



“Heritage Foods Limited Q3 FY2017 Post Results  
Conference Call”

January 27, 2017



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**Moderator:** Good day ladies and gentlemen and a very welcome to the Heritage Foods Q3 FY2017 Post Results Discussion Conference Call, hosted by Sunidhi Securities & Finance Limited. 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. Kindly note some of the statements made in this conference are forward-looking, and it may involve risks and uncertainties that are difficult to predict. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shailesh Kumar from Sunidhi Securities & Finance. Thank you and over to you Sir!

**Shailesh Kumar:** Good afternoon ladies and gentlemen. On behalf of Sunidhi Securities, I extend a very warm welcome to all of you. Today from management side, we have Dr M Sambasiva Rao, President, Mr. A Prabhakara Naidu, CFO of the Company, Ms. N. Brahmani, Executive Director, Mr. Samba Murthy, Head, Dairy Division, and Mr. Umakanta Barik, who is the Company Secretary. Without taking much time, I will hand over the call to Dr. Rao and he will take you through the results. Thanks, over to you Dr. Rao!

**M Sambasiva Rao:** Good afternoon to all of you. Welcome to Heritage Foods Q3 Earnings Call. I will briefly highlight the numbers. Already the investor presentation is shared which has all the details as usual we do every quarter.

So the Q3 you all are aware with the demonetization it has its own impact. We have the very positive impact on the retail business. The footfalls increased, sales increased. During this period we also had certain new stores added, the cumulatively it has given very good results for the retail business whereas in dairy business we have small setbacks not very significant in terms of impulse sales through the small kiranas and kiosks where the change was a problem onto certain extent sales like ice cream, flavored milk got adversely impacted whereas the milk and curd did not find much adverse impact on that, same time sales were a bit subdued during the quarter.

Coming to numbers the turnover for the quarter is 14.5% higher than the corresponding quarter last year. The sale revenue is at 667 Crores for this quarter out of which 460 Crores came from dairy 205 Crores came from retail.

EBITDA level we have achieved 39.4 Crores which is 33% higher compared to the corresponding quarter, dairy contributed 37 almost and retail posted 1 Crore plus EBITDA positive this quarter, which is a turnaround quarter, I think first time quarter three we have got breakeven profitable EBITDA.



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PAT level we are almost 20 Crores for the quarter a 75% improvement over the corresponding quarter. For the nine months if you take turnover is at 1943 Crores with 11% growth over the previous nine months. The EBITDA level we have achieved 110 Crores with a 15.5% growth over the last year's nine month. PAT achieved a 62 Crores which is 39% higher compared to nine months of the last financial year. Coming to the debt we have 124 Crores debt which includes long-term 67 working capital 67.

This is broadly the quarterly view. It is open for discussion now. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

**Dhruv Agarwal:** Good afternoon Sir and congratulations on good set of numbers. My question is regarding the two leases that we have finalized the future group and the Reliance retail. So when can we expect what are the recent update on it how are we proceeding and by like what timeframe do we see the deals being closed?

**M Sambasiva Rao:** On both the transactions are work-in-progress. Coming to the retail demerger, we have got the no objection from the SEBI Stock Exchanges. Applications have been filed in the NCLT for the clearance, simultaneously competition commission also is considering. We have to get these two approvals settled in this period and expectation is that by end of the quarter approval should come for the demerger activities. Coming to the Reliance Dairy application is pending before the Competition Commission, we are expecting somewhere by end of February so end of March we can complete the process of acquisition of Reliance Dairy.

**Dhruv Agarwal:** And the Future Group demerger should be done by Q1 or Q2 of next year, I mean FY2018?

**M Sambasiva Rao:** Expecting approvals by end of March, most probably April, May we can complete the integration.

**Dhruv Agarwal:** April or May.

**M Sambasiva Rao:** Yes.

**Dhruv Agarwal:** Okay. And Sir what about the trend of the raw material, the milk prices that are going on in the current period any trends on that?



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- M Sambasiva Rao:** Yes, milk prices are now going upwards both in the farmer side procurement prices and also the sales side in the market. Last 15 days there is a movement in different markets at different pace. Some markets we have already increased, some markets we are in the process, expectation is on an average Rs.2 per liter is increase in the sale price more or less same would be the procurement side also.
- Dhruv Agarwal:** And so what should be the average milk price for you right now; I mean the procurement as well as the further procurement price here?
- Prabhakara Naidu:** Rs.32.60 an average milk procurement price.
- Dhruv Agarwal:** Sorry sir I did not get you.
- A Prabhakara Naidu:** Rs.32.60 is the actually landed cost for the third quarter, selling price Rs.37.27.
- Dhruv Agarwal:** Okay.
- Moderator:** Thank you. We will take the next question from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.
- Sangeeta Tripathi:** Congratulations on good set of numbers. To start off with just wanted to understand why has our procurement volumes gone down this year this quarter they are down 12.2% on a Y-o-Y basis, so any specific reason why we have, why this downfall?
- M Sambasiva Rao:** In the previous financial year we have taken up one plant on lease in Haryana for converting milk into milk power for one year, that contract was over by April of this year 2016. So this financial year we could not conduct such conversion activities there, so that volume has impacted the current year's procurement. In fact it is not our procurement impact it is a contract operation we had one year in Haryana that operation work has suspended, we did not continue for different reasons.
- Sangeeta Tripathi:** So this steady state procurement is around 10.5 lakh liters per day?
- M Sambasiva Rao:** That is continuing.
- Sangeeta Tripathi:** Secondly just wanted to understand on the competitive intensity in the key markets, which we saw primarily Andhra Pradesh and Telengana, when I look at your procurement price that has increased by 5.4% on a Y-o-Y basis, while your selling price has just increased by 2%, 2.5%, less than 2.5%. So how is the competitive intensity in the key markets wherein you operate, wherein you have a strong foothold?



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**M Sambasiva Rao:** Competition is building up both from cooperative private companies, not only here all over India more and more investors are looking at dairy companies and the stronger will survive.

**Sangeeta Tripathi:** Sir but specifically in this particular quarter normally your sales price they tell your procurement price increase, so your procurement price has increased by 5%, 5.5%, while the sales price you have been able to only increased by 2%, 2.5%. So specifically private players entrenching in your market, is that taking away, snatching away your volumes as well as your capacity to raise prices?

**M Sambasiva Rao:** We have not raised prices in this period for milk. The mix of variants and the markets has impacted those prices. There is no milk price revision upward or downward during this period. I will give you an example for you to understand if we are selling full cream milk per liter realization will be approximately Rs.50; if we sell toned milk realization will be approximately Rs.38, Rs.37. So if the volume of full cream milk increases in a particular market, the average realization of the milk at company level looks higher. The full cream milk sale comes down in volume and toned milk volume picks up, the realization or sale price appears to be down. So these are the variations that you would see in the quarter, but not because of price increase or price decrease. There was no price correction during this period at all. Similarly certain markets we sell cow milk like Bengaluru market, certain markets we sell buffalo milk. The sale price of cow milk and buffalo milk are different and if the sale of cow milk goes up then the overall realization will come down per liter, the sale of buffalo milk goes up overall realization will be higher, so the fluctuations are attributed to the markets, variants, milk types not the price. Hope this is clear?

**Moderator:** Thank you. We will take the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

**Prashant Kutty:** Thank you for the opportunity Sir and congratulations on a good set of numbers. Sir firstly this is an extension to the previous caller's question. I understand that you just talk about that mix obviously makes a lot of difference over here in terms of both the procurement as well as the realization side of it, just wanted to understand how has the mix really behaved in terms of in the last few quarters, because typically if I look at it the milk procurement prices for the last three quarters has been continuously on the rise whereas the procurement realizations the pace of that has been relatively slower as compared to the rise in the milk procurement. So is there any kind of a sustainable shift, which you are kind of seeing that is happening, any conscious effort from your end or something of that sort?

**M Sambasiva Rao:** Yes, the smaller increases in small pockets of milk procurement prices cannot be carried forward immediately into the market. Market prices will be determined in a different way



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and the procurement happens in different geographies and sale happens in different geographies so all the corrections will be taken care in this month. We are increasing sale prices of milk in post of our markets from the next week by about Rs.2 average a liter. So all those smaller aberrations and spikes will be adjusted in this price hike, we are increasing price of milk, curd, other products also from next week.

- Prashant Kutty:** You are going to see an increase in the price of curd as well you are trying to say?
- M Sambasiva Rao:** Yes.
- Prashant Kutty:** How much would that be?
- M Sambasiva Rao:** Rs.4 per kg average.
- Prashant Kutty:** In that sense Sir typically if I look at it why this is probably coming out little more, this spread actually come in even more significantly down, so that is probably the reason as to why looking also could we know broadly what is the cow to the buffalo mix currently at this point of time, tonnes of your cow's milk sales?
- M Sambasiva Rao:** 60:40, cow is 60.
- Prashant Kutty:** Cow 60 and 40 buffalo. How would have this been let us say in the last few quarters? Has this been the trend? What has been the change in the last couple of years if I may probably ask?
- M Sambasiva Rao:** The fluctuation will be about 2% to 3%, plus or minus.
- Prashant Kutty:** So basically that is one of the reason actually, there is no conscious effort probably moving towards let us say like probably there is a cow market increase, which is happening something of that, so there is no conscious increase of that sort? Typically the market is moving towards that side, right?
- M Sambasiva Rao:** Yes, it is currently the fluctuation is dependent on the seasonal conditions on production patterns in different areas.
- Moderator:** Thank you. We have the next question from Rukun Tarachandani from Kotak Asset Management. Please go ahead.
- Rukun Tarachandani:** Can you talk about your strategies for increasing milk procurement in your non-core markets so probably Maharashtra and Rajasthan and if I look at your annual presentations I



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see that milk procurement from Maharashtra last year had come down a lot, so what was the reason for the same?

**M Sambasiva Rao:**

This is again influenced by the procurement we have done in Haryana for the milk power production about 1 lakh plus liters we have done last year per day and now that operation is not there. So we have adjusted our available milk in our markets by moving from one zone to other zone. Certain areas the prices have gone up we have not responded in that area where in some areas where we are getting higher volumes without price correction we have taken there. The growth is a function of two things. One infrastructure creation particularly in the markets where we are entering now, we have to set up more bulk coolers, chilling centers, enter more villages, and engage more farmers to supply milk. In addition to the infrastructure second is our package of practices. In general we have certain value principles and package of practices, like we ensure measurement of the milk quality and quantity accurately and we ensure payment of the milk price punctually. These are the two standards we introduced, and most of the farmers get attracted to that. Then we have number of activities may providing credit through banks, supplying cattle feeds, then taking up certain veterinary care activities for increasing the productivity of the animals, income of the farmers. We have certain social security programs for insurance of health and death, insurance of animals. There is a huge set of activities we carry along with us in our areas where in the current operational areas and new areas. It will take time for farmers to recognize all these benefits they accrue by joining hands with Heritage and we continue to do the same in whichever market we enter.

**Rukun Tarachandani:**

And on value added products considering the 80% sales is from curd what is the new products strategy both at a company level and probably at the JV level that you were planning with some European partner?

**N. Brahmani:**

This is Brahmani here. So the focus when it comes to value added products, specifically curd continues to be there. Curd contribution from last year to this year there is a growth in volumes and that has positively increased the value added products sales. Going forward when it comes to an innovation with the value added products, we are working a lot with ingredient suppliers, in terms of innovating with an existing range of value added products as well as the new again this value added product. In addition to that we are in the advanced stages of talks with a company for a specific new value added product range in the Indian market. We are in the process of looking at various documentation marketing studies etc., required for this and this is progressing very positively. So by next quarter we can give you more information on this particular project.



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**Moderator:** Thank you. We will take the next question from the line of Ashish Kulshrestha from Economic Times. Please go ahead. Ashish your line is unmated please go ahead with your questions. As there is no response we move to the next question from Aditya Wagle from Aequitas Capital. Please go ahead.

**Aditya Wagle:** Could you shed some light on the acquisition cost for the Reliance Dairy business?

**M Sambasiva Rao:** We are still finalizing certain due diligence is going on, on physical asset verification etc. It should be complete soon then we will find the final numbers and notify.

**Aditya Wagle:** And it is mainly in their presence is mainly in which markets?

**M Sambasiva Rao:** They are in Rajasthan, Punjab, Haryana, Delhi, Telengana, and Maharashtra.

**Aditya Wagle:** Sir secondly I missed out on your debt position how much debt do we have on our book still now?

**M Sambasiva Rao:** We have 124 Crores now, out of which 67 Crores is long-term, 57 Crores is working capital.

**Aditya Wagle:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Resha Haria from GreenEdge Wealth Services. Please go ahead.

**Resha Haria:** Good afternoon Sir. Sir my first question is on the JV, basically as far as the JV we have articulated the dairy we would be launching a value added products like cheese, edibles, etc. Just wanted to know your thoughts on this particular aspect. So cheese, edibles, etc., those would be longer shelf life value added product which we would entail higher working capital requirement and secondly there will also be a threat of competitors like Nestle or Britannia which are already established brand names with wide distribution network entering these products categories. So what are your thoughts in terms of entering these long shelf life value added products versus short shelf life value added products like curd, panner, etc., whether margins are also very high and the market size is also very huge. So that is my first question.

**M Sambasiva Rao:** We are trying to see what response will satisfy you?

**N. Brahmani:** Basically the products, which are more low hanging fruit for us, are relatively fresh in nature and this specific product that we are looking at now is well, is medium surplus





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product. It does not entail significant working capital in many senses. So it is a logical extension to some of the products we already make in the market.

**Resha Haria:** So if you could share what is this legal shelf life product could be?

**M Sambasiva Rao:** I think it is a bit premature to take up this discussion. We are still negotiating and finalizing. We will be very happy to share with you as it materializes maybe a quarter away.

**Resha Haria:** The second question is if you can give a little bit of colour on the state wise volume that we milk procurement and the sales of liquid milk sales volumes. So if you look at AP and Telengana over the last 2012 to 2016 the liquid milk sales have remained more or less flat at you know around 4.6 lakh liters per day. So is that, because the market has saturated or there are too many new competitions that have come in?

**M Sambasiva Rao:** Like in Telengana and AP markets we are increasing milk volumes by 8% growth.

**Resha Haria:** But if you look from 2012 to 2016 our volumes has remain more or less flat, so any particular reason for the flat volumes during that period any and 2000 like the nine months 2017 we could have increase our volume to that?

**M Sambasiva Rao:** No last year quarter to this year quarter it has increased by almost 5.5%, 6% growth is there in the milk volume and if you look at in the curd volume it is by 24%, it is growth is there it is not flat.

**Moderator:** Thank you very much. We will take the next question from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

**Nisarg Vakharia:** Congratulations to the board. I have two specific questions. My first question is that you had mentioned that you have taken up price cut in curd in the last quarter to face competition and we also had faced inflationary pressures. Now we mentioned that we do work 16%, 17% EBITDA margin in the curd business in the value added business what would the margin be this year after facing these two pressures?

**M Sambasiva Rao:** It is around 14%.

**Nisarg Vakharia:** Secondly we generally do 5% EBITDA margin in the milk business and we do about 3% to 4% EBITDA margin loss in telling the fact, what would be that loss this year?

**M Sambasiva Rao:** It in terms of PAT loss that is rupee value is coming down. We do not have so much surplus volumes now, but in terms of percentage loss also it has come down because sale prices are



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firming up and firmed up also so the percentage of loss, I think PAT percentage loss readily it is not available it is coming down.

**A Prabhakara Naidu:** Absolute amount we can tell mixed percentage.

**M Sambasiva Rao:** We will let you know later.

**Nisarg Vakharia:** Also Sir you mentioned in your presentation that your ambition is to reach a 6000 Crores top-line in 2020, could you give us a broader picture on where essentially because if I see your last ten year track record in the milk business we grow at an average 15% CAGR, so where are we going to get this incremental growth from?

**M Sambasiva Rao:** Yes the 6000 Crores plan of 2020 was finalized keeping in view the continuation of the retail business when we finalize the statement of Vision 2020 that subsequent changes have come. Now the retail, agri, bakery three lines of business will be demerged in the coming quarter, therefore we have to redraft the total 2000 or 6000 Crores plan, but having said that for the dairy itself in the 6000 Crores dairy component was 4150 Crores was the dairy component in 6000 that 4120 requires something like 30% growth from the current year we started stepping up our investment in the backend for creating chilling capacities, packing capacities and cold stores, and new product lines etc. So they see the growth rates will be supported by the capex investment in addition to that we have also started work on marketing activities at ATL so that the sale of value added products can pickup faster in the coming years so we have to get from the dairy only that 4150 Crores as planned earlier will be stepping up our activities from now on, already action is started.

**Nisarg Vakharia:** Sir what would be the size of your value added business as of now I think it is 90%, 95% of that is curd in the 4000 Crores target what would be the size and your opinion on the value added business?

**M Sambasiva Rao:** Value added products revenue contribution should be 40% by 2020 from the current 21%, 22% so that is the percentage terms contribution coming from that.

**Nisarg Vakharia:** 1600 Crores topline in that business.

**M Sambasiva Rao:** Yes, and the third contribution is 80% at the movement, 80% is third contribution that continues to grow and we are also adding other production lines for other products they should support in achieving that rate of growth of value added products.

**Nisarg Vakharia:** You know even when I look at the other production lines so even if I look at cheese and some of these other categories there are many private players even they have taken a lot of



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time to scale up those business in crack those markets. So what are we going to do differently to get these targets achieved?

**M Sambasiva Rao:** Maybe I will have a call separately with you this is something, which I do not want to elaborate in a call what I will do. Coming to the previous question on PAT losses at EBTIDA level is 3.4% now this year.

**Moderator:** Thank you. We will take the next question from the line of Rohan Shah from Kroma LLP. Please go ahead.

**Rohan Shah:** Post the sale of the retail, agri and bakery business what does our balance sheet now look like? What is the total capital employed and how much of those are shareholder funds and what is the debt?

**M Sambasiva Rao:** Debt is same actually 67 Crores only because the entire loan has been repaid. The long-term debt is going to be 67 Crores only. So capital employed actually in the ad there we are actually we have given the segment versus and segment viabilities the individual segment wise the retail, agri, bakery and wet VatCa division those capital employed we can calculate only dairy and RE is going to be there.

**Rohan Shah:** So about 220 Crores or so?

**M Sambasiva Rao:** Yes.

**Rohan Shah:** Okay, thank you.

**Moderator:** Thank you. We will take the next question from the line of Dhaval Mehta from Emkay Global. Please go ahead.

**Dhaval Mehta:** Good afternoon Sir. Congratulations on a great set of numbers. My first question is as you told that 32.64 was the overall procurement cost for the quarter so what was the exit rate for the procurement what was the exit price for the procurement?

**M Sambasiva Rao:** More or less same.

**Dhaval Mehta:** My second question is Sir if you see our liquid milk sales from last few quarters it has been quite subdued vis-à-vis let us say our procurement cost has been increasing obviously because of mix change our realization is not improving by the same amount so is it the right thing to say has the market which we are operating is more or less now saturated with so the



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only region with the only place we can go with the liquid milk say with the other markets which we are entering?

**M Sambasiva Rao:** You are comparing last three quarters movement or previous year to this year?

**Dhaval Mehta:** Last three to four quarters where our liquid milk sales has been quite subdued in the range of 5% to 7%.

**M Sambasiva Rao:** It is not subdued. Getting 5% to 10% is as tough task. I would not say market has stagnated or anything. We have got certain seasonal impact, certain disturbances in this area we will be now the season is changing you will see the growth.

**Dhaval Mehta:** Sir and what will be the tax rate, which we can build in the model because our tax rate has come down drastically in nine month of FY2017 vis-à-vis let us, say for last year.

**M Sambasiva Rao:** Can you repeat the question please?

**Dhaval Mehta:** What can be the tax rate which will be build because our tax rate has come down to around 28%, 29% vis-à-vis which was around 34% last year?

**M Sambasiva Rao:** Sort of kind of efforts to bring in renewable energy in the company we got certain accelerated depreciation benefit the rate of tax is come down because of those exemptions.

**Dhaval Mehta:** Thank you Sir. I will come back in the queue and all the very best.

**Moderator:** Thank you. We will take the next question from the line of Sanjay Agarwal from Star Investments. Please go ahead.

**Sanjay Agarwal:** Thank you. Great set of numbers and I got all answered all my questions.

**Moderator:** Thank you. We will take the next question from the line of Deepak Madhavdas from LSA. Please go ahead.

**Deepak Madhavdas:** Very good afternoon Sir. Sir congrats for the very good set of numbers given in this quarter. Sir I would like to know we have done two major things in this period one is the exit from retail and the other is from buying out of Reliance Dairy. First thing is like I would like to do like what is the major benefit we get from either of it and what would our balance sheet look like post all this and the second thing is that we were looking for some tie-ups with some companies overseas like where do we stand as of now?



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**M Sambasiva Rao:** First thing about the rationale for the decisions the retail demerger will enable the retail stores to join a larger group, which is scaling up the stores faster and it is already profitable business. We have been seeing the growth but not able to see the bottomline improvement for longtime and maybe any entry into new markets again we have to have some burn for that. We thought by joining hands with a larger group which is growing faster and who have advantage of scale already with them the margins can be improved and assortment can be expanded so we can see a healthier and faster better growth of retail through consolidation with the Future Group and we have taken a position in that equity as a swap. So we gain we get the upside of it through the efforts of future group in nurturing the chain further along with the other stores we have been maintaining in Food World, Food Bazaar the Food Hall etc.

Secondly, we also get access for selling Heritage dairy products through a larger chain of Future Group all their stores will be available for us front end shelf space and we can supply the Heritage dairy products through that chain. Considering value added products would be much beneficial through the chain.

Coming to the Reliance dairy it helps us in building to scale and integration will help us to make our operations viable in Delhi. We have recently started in Delhi so the volumes they have been selling will join our clients. They have been doing much of these operations in a outsourced co-packing model in three, four markets we have planned where we can shift that co-packing into our own plants, leverage the strength we have in that market and gain the volumes through their brands dairy life and dairy pure.

In addition to this Reliance also offered their shelf space they have around 550, 600 food and grocery stores where again we can supply Heritage dairy products to their stores so we will be gaining access to two large chains in the country, which are selling food and grocery for placing our dairy products and our dairy presence will be better in certain states like Rajasthan, Punjab, Haryana, Delhi where we do not have much presence so expanding into a milk surplus states will help us grow faster, these are the rational for that. Coming to balance sheet maybe you can work on it.

**A Prabhakara Naidu:** See I mean that only after the effective date only we will be able to agree with the numbers, that once the FRM allots the shares to us and there are after subsidization, some subsidization to again actually demerger, after that only we can be able to...

**M Sambasiva Rao:** Maybe in the subsequent quarters we can explain to you.



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**A Prabhakara Naidu:** That is from 1st of April we are going to be in Ind-AS format that the balance sheets are going to be although the share values are going into be in fair value.

**N. Brahmani:** Coming to now JV we will see some products being available next financial year in the market and the first quarter of next financial year FY2018 we will be able to share much more information a detailed information about exactly what the products be looking at who are partners will be, what is the business plan, business scale, what will be the marketing strategies go to market strategies etc., to that particular range of products.

**Moderator:** Thank you. We will take the next question from the line of Darshan Modi from Prospero Tree Capital. Please go ahead.

**Darshan Modi:** Hi, my question is on curd sales. Sir one what I wanted to know is, is there a big correlation that you find in your market with the customers who take liquid milk from you, they except your curd very easily or is there no such correlation so that is my question number one and a related question is that our milk sales volume in Andhra Pradesh, Telengana has been like 460000 liters for the last two three years so if we are not in way of focusing so much on increasing the liquid milk volumes will our future growth in curd get affected so that is my number two question?

**M Sambasiva Rao:** Last year milk sale is about first quarter 6 lakh liters in Telengana and Andhra Pradesh presently it is 530000 liters. We are growing almost by 9% to 10% in AP, Telengana markets and also the curd volumes have grown by 20% to 25% in these markets in these states. So certainly there is a growth for both milk as well as curd acceptance of curd is also high for the milk consumers.

**Moderator:** Thank you. We will take the next question from the line of Sonam Udasi from Tata Asset Management. Please go ahead.

**Sonam Udasi:** Just one question, just wanted to understand is there a lock in date for you for the Future Retail share?

**N. Brahmani:** Yes, there is a three locking period.

**Sonam Udasi:** So after three years from say 1st of April this year you can exit that position?

**N. Brahmani:** Yes, three years after the closing all the transactions.

**Sonam Udasi:** Okay thank you madam.



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**Moderator:** Thank you. We will take the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

**Vikrant Kashyap:** Good afternoon and congratulations for good set of numbers. Sir can you please let us know when we are expecting commercial production with US, European JV and we understand you cannot share more detail on it, but please at least share how big this company is like \$100 million company or a \$1000 million company? Thank you.

**M Sambasiva Rao:** Hope you give us a few more months to share all that. They have put certain confidentiality requirements on the discussions in progress; so it should not hamper any progress on that side, just bear with us for a while.

**Vikrant Kashyap:** Yes sure Sir, thank you.

**Moderator:** Thank you. We will take the next question from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.

**Ritesh Vaidya:** I have just few questions. One is what is the total banking procurement did you have right now?

**M Sambasiva Rao:** The total procurement is 1050000 now out of which around 35000 is from the bulk suppliers remaining 1015000 is our own procurement directly from the top list.

**Ritesh Vaidya:** So Sir wanted to understand is a decrease in milk procurement that you had in Haryana while you said you did not do the milk to provide a conversion this time around first procurement towards there are also direct and was not it difficult to stop procuring the milk from the farmers if you are doing it with the direct route?

**M Sambasiva Rao:** The last year operation was through bulk milk suppliers for the powder plant operation. We have taken an annual contract of the plant and the contract was over and it was not renewed so that milk supplied for that plant was from the bulk milk suppliers not from the farmers.

**Ritesh Vaidya:** Sir one question is in the milk that you procure what is the average fat content and in the milk that you sell what is the average fat content basically want to understand is there a one is to one if I mean you procure 1 liter and you sell 1 liter or you can actually sell a bit more or you get some extra fat out of it?

**M Sambasiva Rao:** If we procure cow milk fat percentage is around 4% in the milk. The sale milk has multiple variants if we sell double toned milk it will carry 3%, toned milk carry 3%, double toned was carry 1.5% and then standardized milk carries 4.5%. We are taking buffalo milk,



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buffalo will have 8.5% fat on an average in the milk and the sale milk will have same reduced percentages standardized 4.5 toned, 3 double toned, 2.5 slim milk, 0.5 therefore average, the average keeps changing depending on the mix of cow and buffalo volumes but as of now for the quarter it is around 5.2% is the fat coming on an average in the procurement of milk taking the cow and buffalo milk together.

- A Prabhakara Naidu:** It will take 0.4%.
- M Sambasiva Rao:** That is where the surplus fat accumulates. Our sale carries less fat than what we procure.
- Moderator:** Thank you. We will take the next question from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.
- Sangeeta Tripathi:** Sir just wanted to understand on the retail side of the business what is the accumulated loss that we have over the last ten years?
- M Sambasiva Rao:** Yes, just try to look at we also gave up that, we do not have right now.
- N. Brahmani:** In the meanwhile if you had another question we can answer that question.
- M Sambasiva Rao:** 300 Crores seemed to be the accumulated loss.
- Sangeeta Tripathi:** 300 Crores is the accumulated loss setting in the networth of the balance sheet right? Okay Sir that was it, thanks.
- Moderator:** Thank you. We will take the next question from the line of Alok Rawat from Karma Capital. Please go ahead.
- Alok Rawat:** Sir my first question is how much of your sales do happen through your own parlors and if you could break it down by product wherein liquid milk and curds and other products?
- M Sambasiva Rao:** Around 20% of the milk, 20% of our revenue comes from the parlors channel and out of which milk could be about a lakh plus liters.
- Alok Rawat:** Sir secondly this question sorry on harping again and again you have answered this question partly but if I look at the milk procurement volumes year-on-year Andhra Pradesh seems to be fine, but in Telengana there has been a drop of roughly 30000 liters and many other states also have seen Y-o-Y drop so I am not able to connect the explanation that you provided earlier that in Haryana there was a contract job which was extend rate therefore there has been a drop in procurement volumes.





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- M Sambasiva Rao:** You may not be able to see in the limited data access you have that is what it is?
- Alok Rawat:** The milk procured from Haryana was it coming from other states as well?
- M Sambasiva Rao:** Yes. See the presentation of data is in such a way that you may not be able to see unless you see the granular data.
- Alok Rawat:** So to summarize the drop from year-over-year the change is from 12 lakhs roughly 12 lakh liters to 10.5 lakh liters and that is mostly because of the termination of Haryana contract?
- M Sambasiva Rao:** Yes.
- Moderator:** Thank you. We have the next question from Resha Haria from GreenEdge Wealth Services. Please go ahead.
- Resha Haria:** Thanks for taking my follow up. My first question is on Reliance Dairy so just wanted to understand that how what procurement network within Reliance dairy in terms of transparency at collection centers like do they also with digital lactometers, the payment terms to farmers and if they are not up to our standards how much transition time will that take and in that period of time would we see a drop of the 2.25 lakh liters at Reliance procuring currently?
- M Sambasiva Rao:** Yes, first question is on transparency and adjustments they also have digital measurements equipment called milk analyzers in all the milk collection points. There is no issue as far as measurement and transparency is concerned. Payment systems are also by and large same. The volume protection is something, which we have to quickly gauge what happens and change over happened that is what we are working to integrate our business with their business without any big setbacks. Having said that there are certain pockets where we may like to drop the milk procurement activities depending on the cost structures and the volumes the market requirements, certain markets we may have to rationalize as we take over we will do that and certainly the volume drop will be there in the changeover period we will try to rebuild on that.
- Resha Haria:** The second question is again on the milk procurement pricing having short up but still now there have been reports that the milk production volumes in malls and vest have come down so does the same hold true for south?
- M Sambasiva Rao:** Yes more or less all over the factor is same. There is a drop in production.



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**Moderator:** Thank you. We have the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

**Prashant Kutty:** Thank you again for the opportunity Sir. Sir just with regard to this Reliance dairy acquisition itself just kind of highlight that you might be looking at rationalizing few of the markets. If we could just know among all the existing states where Reliance has a procurement presence, which are the markets, which you are currently looking at the focus point of view mainly in that, because typically correct me if I am wrong over here so by typically Reliance as a procurement, which you rightly said across almost about 10 locations typically it is very difficult, this is very small, it might cumulatively look pretty big but it is very small from region to region basis. So which are those regions if you are looking at increasing our focus once and that is it one further to the first point?

**M Sambasiva Rao:** Out of ten states there are four states where we are already present like Tamil Nadu, Telengana, Maharashtra and Karnataka. These four states we are running operations. It is easier to integrate in these four states along with our operations shift the volume for example within a 10, 20 kilometer distance they are operating a chilling center we are operating we will bring milk into one and run the show. So the four states would get integrated faster there are states like Punjab, Haryana, Rajasthan, UP, MP these states they have operations some states like Madhya Pradesh volume is a bit lower whether it is worthwhile continuing that volume in that state are rationalize and shifted to nearby location and move on these calls we will take as we get into the activity but Punjab, Haryana, Rajasthan, Delhi these are the four states where our presence will be new our entry will be significantly high in those areas.

**Prashant Kutty:** But just an extension to this Sir because even if you look at the while I understand you are going to get an entry into it, but typically I guess we never had any presence in these markets at all right, these four markets?

**M Sambasiva Rao:** We just entered Delhi recently through Rajasthan. We started bulk procurement in Rajasthan. We are currently getting 35000, 40000 liters in Rajasthan, selling 30000 in Delhi in both milk and curd form.

**Prashant Kutty:** Typically you were talking about incrementally these places our focuses to probably have a higher share of value added products that is how we are looking in it right because again procurement not a really very big as well right?

**M Sambasiva Rao:** It all depends on your capacity and our capacity so they are relative terms right.



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**Prashant Kutty:** Just one more point one last point, in terms of the regarding the demonetization part that any kind of activities that we undertook in terms of probably making it a little easier in terms of the cash probably ease in terms of the cash impact which was there maybe to the farmer side of it anything of that was so any kind of actions that you have taken in the last quarter?

**M Sambasiva Rao:** Thanks for not even willing to see our face. We are so busy in collecting cash, depositing and disbursing no activity was possible with banks during this period. They were trying very hard to finding it difficult to distribute the cash somehow the most of the farmers got money through their own bank accounts and are finding it difficult to draw. Now we can work once this is restored banks are able to normalize their working timing, availability to other activities so we are looking at interacting with bankers to see how much more we can transfer through the account-to-account transfers, most of the farmers have to now open their accounts and their branch distances so they are the, it is not that in two months time we could have done some wonders there.

**Prashant Kutty:** Sure, but anything that was done from our end per se?

**M Sambasiva Rao:** That is what I am saying; there was no banker willing to see us, so bogged down with the regular cash collection and counting and pending.

**Prashant Kutty:** So incrementally now we are going to probably look at maybe opening the bank account?

**M Sambasiva Rao:** Once they to normalcy then we have an opportunity to go on discuss and work on that.

**Prashant Kutty:** Sure great. Thank you very much and all the very best to you.

**Moderator:** Thank you. We will take the next question from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

**Rahul Maheshwari:** Good afternoon Sir. I just have one question that currently for the company what is the working capital cycle and in terms of the parameters and going forward as we are saying that you would be increasing the value added product segment contribution from 20% to 40% so that would automatically bump up your working capital. So what is your strategy towards because in the dairy segment the value added products have a very huge working capital so how you would some numbers or some color on that?

**M Sambasiva Rao:** As of now, the working capital for dairy alone the inventory period is 19 days, trade receivables are 2 days and trade payables are 13 days, the networking capital cycle is 7 days only. So these value added products are going to be in JV so it is not directly affecting the



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dairy working capital. But even if the cheese and all I expect the long self-period the rate but it is around 7 to 8 days is going to be the working capital cycle only.

**Rahul Maheshwari:** So going forward also is your working capital would be remaining in the range of 7 to 9 days?

**M Sambasiva Rao:** Yes.

**Rahul Maheshwari:** That is all thank you.

**Moderator:** Thank you. We will take the next question from the line of Ashish Kulshrestha from Economic Times. Please go ahead.

**Ashish Kulshrestha:** Sir I wanted to understand that your income from sales have grown from 521 Crores to 526.9 Crores your cost of materials consumed has actually come down from 325 Crores to take it through 353 Crores. What is actually was the reason? Was this linked to that Haryana plant and linked to that second question is what exactly now the reason that we went to Punjab to tie-up with that company and are you not interested in SMP market that you did not renew the contract that is it?

**M Sambasiva Rao:** Not very clear sorry if you could repeat?

**Ashish Kulshrestha:** The first question is while your revenue your income from sales has gone up; your cost of materials has actually come down, what exactly was the reason behind that?

**A. Prabhakara Naidu:** You will not take both the figures to arrive the cost of goods would because the last years thought we have consume at this time so SMP which we have already produced and kept in the stock that has been consumed that is the reason cost of material has come down but the inventory changes in inventory amount has come down from 44 to 3.84 Crores they need together ABC under expenditure in the add format ABC because the cost of goods sold we have to take together into account not the cost of material consumed alone.

**Ashish Kulshrestha:** Sir second question is you are talking about that SMP plant in Haryana what is acting of the reason that even to Haryana for that kind of contract why what was the reason that it was not leaned are you not interested in the SMP segment or you plan to reduce our exposure to SMP?

**M Sambasiva Rao:** The reason for going was to have a long-term arrangement. It was a pilot for one year and we have certain experiences, which were not good there so we thought we would revisit that in due course that are why it got terminated.



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- Ashish Kulshrestha:** So did you continue our exposure to SMP segment or are you trying to reduce it?
- M Sambasiva Rao:** Here we do not have such activities maybe next we would review depending on the opportunity.
- Moderator:** Thank you. We will take the next question from Rakesh Jain Asit C Mehta. Please go ahead.
- Rakesh Jain:** Thank you for the opportunity. Sir as we see that our curd has a proportion of ADP has been increasingly consistency and we have good EBITDA margin. So what plans do we have and which states are we targeting to increase our curd sales besides certain regions. And my second question is on I read somewhere that we handled around 18 lakhs of liter milk capacity so can you just give additional color on what this number is exactly. Thank you.
- M Sambasiva Rao:** Curd growth will be pursued in all the markets wherever we have sale. There is no particular market we try to leave it wherever there is a possibility we will go, particularly it is a function of having the capacity, backend production capacity, we have capacity surely we will take it up and if we do not have in build capacity that is in the curd promotion. The second question is...
- Rakesh Jain:** 18 lakh littler milk handling capacity?
- M Sambasiva Rao:** 15.5 lakh is a chilling capacity and processing is 15.5, it is was not there anywhere it is 16.5 chilling, 15.5 processing.
- Rakesh Jain:** Okay thank you.
- Moderator:** Thank you. We will take the next question from Karthikeyan VK from Suyash Advisors. Please go ahead.
- Karthikeyan VK:** Good afternoon Sir. Just couple of clarifications, one is there has been some moderation in the VAP growth in the last few quarters, so is the recovery in growth contingent upon new products or is there a some kind of temporary impact on demand for the existing products particularly curd?
- M Sambasiva Rao:** It is more to do with the price, sale price from the revenues during the last nine months, it looks like not growing, if you take volume metric growth there is a volume growth, value wise we did not have growth much growth.



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- Karthikeyan VK:** You are sure that you can ramp up the value growth going ahead, how does one think about?
- M Sambasiva Rao:** Now the prices are being revised in a week's time and the season is also changing as temperature rise, the volumes will be come.
- N. Brahmani:** In fact we have seen about the 22% growth in curd volumes in quarter three last year to this year and for the nine months that was about 25% growth in terms of volumes.
- Moderator:** Thank you. We will take the next question from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar:** Thanks for the opportunity. I would like to know the plant capex number which we intent to do over next 12 to 18 months period my first question?
- M Sambasiva Rao:** Capex is close to 70, 75 Crores per year is our expectation now, each financial year.
- N. Brahmani:** It includes milk procurement, processing, front-end, freezers, chillers etc.
- M Sambasiva Rao:** All entire dairy activities.
- N. Brahmani:** And the new value added products we are looking at.
- M Sambasiva Rao:** And new value added products investment is outside.
- Shailesh Kumar:** Miraculously this quarter our retail division has performed very well after we have entered into the sales agreement with Future Group?
- M Sambasiva Rao:** It is more to do with the demand.
- Shailesh Kumar:** So basically we are accepting a non-cash base of payment that is why?
- M Sambasiva Rao:** Not that. This is mostly because outside Kiranas are not able to accept the cards and the customers do not have cash. They walk into MRF not only heritage all MRF sales have gone up by 30%. So because of the non-cash transactions possibility we have credit card acceptance, we have debit card, we have PayTM we have Mobi Quick, we have Free Charge, all kinds of non-cash transactions are possible in MRF. The customers walk into MRF for this year fact they do not have cash, they do not have change, and outside outlets are not able to accept this non-cash transactions so they walked into our stores sales went up.



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**Shailesh Kumar:** Sir our wet care business how do we see this business growing and scaling up over say next three years period and how will profitability turn out over this time period?

**M Sambasiva Rao:** Growth is a function of production capacities. We have to create production capacities of cattle field essentially that is the chief revenue earner there. Currently we have tie-ups with some factories making cattle filed on a co-packing basis and our first plant is coming up by this financial year end, we should be commissioning our plant in March, which can give the consistent quality of the product to the market. So every year we have to add one client that list to step up our ability to sell more.

**Shailesh Kumar:** What would be the capacity of plant, which is coming by March 2017?

**M Sambasiva Rao:** 6000 tonnes per month profitability would be again not much over to 5%, 4% you can expect margin.

**Shailesh Kumar:** Sir this our negotiation with the JV partner for value added product we believe is taking unusually long time and are we negotiating with the same partner with which we have started the negotiation or meanwhile partners have changed?

**M Sambasiva Rao:** See long and short is again related. Europeans, Indians, Americans speed is different and the urge to grow in Indian market is also a degree of difference for various companies so they have their own priorities their commitments which they made and they are exploring India and they are hastening up and we are trying our best. We have started with a few companies narrowed down to two now out of four, five we started we are now continuing negotiations with couple of them.

**Shailesh Kumar:** So this negotiation with those couple of shortlisted players is going on for I believe last two, three quarters?

**M Sambasiva Rao:** Yes it may go on for another three quarters also. It is not that one part of this appetizer. It should also develop appetite confidence in Indian market and come forward so it is taking time and typically they have lot of processes before they sign off. Those business are taking time like Japanese, European, their style of assessment the market assessment, partner assessment, commitment of capital etc., they have their own internal process which we consider long they consider reasonable.

**Shailesh Kumar:** Sir just to understand it in perspective we are going to have this partners mainly because of their brand and no how or something is that we are also looking to capital as well?



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- M Sambasiva Rao:** All, some of them are willing to put in capital, some are not willing, so we are welcoming any kind of contribution no how recipe brand, their abilities, technology, equipments, experience, expertise.
- Shailesh Kumar:** Great, and my last book keeping question if it is possible, if you could bifurcate the EBITDA margin of the dairy division between liquid milk, value added and fat products for the quarter and for the nine months that would really be helpful.
- A Prabhakara Naidu:** For the quarter milk EBITDA margin is 8.36%.
- Shailesh Kumar:** This is for liquid segment or overall?
- A Prabhakara Naidu:** This is liquid milk EBITDA margin is 8.36% for quarter three for nine months 8.48%, value added products margin EBTIDA margin is 14.04% and for nine months 15%, then for fat EBITDA margin is -3.44% for quarter three for nine months 9.37%.
- Shailesh Kumar:** How much curd we have sold in this nine months. I think it has been told 25% Y-o-Y volume growth?
- M Sambasiva Rao:** Yes.
- A Prabhakara Naidu:** 225 tonnes per day for nine months.
- Shailesh Kumar:** Thanks.
- Moderator:** Thank you very much. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Shailesh Kumar for closing comments.
- Shailesh Kumar:** I would like to take this opportunity to express my sincere gratitude to the management for taking time out to enlighten the investor community. I will also like to thank our investor community for showing interest in the company. My best wishes to the management. Thanks.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Sunidhi Securities & Finance Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.