Limited.

Shirish Pardeshi: Just one quick question on the Novandie business. Now obviously, we have consolidated. So in the INR1,137 crores revenue what we have reported, what is the contribution? And I have a little more understanding how we want to scale up this business over the next 2 to 3 years in terms of distribution, product and reach. So maybe you can give the current status?

Sambasiva Rao: The contribution will not be visible because this changeover happened in the last part of the quarter. A week before the end of the quarter only, the business started in Heritage Foods. So it's virtually nil contribution in quarter 1. The changeover happened towards the last week of June month. So therefore, there won't be anything visible to you in this.

Coming to the future, yes, this new brand, Heritage Livo, the sub-brand Livo, high-protein yogurt, we just started placing in the market. So we want to build at least 2 tons kind of volume per day in the next 1 year and then build up to 10 tons in the next 3 years. The volume is the most important thing. And the logistics placement management, etcetera, will be done by Heritage Foods sales team.

All the logistics advantages we see because they move along with the Heritage products. There's no independent sub-cold chain or independent delivery mechanisms required unlike when we were doing Mamie Yova that was done as an independent business. Now it is getting integrated into Heritage value-added products basket.

So it would give us additional item in our VAP portfolio, and it will help us to reach more and more consumers who need it. The placements will be along with Heritage other value-added products in all the stores, in all the channels, etcetera. But actual numbers, projection, etcetera, maybe in course of time, we'll be able to articulate better, maybe 2, 3 quarters down the line.

Shirish Pardeshi: That's really helpful, Mr. Rao. What I was just wanted to say that Novandie part of the business now getting merged. So obviously, there is a distribution scale up. So specifically, what is the heritage part of the business distribution can catch up? Will we reach a 50% level for the Novandie business in next 6 months, 1 year? Or it is still -- the merger will happen and then we will merge the front end and then we will start distribution?

Nara Brahmani: No, no. Distribution is already going on through Heritage sales team. So that synergy is already realized with Heritage sales team. And even operations, while the existing team runs operations, it's overseen by the Heritage operations team. So for all practical purposes, all logistics, sales as well as operational synergies have been realized.

Moderator: Next question comes from the line of Resha Mehta with GreenEdge Wealth.

Resha Mehta: So while you have spoken about the milk procurement price and the fact that they are still elevated. If you could just give some quantitative or qualitative flavor in terms of the milk prices currently in July, the trend basically versus, let's say, the weighted average price that we saw as INR43.3 in Q1. And the reason I'm asking this is because -- see, while in South, which is our major procurement hub, there is a flush that we would have seen an early flush because of the unseasonal rain?

And the part where you're hinting at that in July, August, the prices would be elevated where there's still lean season, that would largely be the north where our procurement is relatively lower. So just wanted to understand the milk price procurement trend as we are seeing it now and whether it's lower versus the Q1. And if any quantification is possible, that would be great.

Srideep Kesavan: Yes. So Resha, I don't want to quantify the elevation of cost. See, we should understand that, yes, technically, you're right that if you take Tamil Nadu as South of India, then Tamil Nadu flush season starts from the month of May, and it usually continues till about November, yes. But we are quite diversified in our footprint of procurement, as you know.

We have procurement coming from Maharashtra. We have procurement coming from Andhra, where we have certain areas in Andhra and Telangana have got buffalo contribution. We still procure about 20% buffalo milk. And we also procure from North India, about 4% to 5% of our milk for our North Indian operations.

Now these regions, whether it is Maharashtra or buffalo milk regions or North India have got a different dynamics as far as the lean and flush is concerned. And in fact, August, September is the time when if you look at as in for us, the cumulative supply scenario actually shrinks to the leanest most. That's the reason why I said that.

But of course, there are lots of compensating factors as well. It will all be a function. The eventual arithmetic will be a function of the weighted averages that we derive. But at this point in time, in general, if I can advise, milk supply looks good. There might be a temporary small inflation of INR0.50 or INR1 or something. Nothing much to read and which should ideally get normalized once, let's say, October or November happens. That's all I meant. I do not want you to put any arithmetic to that.

Resha Mehta: Fair. And on the pricing front, so specifically for liquid milk because in VAP, I think since the last 18 to 24 months, we've had this strategy where we are okay with relatively lower margins in VAP, but the idea is to grow the market -- grow our market share. And that's why the pricing is relatively on the lower side, though we are serious versus the cooperatives.

But on the liquid milk side, can you just call out that what would be the gap basically the pricing gap, which is there? And what is the pricing that we can still there is room to take so that we reach our kind of old gross margin level?

Srideep Kesavan: Yes. On liquid milk on aon a year-on-year basis, we are higher by about 2.9% and on a quarter-on-quarter basis, sequentially, we are up by about 1.4%. That said, you're right, there is still opportunity for pricing, and we will be looking at some of those opportunities in the remaining part of the year, for sure.

Like someone called out earlier that cooperatives increased their prices in the month of March and April, and we have not reacted with the corresponding increase at our end. That price increase is possible. But at this point in time, we believe that the margin is similar to see, if you look at the EBITDA numbers also compared to Q4, I'm only calling out sequentially. It is lower by about 1.1% in quarter 1, and they're primarily driven by the value-added product shrinkage as far as the contribution is concerned.

So we are focused on getting that back. And we have some pricing opportunities in value-added products, which we are realizing. We have already realized part of it in Q1 June itself. And like if I can just call out certain numbers if it interests you, for example, curd, on a sequential basis, quarter-on-quarter basis, quarter 1 revenue realization from curd was 0.7% lower than in quarter 4.

And -- but it is 0.3% higher than quarter 1 same period last year. So my first priority would be to get curd back, which is already doing very well to get the revenue back up 3%, 3.5% over last year on a year-on-year basis. So the opportunities are still there in value-added products. And after that, we can look at milk revenue realization.

Moderator: Next question comes from the line of Kiran Kumar with Green Investors.

Kiran Kumar: Firstly congratulations on good set of numbers. My question is more into numbers. So can I know the breakup of the fat products revenue, which you quoted INR81 crores. Out of this from the last conversation we put that around INR36 crores is from butter. And the remaining, can we assume it is SMP or?

Srideep Kesavan: Can you repeat? We couldn't hear you properly. Can you repeat?

Kiran Kumar: Yes, yes. As it is evident from the investor presentation, the fat products revenue is around INR81 crores, right? So what is the breakup of that? What amount is for butter and what is for SMP?

Srideep Kesavan: Okay, this is not SMP.

Sambasiva Rao: Not SMP, consumer pack.

Srideep Kesavan: You can expand.

Sambasiva Rao: Yes.

Srideep Kesavan: Breakup of INR91 crores. It doesn't include SMP. Fat products are basically butter, ghee and cream and you can explain.

Sambasiva Rao: Yes. In that bulk fat sale is INR36 crores around and consumer pack fat is about INR50 crores.

Srideep Kesavan: Ghee and butter.

Sambasiva Rao: Ghee and butter together.

Kiran Kumar: What is the revenue of curd in VAP or to what extent curd is there in '26 and '25?

Srideep Kesavan: Request you to repeat your question because your voice is not very clear.

Kiran Kumar: Yes. So what is the revenue of curd in '26 of Q1?

Srideep Kesavan: Sorry, come again?

Kiran Kumar: Curd's revenue in '26 Q1?

Srideep Kesavan: Yes, 2025 sales, it's about INR265 crores.

Kiran Kumar: INR265 crores.

Moderator: Next question comes from the line of Harsh Shah with Merisis Advisors.

Harsh Shah: My question is related to more of a strategy thing because more and more population in India has started becoming lactose intolerant. So any plan or any future strategy of coming up with lactose because other competitors are also coming up with lactose-free kind of milk. So do we have that in cards or how is it going to be?

Srideep Kesavan: Yes. Thank you for that question. See, one of the reasons why we see -- see, the question was on lactose intolerance. See, first of all, that's a largely debatable point about lactose tolerance or intolerance. But let's assume that there is a certain amount of people, certain number of people who are lactose intolerant, which is primarily -- which is the primary reason why we are seeing great interest and significant consumer traction for our value-added products.

Most of our value-add products, if you see, are reduced lactose products, whether it is curd, butter milk, anything, any of those products, you take paneer, etcetera, are all lower in terms of lactose and most of the lactose intolerant people take these fermented products because the lactose presence is negligible. Secondly, in terms of milk itself, we are working on several innovations at this point in time, some of which will address the lactose -- reduced lactose or zero lactose propositions as well.

Moderator: Next question comes from the line of Param Vora with Trinetra Asset Managers.

Param Vora: So what I want to ask is regarding value-added product. So beyond curd and paneer, what specific investment or market penetration strategies are planned for new VAP categories like Livo drinkables and upcoming ice cream products to drive their growth and ensure that they significantly contribute to the value-added product targets?

Srideep Kesavan: Thank you for asking that question. In fact, actually, we are one of the most diversified companies as far as value-added products are concerned. I'm not aware of any other company in the private space, which is as diversified as we are. We have quite a wide portfolio apart from, let's say, we call it foods, which is curd and paneer.

. We have quite a wide range of drinkables, starting from our biggest being butter milk, then flavored milk, lassi, milk shakes, cold coffee.

Recently, we launched a whey-based drink called GlucoShakti, which is doing exceedingly well for us, etcetera. We are also reasonably well invested in ice creams. Recently, we announced a capex of INR220 crores on expanding our ice cream facility. which is supposed to come up towards the end of this calendar year.

The reason why we are making that investment is we are almost utilized -- fully utilized our existing capacity. So that capacity coming in and our ability to bring out new to the market products is what is going to drive a significant growth in the coming quarters. We also have a small but growing presence in the sweet space. Our Doodhpeda is something that is pretty famous in our parts. But we -- last year, if you remember, we launched Ladoos. These are Millet Ladoos. We call it under the brand Truly Good.

We also have a growing portfolio of Gulab Jamun, Rasgulla, etcetera. So we are pretty diversified. We are investing proportionate to the size of the business in each of these categories to build traction in each of them. And that's primarily one of the things that we are doing to deseasonalize the business as well.

Moderator: Next question comes from the line of Gopinadha with PNR Investments.

Gopinadha: First question is, when it comes to vitamin D fortification, are we doing D2 or D3, sir?

Nara Brahmani: Actually, we first fortify all of our milk variants with vitamin both A and D, both absorbable and very good for bone health and calcium absorption, etcetera, and for eye health. Aside from that, we've also fortified our flavored milk with vitamin A and D and our yogurts also very healthy, not just fortified, but also high-end protein. So I think fortification is something that is going across the board for us, not just in milk, while we were the first in milk across other value-added products as well.

Gopinadha: Yes. The second one is when it comes to working capital cycle, working capital days from the last 3 years, it is coming down. Before that, it was going up. What are the factors that are affecting so much? And how will it going to be?

A. Prabhakara Naidu: As on 30th June, actually for the first quarter ending, the working capital cycle days are 19 days, inventory 35 days, trade receivable 3 days and trade payable 17 days. Corresponding year, it was 20 days. One day it has come down. We will be maintaining around less than 20 days on the working capital cycle.

Nara Brahmani: I mean most of our products are fresh in nature. Most of our value-added products are also very fresh in nature. And we do B2C business. We are focused on that. So inventory holding is very efficient for us in general. And we are not into any kind of speculative business. So we intend to maintain our working capital days under 20 days.

Moderator: Next question comes from the line of Rahil with Crown Capital.

Rahil: So just one question, if you could give us an outlook for FY '26. When it comes to your revenue growth and EBITDA margins. What are your expectations in near term?

Srideep Kesavan: We usually don't give out guidance or outlook. But as I mentioned, we were on a journey to grow in strong double digits. So we were expecting a growth in terms of mid-teens. I think we have lost at least 5 percentage or 6 percentage points, thanks to the weather that we saw in quarter 1. So I hope that everything is normalized.

It's already normalized, but I hope that it holds good in Q2, Q3 and all of that, and we are able to be back at about 15%, 16% kind of revenue growth and value-added product growing close to about 20%. That's what we are -- we have been doing, and we hope to continue to do that. And the margins and all, at least a percentage correction is expected, assuming all goes well.

Rahil: Okay. And what is your value-added products contribution as of now overall to the revenue?

Srideep Kesavan: In the first quarter, on a stand-alone basis, it was 36.1%.

Moderator: Next question comes from the line of Pavan Kaware from Nayan M Vala Securities Private Limited.

Pavan Kaware: So firstly, congratulations on continued double-digit growth. And my question was also on a growth number. So if you can quantify our regional growth on West, North and South, like in home market on quarter -- year-on-year basis for this quarter and the last quarter also.

Srideep Kesavan: Yes. So we won't have those numbers ready, but I can tell you that actually South has actually been very under a lot of stress. The rains that -- or rather actually the whole dip in temperature and everything has been most in the South. Our West and North have performed relatively much better. Yes. So you could say about like West and North continue to perform.

Except in the month of June, there were lots of rains in the West and North. But nothing much in terms of like if I look at the delta between last year quarter 1 and this year quarter 1, West and North had more comparable weather and their performance was very good. In South is where we got really severely affected as far as the growth is concerned.

Moderator: Next question comes from the line of Lakshminarayanan from Tunga Investments.

Lakshminarayanan: I have two broad questions. One is I want to understand what is the loss of Novandie in Q1? And the second question is related to procurement. So procurement, I'd like to understand what is your procurement mix across the states you gave that North India is around 4%, 5% of the procurement. I just want to understand other state mix across. And within procurement, I also want to understand, I mean, how -- with respect to cooperatives, what is your pricing?

Do you price how many rupees ahead of cooperatives? And within procurement, again, where do you procure directly from the farmers that you pay the farmers immediately the same day? And how much you actually indirectly procure by way of some middlemen. So these are the questions related to procurement and the loss in Novandie.

Sambasiva Rao: Thank you. The loss from Novandie Foods for the Q1 was INR1.31 crores, which is booked in that company consolidated in Heritage Foods.

Lakshminarayanan: But last year, full year, I saw the loss of almost INR24 crores or something, if I'm not wrong as per the annual report. So I just wanted to understand whether that is one-off?

Sambasiva Rao: No, no. That was including some impairment value, onetime inclusion in the last year. This year, Q1 is INR1.31 crores operational losses.

Srideep Kesavan: Okay. There was a question on the procurement. We'll just quickly address. We procure across many states. We procure in Tamil Nadu, Andhra, Telangana, Karnataka, Orissa, Maharashtra and again, in the North in Rajasthan and Punjab. So we are pretty widespread as far as our procurement is concerned. There's no one significant domination we procure.

North is about 4% of our total milk. Rest of the areas, it's all pretty widespread. You can say it's almost equal everywhere. And as far as your question on pricing is concerned, we price the farmer on a very fair basis, which means that we price -- our pricing to farmer is on par with what is best in that particular region or a village. We don't pay anything excessive compared to any of our competition. We pay on par.

Sambasiva Rao: I'm sure this answers the question.

Moderator: Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Dr. Rao for closing comments.

Sambasiva Rao: Thank you, all the participants very much for your active engagement and very insightful questions and the interaction. I'm looking forward to catch up with you next quarter. All the very best. Thank you.

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

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