Ref: SECT: STOC: 12-24
2nd February, 2024

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

Scrip Code: 519552

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: HERITGFOOD

Dear Sir/Madam,

Sub: Transcript of Conference Call with the Investors/Analyst

In Continuation of our letter dated January 10, 2024 the Company had organized a conference call with the Investors/Analysts on Wednesday, January 31, 2024 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: 2024.02.02 15:34:36 +05'30'

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

HERITAGE FOODS LIMITED

Q3 FY2024 Earnings Conference Call

January 31, 2024

MANAGEMENT:

Mrs. N Brahmani – Executive Director

Dr. M Sambasiva Rao – President

Mr. A Prabhakara Naidu – Chief Financial Officer

Mr. Srideep M Kesavan – Chief Executive Officer

Mr. J Samba Murthy – Chief Operating Officer

Mr. Umakanta Barik – Company Secretary & Compliance Officer

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

MODERATOR:

Mr. Anuj Sonpal – Valorem Advisors

Moderator: Ladies and gentlemen, good day and welcome to the Heritage Foods Q3 FY2024 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 conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal. Thank you and over to you Sir!

Anuj Sonpal: Thank you. Good morning everyone, 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 third quarter and nine months ended of financial year 2024. Before we begin let me mention a short cautionary statement. Some of the statements made in today's earnings 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 in 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 under 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 Heritage Nutrivet Limited and Mr. Umakanta Bakri – Company Secretary and Compliance Officer. Now without any further delay I request president Dr. M. Sambasiva Rao to make his opening remarks. Thank you and over to you Sir!

Sambasiva Rao: Thank you Anuj. Good morning to everyone joining us today on this call. We are pleased to welcome you all to this earnings call for the third quarter and nine months ended for the financial year 2024. The financial results and the earnings presentation have been uploaded on the exchanges and I hope you must have had a chance to look at them. Let me take you through the financial performance on a consolidated basis followed by the operational highlights. For third quarter under review Heritage Foods registered a revenue of 941 Crores representing a growth of 20% year on year. This was driven by strong volume growth in value added products due to higher rate of consumer acquisition and retention, continued market expansion and availability improvement.

EBITDA for the quarter was Rs.52 Crores which grew by around 60% year on year. EBITDA margins were reported at 5.52%, which is an improvement of 70 basis points compared to Q2 of this year as we were able to take advantage of a good flush season accompanied by softening of raw milk prices. Similarly, net profit for the quarter was Rs.27 Crores which grew by 96% year on year with PAT margins reported at 2.86%. For the nine months ended for the financial year 2024, our revenues grew by 17% year on year to Rs.2843 Crores. EBITDA was Rs.139 Crores representing a strong growth of 45% with EBITDA margins improving to 4.9%. Net profit for the nine months was Rs.66 Crores which has seen a significant improvement of 65% on year-on-year basis with PAT margins improving to 2.32%.

Now moving on to the operational performance. Our milk volume sales registered an improving trend of year-on-year growth with volumes growing by 25,000 litres per day which is 2.32% over the previous year same period. The consumer price increases we took in Q1 and Q2 resulted in average milk selling price increase of Rs. 2.71 paisa per litre to taking it to Rs.55 per litre in this quarter. In terms of milk procurement, we continued our strong growth with a 14.3% year on year growth reaching an average of 1.63 million litres per day. The average milk procurement prices reduced by 57 paisa per litre to Rs.43.09 per litre in this period. The value-added products portfolio continued on its strong growth momentum of 23% year on year amounting to Rs.245 Crores with a growth across all product clusters. The overall contribution of value-added products to our revenue stood at 26.5% for the quarter. To further boost milk sales and revenue, we introduced new variants of super gold and mid high fats variant and Gada dudh a mid fat variant. No, we open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Hi, good morning Sir and thanks for taking my question. Just one actually so I see there is still a large component of fat sales in this quarter and last quarter there was an indication that large part of our bulk fat which was procured in the previous flush season has been liquidated. So I am just wondering if this is a new normal wherein fat percentage in overall sales has actually increased now for the next few years and also if you could help me with the element of fat losses which have booked in 3Q and also year to date.

Company Speaker: Thank you Sameer for that question. On the specific usage of the word new normal, I would not use that word at all. We had a very strong flush season which has resulted in milk procurement growth which has been very strong for us which means that the milk procurement has grown much faster than the sales volume growth and that has resulted in bulk fat accumulation and as a policy of the company as in we did not take the speculative view and we have liquidated the fat at market prices, that does not mean it will remain like that forever because the moment we come off the flush, the milk procurement will normalize and it will match with our sales volumes and the return to normal would happen. In terms of the specific question on the losses that are specific to bulk fat disposal, this quarter we had 15.5 Crores of losses on account of bulk fat disposal, which is roughly about 2% of our revenue. So without bulk fat disposal, you can presume that our EBITDA and profit margin would have been 2% higher.

Sameer Gupta: Just a clarification on this. This is basically when you are assuming that the gross margin is zero on this product because if you are buying and selling in the same quarter, I am assuming there is not going to be lot of price fluctuation in the buying price and selling price.

Company Speaker: There would not be much price fluctuations, but there is always a price difference. The reason is that the price at which you will sell a commodity is not the same as the price at which you sell a branded consumer product. So our realizations in consumer product sale is much higher compared to our commodity sale and especially in a flush season where there is a lot of fat available, which is bulk butter available in the market, obviously the prices also would be softer, but we would rather not take a speculative view and liquidate it and keep our inventory clean than speculate and keep it for the future. I hope you will appreciate that.

Sameer Gupta: Just one follow up Sir. So when you say 15.5 Crores losses, basically this is more of an accounting allocation rather than actual losses. Is that understanding correct?

Company Speaker: No we have actually sold this butter. Actual loss. We do not have this butter anymore. Our inventory is clean.

Sameer Gupta: Got it Sir. That is all from me. Thanks.

Moderator: Thank you. The next question is from the line of Vandit Dharamshi from Alpha Invesco. Please go ahead.

Vandit Dharamshi: Congratulations Sir on great set of numbers. I have two, three questions. One to start with, if you can speak about how do you intent to scale up the Heritage Touch app. I think we have the app and a lot of other competitors are really scaling up their app subscription-based model. So we as a company do we intend to focus on Heritage Touch app per se or how do we see that going forward that is first question.

Company Speaker: We have had great learning in working with Heritage Touch app while it was amazing tool in terms of creating a direct to consumer connect as well as building subscription base what we also realized was there was a plethora of mobile applications that are there and a large number of consumers were uninstalling this. So we figured out a better and more effective way of building a direct e-commerce business. We are at the early stage of doing this and this is leveraging the WhatsApp commerce model and we are at very early stage on this. We have done a very successful pilot in Bangalore and now we are extending that in Hyderabad and many other markets. We already have more than 1000 plus subscriptions that we have acquired through this and we intend to scale it many fold.

Vandit Dharamshi: Sir if you can speak more about the WhatsApp commerce model in terms of how are we reaching to the customer? What would be the customer acquisition cost if any?

Company Speaker: Yes the customer acquisition cost roughly would be around Rs.400, but the model that we have implemented has got a very high retention rate, it is upwards of 98%, which means that it is actually a very profitable model for us. But like I said, we have just done some pilots and we are in the process of scaling up. WhatsApp is an app I hope that nobody will uninstall from the phone. So that is far more sure way of reaching our direct to consumer compared to our own application.

Vandit Dharamshi: Understood Sir and second question Sir if you can speak about how are we placing ourselves in the modern trade channel. I think last time when you spoke we did around 10% of our sales from modern trade channel. So this quarter, what is the sales number and how do we place ourselves? Because I think in few states, I think our products were not available when I happen to check in the state of Tamil Nadu to say so, but how are we placing ourselves Sir in modern trade channel?

Company Speaker: Yes so I presume when you say modern trade, you mean to say e-commerce and modern trade, we have never spoken about right. So roughly our contribution is about 11% from e-commerce and modern trade in terms of revenue and the mix would be different in different states like you rightly said, it will be slightly higher in our core markets. It will be slightly lower in other markets, but the good news is that in every market that we are present including Maharashtra and Delhi NCR, we are growing our presence in modern trade channels including even Tamil Nadu also in the last one quarter, we have made significant progress in terms of rest of Tamil Nadu. Chennai we always had a good presence in modern trade channels, but in the rest of Tamil Nadu also we have deepened our presence and this will only continue to improve.

Vandit Dharamshi: Okay and last question from my end, it is a bookkeeping question, if you can just give a state wise revenue split for this quarter versus last year?

Company Speaker: It is more or less same like last year to this year there is no change and we are sharing this on a one-to-one basis. We can perhaps get back to you.

Vandit Dharamshi: Okay Sir. Thank you so much. Best of luck.

Moderator: Thank you. The next question is from the line of Mitanshi from Abakkus Asset Managers. Please go ahead.

Mitanshi: Sir I was just wondering is the promoter looking to sell stake in the company?

Brahmani: I do not know why you have the impression. This is Brahmani here executive director as a promoter family we are tied to the company and in fact given the feasibility of resources etc. If anything it would be the opposite as a promoter family.

Mitanshi: Okay thank you so much.

Moderator: Thank you. The next question is from the line of Resha Mehta from GreenEdge Wealth. Please go ahead.

Resha Mehta: Yes, Sir. Thank you so one is again on the fat losses, so for nine months totally we have booked around 27 Crores of fat losses is that number correct or is that a little bit on the higher side?

Company Speaker: It is close to 33 Crores. It is 32.62 Crores. So you may recall in the last quarter I had said about 17.5 Crores in this quarter it is about 15.5 so roughly around 33.

Resha Mehta: 33 and how much more are we looking at from a Q4 standpoint? Any directional sense.

Company Speaker: Resha last quarter itself we explained the principle in which we do. If the incoming fat is more than the outgoing fat what we are doing is that we are keeping only two months of stock whatever is required for our current business or current quarter operations and the rest we are liquidating at spot prices because the prices could go up or go down as far as investors are concerned this is a far cleaner model because this is more what do you call it like there is no speculation involved, right, as in it is a more predictable model. So going by the same principle, at this point in time we are holding only about two months of stock, which means it is not like we are sitting on a stock that we need to liquidate at a price or something like that. We are coming off the flush so basically by about mid of February, the flush volumes would come down and we have already seen that coming down, which means that the input and output should more or less match, which means that the surplus that we generate which will come down and it is already coming down. So it is a gradual process and this happens every year. Last year we may not have seen this because we did not have flush, and the contrary of not having a flush was that the raw milk prices had shot up this year even though we had the problem of a surplus fat. The good news is that the raw milk prices came down, which actually helped despite the losses that we had booked in the bulk fat sale we were able to improve our models and there is also something that I would like to talk about that our consumer pack sale of fat products, whether it is ghee or table butter are all registering strong growth. For example, table butter for us is growing at 60%. Ghee is growing at about 25-26%, so which means that as we grow our consumer pack sale over a period in time we will be on net deficit as far as fats are concerned. Over a long period of time that is how we intend to solve this problem.

Resha Mehta: Understood Sir two months stock is what you are all working with. The second question is basically on value added products is something that has been driving our top line growth as well and we have done very well on the top line growth right over the last several years quarters, but value-added products clearly the margins were just a tad bit higher like 250-300 BPS higher versus the liquid milk like at around 8 odd percent or so. While ideally we are supposed to be double of liquid milk products, but we had the strategy of driving top line growth for value added products. So can we see a scenario now that maybe let us say instead of growing at 20% top line, why not we grow at let us say 15% but with the aim of trying to get higher margins to the tune of let us say seven odd percent or so and maybe value-added products margins going up will be a contributor to the overall company margins so what are your thoughts on basically this balance between top line growth and margins.

Company Speaker: Resha I think have had this discussion when we met previously also. We are working towards the interest of long-term shareholders and when we think about long term shareholder wealth creation, we have to build a robust business model that will deliver consistently and predictably over a longer period in time. If I look at value added products, while 23% is the revenue growth that you are seeing, 19% of that has come on account of volume growth, 19%, that is quite significant volume growth that we have been able to register on value added products in Q3. Only 4% has come on account of prices. We could have increased the prices. Whereas in milk we have increased prices by about 8.5%. So if we had taken value added products prices along the same line as milk and taken it up to 8.5% my volume growth would have come down. But what is sustainable for the company is that today I have got a much wider consumer base than I had in the same period last year and I have experience and we have data that shows us that we have got a much higher consumer retention, the frequency of purchase of our products across many of the channels wherever we are able to procure data especially from the modern trade channels and all of that, the frequency of purchase has gone up. We have gained significant market share gains for our value-added products in cities like Bangalore and Chennai. These are all things that we can always encash at any point of time.

Resha Mehta: So I understand we are more focused on market share versus the bottom line at least as far as value added products are concerned. But also on the flip side, how do we think about like let us say when you actually want to start focusing on bottom line on value added products and increase the prices of value-added products in line with the industry? How would the consumers react because they have been used to let us say maybe a slightly discounted value-added product from Heritage versus the market or is my understanding not correct here?

Company Speaker: Sorry the understanding is slightly wrong. We are only comparing ourselves to ourselves. So when I said 4.5%, 4% price increase, we are talking about last year, our prices compared to last year same period. In any market for any product, Heritage always sells at a premium compared to any of the competition. So especially the cooperatives or the large national brand, you can check it online wherever you are on Big Basket or Swiggy or whichever apps that you have. Our prices are always higher compared to our competition yet we are gaining market share. So it is just a timing issue. We shall take the right decision at the right time to take the prices up. So we are not saying that we are going to keep the prices constant or artificially low for a longer period in time. This year summer actually was a washout as you may recall from the Q1 earnings call. We had mentioned that first quarter summer was washed out due to excessive rains and cold weather which prevailed over north India and that is the reason why we did not increase prices during summer and most of our value-added products are summer dependent. So usually summer is the time when we take the prices up. So there is an opportunity this summer which will come up. The only difference is that we are sitting on a much sider consumer base compared to last year so the net incremental gain that we will have will be much bigger instead compared to had we taken the prices in the offseason.

Moderator: The next participant is Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Hi Sir, good morning. Thank you for the opportunity. Just taking forward with the previous participant was asking while you said that currently the focus for value I added products is more on market share then what are the other levers we had to reach the aspiration of 7-8% margins that you have been calling out for the last couple of quarters?

Company Speaker: So we had mentioned a couple of levers that we are working on. One is the value-added products growth. Value added products growth increasing in contribution by about 10 percentage reaching 40% mark is an ambition that we are working with which should help us improve our steady state bottom line by about 1%. Second thing is there are lots of value creation opportunities or energy saving initiatives that we are working on which helps us reduce our operating costs and increase the margin spread. These are two things that we are working on which will help us structurally improve the performance of the company in addition to of course the ups and downs which are driven by the volatility of the commodities.

Alisha Mahawla: The butter fat losses for quarter of 15 Crores, we were liquidating our butter inventory in the stock. Is this all with relation to that only?

Company Speaker: So let me just clarify the difference of incoming fats from the raw milk that we procure and the outgoing fats is resulting in surplus fat generation which is getting liquidated as bulk butter. So what we usually do is we convert them into butter and after keeping two months of inventory whatever we require for our internal use, the rest of which we are liquidating as bulk commodities.

Company Speaker1: Just to expand. There was an option of holding it for some time, butter shelf life is more than a year, it can be maintained in the cold stores for next six months, nine months, one year and sell when the prices move upwards that is an option or sell it off from the spot prices during the quarter without any element of speculation so we have almost sold out all the surplus generated in the nine months. We only have couple of month's internal required stock and some more will get generated in this quarter maybe for the first six weeks or seven weeks in this quarter. Second half of the quarter we expect procurement volumes and sales volumes to match without leaving any surplus generation so the surplus fat generation is gradually coming down as demand is increasing and procurement volumes are coming down so we end the year with limited butter stock available for the consumption in coming months. I hope this is clear.

Alisha Mahawla: Got it understood and we had an aspiration to reach 6000 Crores, by when do we expect to touch this target.

Company Speaker: I think what we should look, you can look at our performance in the last several quarters and not just this quarter, in fact you can look at our steady performance post COVID has been in high teens. So you can do the extrapolation yourself. It is likely in the next two or three years.

Alisha Mahawla: Okay great. That is it right. Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Thanks for giving me the opportunity. Sir, my question is on the milk prices. So your thoughts on the same and if there is any stability should we expect even the milk volume to gradually pick up in the context of this?

Company Speaker: See one is the industry availability. Industry availability, you can say will influence plus or minus 3 or 4 percentage on either side, which is the difference between a bad year and a good year. Last year at the same time was a very exceptionally bad year where the industry volumes had shrunk. This year is a normal year. I would not say an exceptionally good year but a normal year where there was sufficient milk available, so industry volumes definitely impact our ability to procure, but on top of it, we have been consistently building our procurement network. Every quarter we have been telling you about the procurement network expansion, which is now standing at close to about 11,000 villages, 198 chilling centers, etc which is also helping us expand our capacity to procure a volume. So we do not see that procuring the volume that is required for our business as a challenge.

Kaustubh Pawaskar: Okay and in terms of the overall milk as a product for you when can we see the growth rate improving over there?

Company Speaker: Are you talking about milk volume growth?

Kaustubh Pawaskar: Yes.

Company Speaker: Yes so milk volume growth see as I mentioned in Q1 we had taken price increases on milk because of the exceptionally high raw milk prices and the resultant losses and those significant price increases that we had taken in Q1 had pushed milk to stagnant levels or even a small degrowth. You may recall from our Q1 earnings call that we mentioned milk was at -1% in terms of volume growth which steadily improved to plus one percentage in Q2 and now we are standing about 2.4% and these are quarterly averages so you can imagine that month on month we are seeing steady growth in terms of milk volume performance as well.

Kaustubh Pawaskar: Okay thank you.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Thanks for opportunity Sir and congratulations for quarter-on-quarter improvement and the efforts we are taking. Sir my question is little broader as you said for a long-term value investors and to create a sustainable value we have some strategy and that is why we are increasing our continuous volume procurement and over time we want to match them with milk sales and value-added products but in between this fact is giving challenge. So do you have any solution maybe a little longer time frame what is the solution to this because every year we are losing 30-40 Crores because of this? So little bit more explanation on this will be really helpful.

Company Speaker: This is something that we are working on right. This is a challenge in the dairy industry, the material balance which is balancing the input versus output and for us the solution lies not in controlling the input, but actually changing the mix of the output. Currently the mix of the output for us is let us say milk, value added products and consumer fats on one side and then you have the bulk fats. So we are working on an effective strategy which will increase the output through the consumer products whether it is milk, value added products or consumer fats whether it is ghee or let us say table butter and all of that and I think we have been consistently reporting for the last many quarters over many calls that our value-added products including consumer fat, ghee and all are registering strong growth. So we roughly sell about 300 tonnes of ghee every month. Now if the 300 tonnes of ghee instead of that if it becomes 600 tonnes of ghee then we will become net deficit in terms of butter is concerned. So we are slowly working on changing the mix so that we are actually in a deficit scenario and not a surplus scenario. But the surplus is also a function of milk availability and this has been an exceptionally good year as far as the milk availability is concerned, which resulted in surplus milk and hence surplus butter. This may not be the case all the time. Like last year, we were not in the situation where we did not have actually surplus at all.

Sunil Kothari: Sir broadly I think you being in industry you must be observing other players also is that procurement cost lower compared to ours. So are we changing some strategy or maybe from buffalo milk to cow milk, how that shift is happening, when that will be reflected in our procurement cost being lower because that is also hurting us more or less very highly.

Company Speaker: See the procurement prices that we pay is very similar to any of our nearest competitor. We cannot go to a village and procure milk if we are paying less or higher of course we can procure a lot of milk if you pay higher than competitive, but that is not warranted, right. So most of the procurement happens on parity pricing but that said, there is a difference in the mix by region. For example, all of us in the peer group we must know all the companies that are there, we are all procuring from six or seven or eight states and the mix or the ratio of mix would be different for different companies. Like we have certain percentage of milk coming from Andhra Pradesh, certain percentage coming from Maharashtra, Telangana, Tamil Nadu, etc and the prizes in each of these states are differ and the weighted average price would look a little different compared to our competitors. Secondly, the prices that we declare as far as our raw milk procurement prices are delivered to our plants, which involves freight and incentives and all, whereas I think some of our competitors might be reporting farm prices, so there also you will find Rs.1.5 to Rs.2 difference but otherwise at a farm level in the same region, the procurement prices are all comparable.

Company Speaker1: And just to supplement that Sunil Ji our share of cow milk is growing over a period of time. That would bring down the average cost of milk. Secondly, the price fluctuation in different states happen at different points in time. In a particular state where we have high volume, the price may be higher in one season lower in another season, so this average would not be constant over a period 2-3 years if you see one year Maharashtra price went as high as Rs.40 a litre for cow milk and it came down to as low as Rs.25.00. So in that year, if a particular company is procuring more in Maharashtra, the Rs.40 per litre would influence the average cost in other season when it comes down to Rs.30 it would be showing for the same company a lower average cost, so the mix of cow and buffalo ratio and the mix of milk coming from different states in different seasons will give you different signals. Overnight shift is not possible because you have relationship with farmers, you have infrastructure built. So we gradually balance the mixes both from cow and buffalo, also from territories and the territories are not very stable. It keeps fluctuating so it is a seasonal scenario. Every season one ratio will be different from other.

Sunil Kothari: We have our objective of reaching some size of procurement liters per day whatever number already we are really growing well crossed 16 lakh litre per day also. So Sir over a time will we be moving more towards cow milk that is certain.

Company Speaker1: Yes we are expanding mostly in the cow milk areas now enhancing the ratio of cow milk in our mix.

Sunil Kothari: Thanks a lot. Thank you very much.

Moderator: Thank you. The next question is from the line of Ankit Garg from Nirma Capital Private Limited. Please go ahead.

Ankit Garg: Hello Sir. Sir my first question is regarding the volume growth. After being struck in similar region for 3-4 years last couple of years has been very good for us as far as milk procurement is concerned. In your view if our company has to grow 13-14% or even 12-13% volume growth over next 2-3 years what are the few strategic things we need to do as a firm to make that happen rest everything will fall into place if we get this procurement piece right.

Company Speaker: Ankit thanks for that question. Let me solve the chicken and egg for you because we all feel that it is procurement that leads to our sales. It is the other way around. Actually it is the sales that needs procurement because we procure the milk that is required for our sales purpose and procurement expansion happens by adding more village level collection centers VLCC in the region of interest and each average village level collection center usually brings about 25 odd famers and roughly around 200 litres of milk so suppose let us say for example my strategy next year I need to increase my procurement by about 10% or about a lakh litre which means that I need to add as many village level centers to get me the milk. I hope I am able to explain that. If I add 500 to 600 village level collection centers I would be able to get 1.5 to 2 lakh litres of milk and this we are able to do strategically as we were explaining earlier different states have got different price scenario and different states have got a different ratio of cow milk and buffalo milk so if the company's interest or objective is to grow the procurement network in cow milk dominated areas and where prices are lower we will go and set up these village level collection centers in those regions and we will procure that and to give you some statistics in the last two years alone we have added about 2200 village level collection centers, which means that we have established and this village level collection center is going to remain forever, which means that we have permanently added our ability to procure 4 to 5 lakh litres of milk and next year depending on the requirement that we have we will add as many village level collection centers that are required to get this milk.

Ankit Garg: Sure thank you so much Sir for that explanation second Sir if my understanding is right if I just add this 15 Crores fat loss that you had we are then already at like but close to 7% EBITDA margin for our company assuming you are on steady state basis were you keep having some losses is it fair to assume that at this level of sales we are between 6.5% to 7% steady state EBITDA margin on normalize quarter without fat losses?

Company Speaker: You are right. Your first number was correct. We are at 7.5% EBITDA margin at this point in time without bulk fats. Even though bulk fat losses will come down in Q4, it may not become zero, right? But yes, your assumption is right. But that said Ankit, I should tell you that this is at this level of raw milk prices. Raw milk prices could change over a period in time so work is not done. We still need to increase our value-added product contribution. We still need to take up the prices that Resha was alluding to in value added products. So we still have that four or five percentage pricing opportunity in value added products which we will realize during summer. We still have to reduce our cost of operation. We still have a long way to go.

Ankit Garg: Thank you so much Sir and best of luck.

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

Sameer Gupta: Hi Sir, two follow-ups from me. Firstly, this process of selling all the extra fat that we have procured except for keeping two months of inventory is this is a process change that we have done in recent times or is it something a practice that we always used to follow and maybe during COVID and exceptional year we have changed. So reason why I am asking is that if there is such a situation, we can expect much more margin stability in future versus the past.

Company Speaker: Yes we had this problem, but the size was smaller in the earlier years. Size of surplus fat was smaller because our volume of sale and volume of procurement was closer to each other Last financial year we have accumulated anticipating the shortages in this year, but this year has become a normal year so some of the fat was available in the opening of the financial year. On 1st April itself we had significant 2000 tonnes of opening stock for the financial year. That got impacted significantly this year besides the higher procurement volume during this quarter when the demand was low so this is a combination or convergence of two years fat happen in one year. Main part of the last year and this year also something happened so that is why it looks significantly high during the current year. The next year onwards as we are entering into again the season of sales, summer season balancing should be achieved sooner and we have to see how the flush pans out in the third quarter again and third quarter coming year will not have opening stock burden of last year kind of scenario.

Company Speaker: If I could just add the specific question Sameer about policy, see the company always maintained this policy of carrying only two or three months of stock. Last year was the only aberration because last year the volumes have shrunk so much that we were not very sure and you are all aware of how the procurement prices shot up. So it was a safety call for safety that prompted us to keep some stocks. We never had these kind of extreme swings from a year of shortage to a year of surplus kind of thing and that has what has costed us. But the policy has always been for the company to liquidate extra stock.

Company Speaker: Excess was not regularly if that is the reason, it is visible significantly because of accumulation of last year's stock added into this financial year.

Sameer Gupta: Got it Sir. That's very clear. Another follow up, the fat products sales that you report in the presentation, does it only pertain to the bulk fat or it also includes the branded fat that is ghee and table butter that you sell under Heritage brand?

Company Speaker: This fat includes everything but if I were to call out only consumer fat sale. Currently in the quarter that we just closed our consumer fats were close to about 93 Crores.

Sameer Gupta: 93 Crores is the branded.

Samba Murthy: The consumer pack sale during the quarter is 41 Crores and nine months it is 108 Crores.

Company Speaker: So correction there. Thanks a lot Samba Murthy for stepping in. The 93 Crores is the cumulative sale out of which 41 Crores is consumer sale and 52 Crores is bulk commodity sale.

Sameer Gupta: Very clear Sir that is all for me thanks.

Moderator: Thank you. The next followup question is from the line of Vandit Dharamshi from Alpha Invesco. Please go ahead.

Vandit Dharamshi: Thank you for the opportunity again. Sir in the previous comments you said that going ahead our cow milk mix will move slightly higher and that should improve our procurement price. So I mean if you can just split I mean what percentage improvement can we seen in the procurement price over the next two or three years whenever as the cow milk sales or the cow milk mix reaches to a certain level. So if you can give the level where we are today and where we will reach and what will be the improvement in the procurement price?

Company Speaker: See we are seeing two to three percentage shift from buffalo milk contribution to cow milk contribution year on year. Currently we are about 80:20 in terms of regional. So if you take nine months it will be more like 70:30 or 72:28 and the difference in prices between cow milk and buffalo milk is roughly around Rs.15 a litre. If you have a 10% swing from one to the other that will impact about 1 to Rs. 1.5 per liter. So that is the kind of impact that could be there over two- or three-years' time frame.

Vandit Dharamshi: Understood thank you so much.

Moderator: Thank you. Next question is from the line of Shreyans J from Svan Investments. Please go ahead.

Shreyans: I have a very basic question, so from what I understand the shelf life of fat or SMP as you call it is normally about 15 to 18 odd months. So I am just trying to understand why do we then every quarter sell with prices which are below our cost because we understand these books of business cycle. So I am just trying to understand, can we not hold the stock for about 12-15 odd months and then accordingly sell it. You can obviously sell it as a WAP or then if it does not get sold then sell the bulk commodity rather than selling at distressed prices every quarter.

Company Speaker: See like any product butter also stored in bulk starts to deteriorate, even though it might have a shelf life of 12 months, the quality of the butter deteriorates as the time goes. Secondly, there is a carrying cost, right and these are like when it sits in an inventory it is hundreds of Crores. There is a working capital that is involved. There is a cold room that we need to keep running, electricity consumption and all of that and all of it is speculative in nature because we really do not know where it is going. See we are dealing an industry which produces close to 200 million tonnes of milk and contribution of our share in this play is very small, even the largest dairy brand in the country has only 10% share so the forces that we have to face as far as the volatility of commodity prices are huge and there is also global volatility that we have to deal with. I do not think it is really worth the effort and we are not in the business of speculation and if let us say tomorrow if our value added products go up and we really need this butter it is always available in the market and we can buy them because eventually what we want to build is a business which is dependent on sales requirement and B2C is more predictable in the sense we will be able to explain to you that this is a sales price and this is a prices of the commodity that we have purchased to clear sourcing.

Shreyans: Sir my second question is, if I look at your business, what portion of your business will be non south for you right now versus five years back?

Company Speaker: I could about 10% is non south.

Shreyans: And what was this number say five years back?

Company Speaker: We will have to come back to you on that.

Company Speaker: For our business value added products are growing faster than milk within value added products non curd products are growing faster than curd. I mentioned that non south be about 10%. I just added further saying that non south is growing faster than south.

Company Speaker: Sir if you could just send your question to Valorem we will get back to you.

Shreyans: Okay.

Moderator: Thank you. Next question is from the line of Abinash from Nafa Asset Management. Please go ahead.

Abinash: Hi Sir congrats on the good set of numbers. I can see that the value-added product has grown year on year, but could you just give us the margin, how is the margin reflected for the value-added products for this quarter, previous quarter, and the same quarter last year. Thank you.

Samba Murthy: EBITDA margin for the current Q3 value added products is 9.9%, corresponding year 9.27.

Abinash: So one follow up question, do you have any target margin that we have in mind for value added products? How do we progress from here, are we seeing mid teens so what do we have in mind?

Company Speaker: Ideally the value-added products still have a pricing opportunity of three to four percentage from the current level. So that should give us upside in the coming quarters.

Abinash: Thank you Sir. Thank you.

Moderator: Thank you. Next question is from the line of Ramesh Thota individual Investor. Please go ahead.

Ramesh Thota: Thanks for the opportunity. So I have a couple of questions. One is can you just tell me what is your current growth in Q3?

Samba Murthy: Growth is 15%.

Ramesh Thota: Is it on volume growth since we have taken multiple price increases in last year. This 15% does it have price impact also in it?

Samba Murthy: No this is volume growth. Value growth is 18%.

Ramesh Thota: So I know so many have been asking about fat loses. One small question on fat loses. How much tonnage of fat could we liquidate in the current quarter?

Company Speaker: 1700 tonnes bulk sale.

Ramesh Thota: You said total consumer fat sale is around 93 Crores in quarter. Does it include this bulk butter sale or is it excluding that bulk butter sale?

Company Speaker: No I corrected 93 is inclusive of everything. The consumer product sale is 41 Crores, roughly half of it.

Ramesh Thota: Okay you meant 93 Crores is complete butter fat sale in the current quarter? Is my understanding right?

Company Speaker: Only half of it is consumer and half of it is bulk roughly.

Ramesh Thota: Okay and one futuristic question. So what is our outlook on next season. Q4, Q1 being our seasons for fat, curd and all. Last quarter Q1 we were having industry slow down which already you told in Q1 investor call. So what is our outlook for next season? Are we going to have a 20% growth, 25% growth in that as we have in this quarter? Is it like that or is there a slowdown in the market?

Company Speaker: See the only thing which is outside of our control is how the milk production happens, right, because the sales mostly in our hands and are growing that steadily. So you can continue to expect steady growth of our volumes and revenues going into next year. As far as the supply side at this point in time, the indications are that it will be normal. We are not expecting terrible shortage or huge price increases, but then it has to be seen.

Ramesh Thota: So are we targeting our next year some 15-20% growth in overall revenue we currently are growing at 2 to 2.5% for you are we continuing targeting 2.5 to 3% next year also.

Company Speaker: You are probably comparing volume growth with revenue growth because 2.5% is the volume growth so are you talking about volume growth or revenue growth? Revenue is revenue is a function of price increases plus volume growth. It is a function of both happening. So there could be years when volume growth is slightly muted, but the pricing growth is higher. There could be years when pricing growth is slightly muted, but volume growth will be higher. Irrespective what we are committed to is keeping the top line growing at a steady pace.

Ramesh Thota: So my question was slightly different. Since the current year we have not taken much price increases unlike last year since we had a milk shortage.

Company Speaker: Ramesh sorry to intervene, but just to save time, I think there is a little bit misunderstanding of the context this year see there are two pricing we are talking about. One is raw milk pricing which is actually the input commodity for our business and the second is market pricing, whether it is milk or value-added products. There were a lot of discussions around value added pricing, milk pricing and all of that. So maybe it has been a little bit confusing. Just to give a context, last financial year was a year when India faced a severe shortage of milk which resulted in raw milk prices going up, which actually put a strain on profitability of not just Heritage but many other dairy companies as well. And this we are speaking about three to four quarters back and these high prices of raw milk or input material. prompted us to increase market prices of milk in Q1 of this year. In fact, we had started increasing prices from March of this year, which was Q4 of last financial year itself. And we continue to take prices across markets from March of 2023 till about June, July of 2023, which is actually Q1 and Q2 were quarters where we took market prices up. Primarily we took prices up in milk and we took nominal price increases in value added products. Subsequently in Q3 what we have seen is that we had a regular flush season which means that supply side improved significantly compared to same period last year that resulted in raw material prices coming down. So we are in a situation where we took up market milk prices higher to compensate for raw milk prices price increases earlier. So we are at a higher market milk price situation with lower raw milk price input, I hope this was clear. Next financial year could be a situation where we may not take too much of market milk price increases because we are already at a higher price as far as the consumers are concerned and some of the previous people were asking about the outlook in terms of raw milk prices. We hope the raw milk prices hold steady or will have nominal increases as we get into a lean season.

Ramesh Thota: One last question. I attended Bajaj call yesterday. So they were entering a Greenfield project in Maharashtra. Does it have any impact on Heritage volumes in Maharashtra.

Company Speaker: There is competition always. People keep coming, joining and everyone procures milk. Everyone offers the same price. I do not see any reason for impacting only Heritage.

Ramesh Thota: Thank you for the opportunity. Thanks.

Moderator: Thank you. The next question is from the line of Babu Raju, individual investor. Please call us please.

Babu Raju: Hi Sir, I thank you for giving me the opportunity. Congratulations on good set of numbers. I know the long-term target is 8% the margin. So currently we are at like 5.5 and when you will be able to achieve that number.

Company Speaker: I think it was well explained during the call earlier by Srideep. We are already around 7 plus without the fat losses. So we try to achieve as early as possible but would not put a timeline because it is influenced by multiple factors and it may not be fair to put numbers and timelines in the anticipation but our aspiration is to reach there as soon as possible.

Babu Raju: Thank you.

Moderator: Thank you very much. As there are no further questions, I will now like to hand the conference over to Dr. Rao for closing comments.

Sambasiva Rao: Thank you very much for your participation and interesting questions. We look forward to see your continued engagement with Heritage Foods. Thank you once again.

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

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