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22nd October, 2022

To
The Secretary **BSE Limited**

Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 То

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 with the Investors/Analyst

Dear Sir / Madam,

In Continuation of our letter dated October 11, 2022 the Company had organized a conference call with the Investors/Analysts on Thursday, October 20, 2022 at 16.00 PM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been 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

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







HERITAGE FOODS LIMITED

Q2 FY2023 Earnings Conference Call

October 20, 2022





MANAGEMENT:

MRS. N BRAHMANI– EXECUTIVE DIRECTOR, HERITAGE FOODS LIMITED

DR. M SAMBASIVA RAO – PRESIDENT, HERITAGE FOODS LIMITED

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

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

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

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

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

INVESTOR RELATIONS REPRESENTATIVE:

MR. ANUJ SONPAL – VALOREM ADVISORS



Moderator:

Ladies and gentlemen, good day and welcome to the Heritage Foods Q2 FY2023 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone telephone. Please note that this call has been recorded. I now hand the conference over to Mr. Anuj Sonpal. Thank you and over to you Sir!

Anuj Sonpal:

Thank you. Good evening everyone and 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 would like to thank you all for participating in the company's earnings call for the second quarter and first half of the financial year 2023. Before we begin let me mention a short cautioning statement. Some of the statements made in today's call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to defer from those anticipated. Such statements are based on management's belief 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 and making any investment decision. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter and review. Let me introduce 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 N Kesavan - Chief Executive Officer, Mr. A. Prabhakar Naidu - Chief Financial Officer, Mr. J. Samba Murthy - Chief Operating Officer and Mr. Upendra Pandey - CEO of Nutrivet Limited and Mr. Umakanta Bakri -Company Secretary and Compliance Officer. Now without any further delay I request Mr. Rao to start with his opening remarks. Thank you and over to you Sir!

Sambasiva Rao:

Thank you Anuj. Good evening to everyone joining us today on this call. We are pleased to welcome you all to this earnings call for the second quarter and first half of the financial year 2023. The financial results and the earnings presentation have already been uploaded on the exchanges and I hope you had a chance to look at them by now.

Now let me take you through the financial performance of Q2 of current financial year. Consistent with our performance in the last many quarters we have delivered yet another quarter of strong growth and consolidated revenue of 21.8% year-on-year to 816 Crores driven by healthy double digit volume growth and higher net sales realizations. EBITDA was Rs.40 Crores as against 65 Crores during the corresponding period in the previous year. This decline in margins was mainly due to inflationary pressures where raw material cost increased by 19% year-on-year resulting into historically high milk procurement prices, additionally freight cost, energy cost and also delayed onset of flush season further dampened earnings resulting in EBITDA margins of



4.8%; however, EBITDA margins improved by 192 basis points versus Q1 of this financial year. PAT was 19 Crores in this quarter. If you take first half year of the financial year 2023 our consolidated revenue grew by 24.2% year-on-year to 1637 Crores. EBITDA was 64 Crores as compared to Rs.118 Crores during the first half of last year. EBITDA margins stood at 3.9% while PAT is Rs.26 Crores. Company has a strong balance sheet with a debt equity ratio of 0 to 0.01x and the cash and bank balance of 78 Crores as on September 2022.

Now moving onto the operational performance for the quarter. The average milk procurement during Q2 was 1.46 million liters per day as compared to 1.27 million liters during Q2 of last financial year. Average milk sales during Q2 stood at 1.12 million liters per day compared to 1.03 million liters per day in the Q2 of last year. The sale of curd during the current quarter was at 326 tonnes per day compared to 280 tonnes per day during the last year same quarter registering a growth of 16.69% year-on-year. During the quarter the value added products revenue surged by 28.9% year-on-year to 2186 million. During Q2 value added products contribution to overall revenue increased to 27% vis-à-vis 25% in the Q2 of last year. To insulate the company against these market volatilities our strategy and focus has been to consistently increase the share of value added products, which now contribute to 30% of overall sales at the end of first half year from a mere 3% in 2007. The company aims to increase this share further to 40% in the coming years which will over a period of time bring stability in our margin profile. The company launched a new product this quarter called Gluco Shakti which is an instant whey-based energy drink. With this now we open the floor for the question and answer session. Thank you.

Moderator:

Thank you very much Sir! Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Resha Mehta from GreenEdge Wealth. Please go ahead.

Resha Mehta:

Congrats on good set of numbers it was good to see maintaining the quarterly revenue run rate of 800 Crores sequentially and also the volume growth that we have seen. Sir my first question is on the marketing bit right if you look at Amul right so it sources almost 90% of its milk from one state and is still able to deliver around 60000 Crores of revenues so this perhaps also implies that marketing distribution is also very important in B2C business and if I see our revenues are around almost 0% as a percentage of net sales so considering that now we have an internal marketing team can you just flash out your marketing approach be it in terms of ATL, BTL, the trade promotions, etc., that is the first question and the second is on the rights issue so it is a very small amount just 23 Crores so what really is the objective here and thirdly on this particular quarter which is some data points like what was the average milk procurement price and the selling price and just some directional sense on how you are seeing the flush season panning out that is it from my side?



Company Speaker:

So the first question on marketing you are right because we are engaged in B2C business and hence marketing is a very important aspect of engaging with consumers. At this point of time we have been discussing in previous many calls our priority is to improve the product availability in the hands of the consumers and that is what we have been focusing on in the last several quarters and which is what is driving the aggressive growth that we are seeing in our value added products and this means getting the product accessible to a consumer and if you are living in any of the major metro cities you would be able to find our products on most of the e-commerce channels. We are also expanding our footprint across modern trade, retail in addition to the traditional approach of aggressively expanding distribution through our product distributors and Heritage distribution centers and we are reaching a stage where we have sufficient scale or saturations in each of the market that we are now embarking on above the line advertising and there is no one size fits all strategy for us it depends on the market, it depends on the channel, it depends on the occasion. Currently we have a couple of campaigns that are on because it is festive period we have a very highly engaging digital campaign that is going on for ghee because this is a period when ghee sales go up. We have also relaunched or restaged our products basically the milk variants in the city of Chennai where we are having a campaign which engages with the consumers both above the line as well as below the line so we have these campaigns going on all the time, but the scaling of it and the timing of it and the scale of it will depend on the level of saturation that we reach in every city. Secondly we can give you first the milk procurement prices.

Company Speaker:

Average procurement price for Q2 Rs.39.17. Milk selling price for the quarter average Rs.50.87.

Company Speaker:

Of course these are average of different variants, different markets and only that of milk. The net realization of milk plus value added products all put together would be much higher. The question that you have raised about the flush season, usually the flush season should be starting around now in some of the procurement fields we are actually seeing the beginning of this. In certain other fields we expect the flush season to begin anytime around Diwali or post that. At this point in time we do not see many reasons to have any worry about it.

Resha Mehta:

What would be the price hike that you all would have taken cumulatively in the quarter?

Company Speaker:

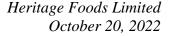
So liquid milk prices have gone up by 14%.

Resha Mehta:

I am asking about the realization, you would have taken some price hikes during the quarter?

Company Speaker:

Net realization inclusive of value added products have gone up by about 10.4% so we had milk prices that went up by about 14% and realization that went up by about 10.4%. It is not a very linear equation what we should understand is that milk contributes only about 63%-64% of our





business and there are many value added products as well so the price increases have been at different levels for different products but overall we have not been able to pass on all the increase of cost to the consumer and that probably explains the small difference in terms of the EBITDA and PBT variant for the dairy business compared to same period last year.

Resha Mehta: Lastly on the rights issue?

Company Speaker: I will respond to you. Objective was stated already in the notification it is to raise funds for the

business growth. We internally assessed our requirement is around 25 Crores for this season so

we propose to raise that capital through the rights issue.

Resha Mehta: Just a followup on the marketing bit essentially if you could just call out that annually is there

some number that you all look at that okay ATL plus BTL should be an X percentage of net sales

or something of that sort?

Company Speaker: Of course we work on a budget. The specific budget number we are targeting anywhere between

1 and 1.5% of our revenue is what we invest in marketing, but it is not like we are committed to spending this money this depends on the reality on the ground. At this point in time we believe that we are getting strong traction because of consumer demands and we are cautious of spending

marketing money that does not have immediate returns. I hope I have been able to answer that.

Resha Mehta: Sure thanks. I have more questions I will come back in the queue.

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

ahead.

Sameer Gupta: I heard your comments on the previous participant's question. My question is that there are few

headwinds here and there is a lumpy skin disease which is going on, unseasonal rains we do not know if it is over, if it is going to spill over to the next week so in this context do you expect it to be a normal season and when I say normal not just the delay but in terms of milk production also so do you have any intuition that there is going to be some impact of milk production and in that case we have seen that two to three years back when there is unseasonal rains it did affect our

flush season and we had a year of lesser margins so your thoughts on that?

Company Speaker: See unseasonal rains and weather vagaries are here to stay. I think that we are leaving in a VUCA

world and going forward more and more we will see these climate change events happening so that is something that makes life very unpredictable, but we are now learning to build the business in this unpredictable world specifically in terms of what is happening at the procurement level I

will ask Mr. Samba Murthy, the Chief Operating Officer to comment on that.



J. Samba Murthy:

This milk production generally compared to last year to this quarter there is a drop in the milk production it is basically because of this cycle every four to five years we will see this cycle production increase and decrease so apart from that we could see that because of the rains also it has got affected and third point is because this month actually October no flush actually so that has got delayed. Next is on LSD, LSD also impacted particularly a few states in north and west but LSD disease is now under control and now we could see that there are no new cases reported and it is under control, so now we are looking at that production will increase post Diwali or next month onwards. There is going to be good production. It may not be like last year but currently there is improvement in production that we could foresee.

Sameer Gupta:

Thank you Sir. Last time around when there were unseasonal rains we saw prices of cattle feeds going through the roof so is not that a worry production might not get affected but it will increase the milk procurement prices as in the farmers cost will increase and that in turn will increase the procurement prices so is there some insight on this?

Upendra Pandey:

Thank you Sir. Thank you for asking this question. Feed prices are already on a high side in the last couple of months because of the lean season from raw material point of view. November onwards we see probability of decline in the price because the key harvesting season will start post Diwali so with the availability of raw material we will see definitely the pricing should go down the feed front.

Company Speaker:

That would anyway help in reducing the cost of production.

Sameer Gupta:

No impact of these rains that we are seeing in October in this expectation of the decline in prices in November?

Upendra Pandey:

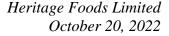
It should not impact much Sir. Price should go down.

Sameer Gupta:

Fair enough that is very helpful Sir. Second question and that is a followup to the previous participant's question again so rights issue of 23 Crores I understand you are raising it to cover the growth perspective but in the first half we have generated around 130, 135 Crores of free cash flow we hardly have any debt on the books I still do not get the rationale to do this there is enough money on the balance sheet even after considering that 25 to 30 Crores will be going towards some kind of growth, why do a rights issue is it just another way of giving a bonus your thoughts?

Company Speaker:

We have not spent much money in the last financial year if you recall during the COVID year we have spent only 36 Crores from the capex during the last financial year. This financial year already we have incurred 30 Crores from the capex and we have taken close to 125 Crores of the





projects for the current financial year itself under capex. So if we want to maintain the same balance sheet strength and we are supplementing from the internal accruals and results and this will help to meet the entire growth requirements while the bonus of the shares to the shareholders existing this will give additional benefit of capital also for the business to grow, so this year is going to be significantly high capex year and high growth year. You are already seeing the growth coming in and we are building ourselves for the mission 6000 Crores as we have been explaining earlier. This will help in that way.

Sameer Gupta: A followup Sir we could have easily taken 20 Crores debt even if it was just about the amount so

why dilutes equity?

Company Speaker: You are not the managing director right to take a decision whether you take debt or equity. It is

call of the Board which made raise money and it is perfectly correct.

Sameer Gupta: Thanks Sir that is all from me.

Moderator: Thank you. Te next question is from the line of Mayur Gathani from Ohm Portfolio. Please go

ahead.

Mayur Gathani: Hi Sir. I just wanted to check on the rights issue but you seem to have answered it. I still do not

understand the fact that why do we need to dilute and it was such a small fund raise there is enough cash flows that you will generate this year, next year and going forward it just was not

needed that is my own view that I have to share. Thank you.

Company Speaker: I have already answered it is a considered decision to raise capital for growth.

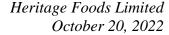
Mayur Gathani: How much is the capex plan for this year and next year?

Company Speaker: It will be 100 to 125 Crores per annum for next three years.

Mayur Gathani: Okay and where is this capex being put in place?

Company Speaker: In all the levels. We have been investing in the village level for setting up milk collection

infrastructure. In each village when we set up one unit for milk collection it will cost about 1 lakh rupees and a cluster of villages the milk will come to a milk chilling facility depending on the capacity of the milk chilling facility suppose we put a tonne KL milk chilling facility in a cluster it will cost us anywhere between Rs.60 to 70 lakh and a few chilling centers will require again processing, packing capacities in the nearest packing stations and we have to invest in the products making also as we are growing rapidly in the value added product segment, backend production capacity, cold store and the logistics investment in addition to this in the front end





marketing we have to put chillers, freezers for the market requirements end-to-end from village to the consumer all along the value chain we have to make investment that is the model we have been following since inception. This is an integrated company from procurement from the farmer to delivering to the consumer. This is a trend for many years except during the COVID period where our investments have come down in one financial year that was last year.

Mayur Gathani:

So these chilling centers or clusters where you invest are these new markets that you are tapping or these are the old ones and you are revamping the existing chilling centers what is it?

Company Speaker:

There will be all the three. One replacement capex will be there wherever required depending on the aging and inefficiency of the machinery not only chilling even the processing stations, packing areas we continue to do every year replacement capex not only from the machinery even utilities like generators, boilers, ETPs, etc. Secondly in the existing geographies wherever there is milk available see we have to increase our milk from current 14 lakh liters, 15 lakh liters per day to 28 to 29 lakh liters per day in the next five years to achieve our growth ambition so to get this milk we have to put chilling centers in the existing milk sheds as well also new milk sheds which we are indentifying in the same states, very rarely we go beyond the states but adjoining areas of the existing states. We are procuring milk from eight states now. In these eight states there are multiple milk sheds where we are present, where we are absent also and peripheral fringe areas of these states we can still capture milk from the neighboring states. For milk sheds state is not the boundary milk availability is the boundary. We may step in to one of the border areas of the neighboring states so it incudes existing milk sheds, new milk sheds in the same states, in the adjoining states of the present areas and replacement capex.

Mayur Gathani:

From a top line of 2700 Crores in FY2022 are you guiding that by the next five years time you will be at 6000 Crores because of these investments that you are making?

Company Speaker:

That is our mission. That is what we are pursuing.

Mayur Gathani:

Okay great all the very best.

Moderator:

Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

Dhruvesh Sanghvi:

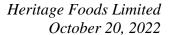
I wanted to understand how this collection and procurement networks work so let us say we identify a milk shed usually in your experience in the states or at the milk sheds where you are, are there more than one or two players already collecting milk and how has been the competition like is it always with the cooperatives or other players, other private companies and why I am asking and wanted to understand is over the last 30 to 40 years we have of course heard



cooperative movement really doing very well but if the needs of Amul or Aavin or respective federations really are now looking at the stage three where they will try to procure from other areas where they have been not doing it how does this shape for private companies like ours or anybody else some of your thoughts would be helpful?

Company Speaker:

See the milk in India certain cooperatives are more than 70 years old, 65 years old and 60 years old. They have been collecting milk in a manner of organizing the farmers in the villages under the Cooperative Act that they form cooperative unions at the village level, district level, state level under the Cooperative Act of the respective states and the farmers who supply milk to them will be members of that union and they have rights to vote and rights to elect their organization members, etc. While this was the case going on for the last six to seven decades in India during 1992 economic reforms the sector was opened up for the private companies. All private companies are 30 years old who are handling milk except a few who are handling some products earlier so in the three decades of privatization of this sector close to 500 companies have come and 250 to 300 companies are operating actively in the country now so which means in all the villages where milk is available in India more than one player is operating. Like cooperatives are definitely there because they are six decades old and they were functioning under the cooperative law and private companies have come 30 years back and these are functioning under the Companies Act and everybody has freedom and right to go anywhere to collect milk in any village so by experience if you see more than four to five players would be seen in the same village where milk is available besides cooperative union collecting milk so in certain villages where we have not yet entered they are the potential villages for us and why a farmer choose cooperative and why a farmer choose a particular private company depends on the price paid, services rendered, assistance given in multiple forms of inputs and extension choices and the relationship one builds with the farmers and we have been increasing from 20000 liters in the year one 1993 when Heritage started its operation to 15 lakh liters now operating in 11000 odd villages in eight states that is our spread and we can further spread from 11000 villages to another 3000 to 4000 villages in the same state also in the fringe areas of our neighboring states and why a farmer comes to us we have a package and practices we pay at par with the market prices to the farmer, we extend all support for getting credit from the banks, getting nutritious feed from our subsidiary company delivered at home and we also have massive veterinary services for improving the cattle productivity. We have artificial insemination for improving the breed. We have healthcare for the well being of the animal and also have mobile clinics on run 24 hours for 365 days extending veterinary services. We also have programme to ensure our farmers from accidental insurance. We also have support programmes for ensuring their cattle so that they get relief in case of incident. There are massive extensive and input services we extend besides paying the price to the farmers at par with market. We also ensure 100% forward linkage for the milk. We never declare a milk holiday for our farmers. All through the year whatever quantity they give in all the seasons we pick up the milk without denying marketing opportunity. We are





ensuring highly transparent and fair practices in valuing the milk of the farmers by deploying electronic weighing machines and making digital payments online on the pay day and this is one company which respects punctuality in payments which was the problem dairy farmers were facing for many decades in India. We ensured on pay day payment happens through the bank accounts of the farmers for our suppliers. These are the reasons for farmers to stay with us and new farmers to join us.

Dhruvesh Sanghvi:

One more point on this context considering a lot of companies who are doing this but we still saw the private companies having a very low growth versus the lead of Amul or Mother Dairy who have been growing at 15% to 20% in procurement so why would that happen if all this is good with all the private companies in general?

Company Speaker:

We could not hear you. Are you saying that despite all of these private companies are growing slower than cooperatives?

Dhruvesh Sanghvi:

Yes that is the broad line question yes?

Company Speaker:

If you take the inputs in 1993 100% market share was with cooperatives.

Dhruvesh Sanghvi:

I am sorry to interrupt, but I am more talking from a four to five year angle I understand from a 1990 angle of course there is great leap that has been happening but I am more talking from an angle of three to five years if I see Amul has doubled in procurement as well as in sales, I think Mother Dairy has done a very similar job, in that context I was asking over the last three to five years?

Company Speaker:

That number is not correct. Actually in fact the share of cooperatives to private 60:40 was five years ago now it is 50:50. Anyways now here the main point is that which means that privates have grown faster than cooperatives but anyways we are not answering for all private industry or private companies we are talking about Heritage and I think we will stick to that and we have demonstrated that we are growing faster than many of the people around us including cooperatives.

Dhruvesh Sanghvi:

Right Sir thanks a lot.

Moderator:

Thank you. We move to the next question from the line of Rohit Suresh from Samatva Investments. Please go ahead.

Rohit Suresh:

Good evening Sir. Thank you for the opportunity. Sir my first question was on the lumpy skin disease there was an article recently stating that around 30 districts in Telangana were impacted by the disease so I just wanted to know has there been any impact on our procurement in the last



one to one-and-a-half months and just to add on that I just wanted to know the efficacy of the vaccines that have been provided and how good is the vaccine so your thoughts on that?

J. Samba Murthy:

This is the news but on the ground those many cases are not reported and there is no impact on our procurement or anybody's procurement and of course vaccination is going on by the state government and everybody following the vaccination but there is no much impact of LSD. Whatever article has come two, three days back so that much impact is not there.

Rohit Suresh:

Got it Sir and my second question would be recently in Mumbai I have seen some of your products in the modern retail outlets I would like to know what has been the feedback and what steps are we taking in terms of marking and brand push in the metro cities for your products and any new product that you are planning to introduce because right now I have only seen milkshakes any other products through the modern retail that you plan to introduce in Mumbai and other metro cities?

Company Speaker:

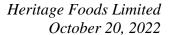
Thank you very much that you have seen our products. We hope that you see more and more and you buy more and more. Wherever we have launched we have very strong positive response. In fact I should say that the primary driving force of market expansion for Heritage has always been the superior product quality compared to any other brand that is there in the market so this is something that we can say with a lot of confidence. Blindly I can say this that you pick any dairy product Heritage would naturally be the best in any other market that we operate in, but apart from that and we do not just stay with this belief but we also constantly continually test it. We have a very strong market research team which constantly engages with consumers in terms of like taking feedback. On any given month we are doing at least two or three consumer product tests and blind testing. All these things are continuous process that we keep doing and we keep doing continuous improvement of our products as well so this is a continuous process which keeps us ahead of others in terms of the quality of the product. Secondly in terms of the pipeline we have a very well established process called as Heritage Innovation Framework e call it HIF for short internally and it is a process that guides our innovation pipeline. At any point in time we have more than close to two dozen innovations that we have in pipeline in various stages from ideation to product development to testing validation or launch phase so we have a good strong pipeline and you will see many products coming and hitting the market month-after-month quarter-on-quarter.

Rohit Suresh:

Got it. Sir just one last question so the milk procurement that we make I just wanted to know how much and what percentage would be buffalo milk?

Company Speaker:

It keeps changing. You should say that it is roughly 25% to 30% of our procured milk would be buffalo milk, but it changes. It varies with season because as you would know that the cow flush





season does not correspond to the buffalo flush season so there are times when buffalo milk goes up and cow milk comes down, cow milk goes up and buffalo milk comes down but on an average you can say in a year it will be about 75:25 will be the ratio.

Rohit Suresh: Got it. Sir thank you so much and wishing you all the very best.

Moderator: Thank you. The next question is from the line of Aditya Khairnar. Please go ahead.

Aditya Khairnar: Sir as the raw material prices continuously increasing and it increases to 19% against the previous year so it results into high milk procurement prices as well as there is lumpy skin disease problem

as well as the problem of second wave of COVID-19 and in October and November the milk availability is going to be increased due to the festive season so what should be strategy and what

should be your take on this kind of volatile market situation conditions?

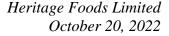
Company Speaker: The input prices there is inflation rate run that has been continuing post COVID and it has been

happening for some time and not just for milk for other inputs such as fuel and logistic costs as well. Our strategy has been very, very clear and I think we are sticking to that one in the markets where we are. We are going deeper so that we are able to get more share of the basket of the consumer right which means that if we have end number of consumers selling to the same consumer more number of products is always cheaper for us I hope you understand the economics of that right. We are a company with 18 product categories right from milk we go into a culture products of curd, lassi, buttermilk and all of that up to ice creams. The idea is to increase the share of wallet or a share of basket of our consumer and that is that we have been doing very successfully in the last many quarters, which is what is driving our growth. Secondly we are consciously trying to shift our revenue towards value added products and from roughly around 25.5% or 26% now we have grown to about 30.5% in the first half that is a swing of about 4.5% value added products swing we have been able to achieve in this year so far and that is the trend that we are continuing and if you recall our many past many quarters we have been growing value added products upwards of 25% to 26% this quarter again we have grown at 28% that helps us in getting us in value added products naturally have doubled the gross margins compared to milk so that helps us weather the storm that is the second thing. The third thing is that we continuously look for efficiencies. For example with volumes growth despite fuel and logistics cost going up our cost on a revenue basis has come down. The only reason is that we have been able to load our trucks much more better, the loadability and the efficiencies have gone up and it continues to go up that is just one aspect. In every segment we are looking at efficiency gains and we are getting

them as we are gaining the volumes so we are looking at factors that we can control to tie over

Aditya Khairnar: Yes Sir. Thank you Sir. Wish you all the best for the future.

whatever comes.





Moderator: Thank you. The next question is from the line of Disha Sheth from Anvil. Please go ahead.

Disha Sheth: Sir I wanted to ask what is the average selling price of curd per liter?

Company Speaker: Rs.56 per kg.

Disha Sheth: What was that last year?

Company Speaker: Rs.52.

Disha Sheth: As the flush season is coming post Diwali and all started do you see the milk prices coming down

or the demand is very high we do not expect lowering of procurement prices what is your view on

that please?

Company Speaker: We have been in business for the last 30 years. Every year post Diwali prices come down because

till Diwali there is some amount of milk which farmers use for their own internal consumption purposes. There is village level consumption which goes up. Post Diwali that entire milk comes and hits the market and it is a simple equation of supply and demand and prices come down and we are hopeful that it will happen again and right at this point in time whatever we are seeing in

the villages we do not see anything to the contrary. Now the question is how much will it come down. Will it come down by Rs.2 or Rs.4 now that is something that we will have to wait and

watch.

Disha Sheth: Sir over long term what is our margin guidance like today H1 with improvement in value added

we have reached around 4% average H1 EBITDA margin 4% to 5% what is our short to medium

term what do we guide for?

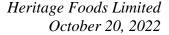
Company Speaker: We have been speaking about stay around an 8% EBITDA margin and this we have spoken in the

previous quarters also. Currently we are seeing an unprecedented situation where milk prices have gone up by 14% and it was not just one time it was sequentially month-on-month it kept on going up and I spoke about 14% price increase and 10% market realization improvement so that is a gap of about 4% but we have had internal efficiencies improvement across but nevertheless all of this has resulted in our EBITDA going down by about 3% so that is what you are seeing in our quarterly results but we are hopeful and confident that with some more price hardening at the market size and a little bit of correction on the procurement side we can come back to what we

have been delivering.

Disha Sheth: Sir how much does the curd contribute to our total value added sales?

Company Speaker: Was the question how much of curd contributed within value added product?





Disha Sheth: Yes within?

Company Speaker: Roughly around 75% is the contribution of curd to value added products.

Disha Sheth: You plan to keep it same going forward?

Company Speaker: We are growing everything but as we would have recalled in presidents comments in the opening

statement curd grew at 16% and value added products grew at 28% so it is our effort to keep all our value added products equally profitable. In fact ice creams, drinkables, curd, and sweets they are all on similar profitability so it does not matter, which one grows fast. We are trying to grow

all our value added products at the same pace.

Disha Sheth: Thank you so much Sir.

Moderator: Thank you. We have the next question from the line of Rohan Kamat from Pinterest Capital.

Please go ahead.

Rohan Kamat: Sir just one question was that right now our expansion will be focusing only on the Southern

market right our existing market will be penetrating much deeper we would not be getting into the

North and Western market?

Company Speaker: We will be operating within the same states. We are now having sales to spread to over 11 states

in India. We will be operating the same 11 states going deeper into other towns and adjoining

suburbs. We are not planning to enter any new state.

Rohan Kamat: I want to know about lumpy skin I have one question regarding the upcoming flush season which

has been talked about by you and your competitors also what is your feel in the market with this going around the lumpy skin disease which is affecting a lot of cattle and drop in yield around that time so will that have an impact on the upcoming flush season do you think that would be the

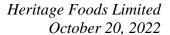
part of because of drop which we will see in the yields?

Company Speaker: Though voice is not so clear, but I will try to attempt whatever I understood. Lumpy skin disease

fortunately has not spread into the states where we are operating significantly. It is a sporadic incidence. This disease is more prevalent in West and Northwest of the country. There also as earlier clarified by my colleague the disease is under control now. The governments have started vaccination and the impact is getting reduced so we do not see significant impact going forward

on the production and availability of the milk as the LSD seemed to be subsiding.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.





Amit Doshi:

Thank you. Sir you mentioned about that Rs.100 Crores to Rs.125 Crores of capex this year and in fact for every probably next two to three years so with reference to this one particular year of Rs.125 Crores in terms of volume what kind of growth can we see and if you can give rough breakup between say value added products and other that would be helpful?

Company Speaker:

Yes as you know the investments we make this year in the infrastructure do not give growth during the current year. Most of the projects will be completed towards the end of the year and their aim that providing backend processing support for the next financial year. In any year whatever years we do our investments begin and some projects will be over in the mid year, some projects will go to the end of the year, etc., and it is a continuous activity throughout the year so this year growth we are trying to maintain above 20% in terms of revenues. In terms of volumes it varies for different products in different rates like for example one product may be growing at 35%, one may be growing at 50%, one may be growing at 10% there are variable sizes and variable markets but this is a trend of capex proposed to maintain the momentum in terms of growth otherwise we will not able to raise this rate of growth or achieve our mission in the years to come that is the context I was saying.

Amit Doshi: Okay but primarily towards the value added product?

Company Speaker: When I want make value added product I have to invest for milk in the village for collection

centre, milk for the chilling centre, and milk for the processing station so the value added product is one part of processing of the milk so investment continues from end-to-end and the decision of selling milk as milk and selling milk as product is taken in the fag end of the production cycle so production requires from milk also but there will be specialized investments for a particular product after the milk processing and pasteurization is completed so it will continue to be on both

milk and value added products.

Amit Doshi: This 28% growth in value added products that has come it is again in value terms so what would

that be roughly in volume terms a rough estimation?

Company Speaker: As we just said our lead product is curd which is giving 16%.

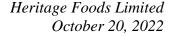
Amit Doshi: So curd is 16% growth is separate the value added is 28% is what you have said right?

Company Speaker: Yes.

Amit Doshi: What is the price contribution?

Company Speaker: Overall value added products in terms of volumes grew at 19% for the quarter. Curd grew at 16%

so some of the other products grew much faster and if you can imagine you can do the arithmetic





75% contribution is from curd so curd contribution is dipping within the value added products because it is growing slower than the rest of the value added products categories but curd is still growing at 16% compared to overall growth of 11%.

Amit Doshi: Sir you mentioned about the milk procurement prices of around 14%, in the presentation there is a

mention of increasing raw material cost of 19% so what is that extra 5% on?

Company Speaker: This includes the weighted average of liquid milk as well as SMP skimmed milk powder that we

use for our manufacturing.

Amit Doshi: Okay. Thank you and wish you all the very best.

Moderator: Thank you. The next question is from the line of Nitin Awasthi from Incred Equity. Please go

ahead.

Nitin Awasthi: Thank you for the opportunity. I have one question do you think that the value of the company

today reflected today is the fair value or do you think that the company is undervalued on the

brochures given the fact that it has such brands that it has the distribution?

Company Speaker: That is anyway perceptional issue. I think we should leave it to market.

Nitin Awasthi: No why I asked that question is if you believe that it is highly undervalued or it is not fairly

valued, why would you tend to dilute it even further at this rate?

Company Speaker: We try to stay away from that subject as the management side.

Nitin Awasthi: Okay Sir so the next question was are the cooperatives increasing the price of milk procurement

to somehow subsidize or pass on some benefit to the farmers because of the loss that they have

add due to LSD?

Company Speaker: We do not have LSD impact in our operational areas as I earlier said.

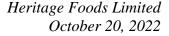
Nitin Awasthi: The cooperatives in your area are not increasing the prices to subsidize for the effect you are

saying?

Company Speaker: Milk procurement prices is quite dynamic and whatever prices that we have seen increase in the

first half has happened without lumpy skin disease in the areas that we operate so I do not think that there is a direct correlation between that. In some areas like Rajasthan, Gujarat and all there has been slightly more impact of lumpy skin disease but those are not our primary procurement

areas so you cannot put a one-to-one relation between the two. It is the procurement prices have





gone up because of general inflationary effects because our farm prices have gone up and I think we are seeing this not just in dairy it is happening in other agri commodities as well.

Nitin Awasthi: Sir thank you for answering my questions.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please

go ahead.

Shirish Pardeshi: Good evening Sir. Just two quick questions. Any word you can say how the Gujarat market the

recent entry has fared well or how it is having the issues or maybe challenges and second I did not find any word on Novandie in the presentation I do not know I jointed a little late so may be if

you can help me with the update?

Company Speaker: It was mentioned in the presentation but we can request Brahmani respond to that.

Brahmani Nara: Sure this is Brahmani here, Executive Director. We are seeing some very good traction in

Novandie. I think the biggest best news is that the products have been very positively accepted by the consumers in terms of quality as well as taste. The products are being manufactured in our

own processing facility close to Mumbai and we have also been able to successfully launch the products of curd as well as drinkable yogurt as well as natural yogurt in not just Mumbai but

Hyderabad, Bengaluru, Goa, parts of Gujarat since the beginning and it has seen very good

traction across channels be it modern trade, ecommerce, general trade, quick commerce, etc., and

I am very happy to be saying that as of last quarter we are also listed with the most relevant national chains in the market where we are operating. We intend to see about 50% to 60% growth

quarter-on-quarter and we are already seeing that traction this month and we are again going

deeper into these markets and grow and we are seeing that going forward as well a lot of the costs

especially overhead costs which is fixed costs, etc., are getting absorbed because of growth in

Shirish Pardeshi:

My second question was how the Gujarat market where we have made the recent entry for the

liquid milk market?

volumes.

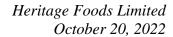
Company Speaker: Gujarat we have not entered I do not know where you got this.

Shirish Pardeshi: Because we were planning to get soon so has already entered or we are planning to see?

Company Speaker: No we have not gone to Gujarat. Just to clarify we are in 11 states at this point of time which

primarily is Maharashtra that is the closest probably market to Gujarat but we have no plans of Gujarat. We are in Delhi and Haryana in the North, AP, Telangana, Karnataka, Tamil Nadu and

all.





Shirish Pardeshi: Thank you.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference

over to Mr. Anuj Sonpal for his closing comments. Over to you Sir!

Anuj Sonpal: Thank you everyone for joining us today for this earnings call of Heritage Foods Limited for the

Q2 FY2023 earnings. In case you have any further questions, clarifications, suggestions or feedback, please feel free to contact either Mr. Umakanta Bakri, Company Secretary and Compliance Officer of Heritage Foods or us at Valorem Advisors. Wish you all a Happy Diwali

in advance. Thank you everyone.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Heritage Foods

Limited that concludes this conference call. Thank you for joining us. You may now disconnect

your lines.