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January 31, 2026

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

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

Scrip Code: 519552

Scrip Code: HERITGFOOD

Sub: Transcript of Conference Call held on January 29, 2026 - reg.

Dear Sir / Madam,

In Continuation of our letter dated January 16, 2026 the Company had organized a conference call with the Investors/Analysts on Thursday, January 29, 2026 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

Company Secretary & Compliance Officer
M No: FCS-6317

Encl: a/a

HERITAGE FOODS LIMITED

CIN : L15209TG1992PLC014332

AN ISO: 22000 CERTIFIED COMPANY

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HERITAGE FOODS LIMITED

Q3 FY'26 Earnings Conference Call

January 29, 2026



MANAGEMENT:

Mrs. N Brahmani – Executive Director

Dr. M Sambasiva Rao – Whole Time Director

Mr. Srideep Kesavan – Chief Executive Officer

Mr. A Prabhakara Naidu – Chief Financial Officer

Mr. J Samba Murthy – Chief Operating Officer

Dr. Brij Mohan – Chief Executive Officer - Heritage Nutrivet Limited

Mr. Umakanta Barik – Company Secretary & Compliance Officer

INVESTOR RELATIONS REPRESENTATIVE:

Ms. Diya Kaswa – GO India Advisors



Moderator: Ladies and gentlemen, good morning, and welcome to the Heritage Foods Q3 and 9 Months FY '26 Earnings Conference Call. Hosted by Go India Advisors. As a reminder, all participant lines will be in the listen only mode and you will get an opportunity to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that, this conference is being recorded.

I now hand the conference over to Ms. Diya Kaswa from Go India Advisors. Thank you, and over to you, Ms. Diya.

Diya Kaswa: Thank you. Good morning, everyone. I am Diya Kaswa, and it's my pleasure to welcome you on behalf of Heritage Foods Limited. Thank you for joining us today for Q3 and 9M FY '26 Earnings Call. This call is being hosted by Go India Advisors.

Please note that, today's discussion may include certain forward-looking statements. Therefore, they must be viewed in conjunction with the risks that the company faces. Today, on the call, we are joined by Mrs. Brahmani Nara, Executive Director; Dr. M. Sambasiva Rao, Whole-Time Director; Mr. Srideep Kesavan, CEO; Mr. A. Prabhakara Naidu, CFO; Mr. J. Samba Murthy, COO; Dr. Brij Mohan, CEO, Heritage Nutrivel Limited; and Mr. Umakanta Barik, Company Secretary and Compliance Officer.

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

M. Sambasiva Rao: Thank you, Diya. Good morning to everyone on the call. At the outset, on behalf of the management team at Heritage Foods, I would like to extend our New Year wishes to all our shareholders, farmers, employees, customers, consumers and all stakeholders. We wish everyone a healthy, prosperous and successful year ahead.

Now turning to quarter 3 of FY '26. The quarter is marked by an unusually industry supply environment, even during what is typically a seasonally strong flush quarter. Milk shortages, elevated procurement costs and butter supply tightness continued to weigh on operating performance, leading to margin pressure despite steady demand conditions.

Procurement and raw material costs rose sharply during the quarter, driven in part by industry-wide butter tightness. Attractive global dairy trade prices led to significant butter exports from India, resulting in domestic butter shortages and firm pricing. For the

first time in the last 2 years, constrained raw material availability even during flush quarter necessitated, bulk butter purchases at elevated market prices in November impacting overall profitability.

At the same time, milk procurement volumes were impacted by supply side constraints. For the first time in several years, YTD milk procurement volumes declined marginally by 0.82% to 16.86 lakh liters per day for 9 months of FY '26, following three consecutive years of 9% to 10% year-on-year growth. Q3 procurement averaged 16.73 lakh liters per day, down 9% year-on-year, reflecting milk shortages.

However, procurement volumes showed sequential stabilization during the quarter, supported by our farmer-first philosophy. We continue to prioritize timely payments, feed support and on-ground engagement, reinforcing long-term farmer relationships and ensuring continuity of supply during a challenging period.

On the sales side, milk sales volume grew 2.1% year-on-year to 11.94 lakh liters per day, while net milk realizations improved to INR57.31 per liter, reflecting pricing discipline and sustained brand trust. Ongoing efficiency initiatives across routing, chilling infrastructure, digital tracking continued to mitigate logistics and handling costs.

Despite multiple headwinds, company delivered resilient top line performance, reporting consolidated revenue of INR11,192 million, registering 8% year-on-year growth, crossing the INR11,000 million quarterly revenue mark for the third consecutive quarter. This performance reflects resilient top line execution, supported by sustained consumer demand, value-added product-led growth and an expanding retail footprint even as elevated input costs constrained profitability. EBITDA stood at INR629 million, while PAT was INR346 million.

Margin compression during the quarter was primarily driven by a sharp escalation in milk procurement prices, which increased by 9% year-on-year, outpacing consumer price realizations despite calibrated pricing actions undertaken by the company.

Following the notification of new labor codes, the company recognized a onetime increase in provision for defined benefit obligations under Ind AS 19, that is Employee Benefits, resulting in an incremental provision of INR27.42 million on a stand-alone basis and INR27.78 million on a consolidated basis during the quarter, and the same has been recognized as an employee benefit expense in the current reporting period.



Value-added products remain central to our growth strategy during the quarter. Value-added product volumes grew 6.8% year-on-year with almost all categories delivering positive growth despite adverse weather conditions.

Strength was visible across curd, paneer, drinkables, ghee and ice cream, supported by strong consumer engagement and market expansion, which improved the quality of sales mix. Including ghee and butter consumer packs, value-added product revenues grew 22.6% year-on-year, contributing 38% of total revenue compared to 33.8% in the corresponding period last year, underscoring sustained premiumization and mix improvement.

From a strategic growth perspective, capacity additions remain firmly on track. The Hyderabad ice cream plant is progressing as planned with trial production underway now and commercial commissioning expected in current quarter. The flavored milk plant is also expected to be commissioned in the current quarter, positioning the company well to capture incremental demand across fast-growing categories.

I'm also pleased to share that Mrs. Brahmani Nara, Executive Director, was honored at the Business Today, most Powerful Women in Business Awards 2025 and Mrs. Nara Bhuvaneswari, Vice Chairperson, Managing Director, received the Outstanding Dairy Professional Award 2025 from the Indian Dairy Association, reflecting the strength of leadership and governance at Heritage. I'm also pleased to announce Heritage Foods Limited has been recognized among India's top 50 manufacturing companies for its practices.

Looking ahead, near-term cost pressures remain. We are confident that margins will progressively normalize, supported by improving supply conditions, higher value-added products contribution and continued disciplined execution. With that now, I open the floor for questions. Thank you very much.

Moderator:

The first question is from the line of Sameer Gupta from India Infoline.

Sameer Gupta:

Till last quarter, we were expecting a normal flush, but you've seen milk prices rise even on a sequential basis. I understand you mentioned that, there were supply shortages, but can you just elaborate on the major reasons as to what resulted in this? And the point -- the reason I'm asking is just wanted to assess if these are more like recurring things or more like a one-off?

Srideep Kesavan:

Thank you for your question. It was a bit of a surprise for all of us. Till the month of August, we were very hopeful and a lot of mixed news were flowing in that the flush would be normal. And these things we would not know unless -- until it happens. But if you recall, Q2, when we announced the results, we said that, it was a period of excessive rainfalls.

In fact, many of the regions where we operate saw upwards of 20 to 25 percentage of excess rainfalls, and which actually has caused a double whammy this year. And on the consumption side, many of the key weather-related value-added product categories were impacted in terms of consumption momentum.

And the same excess rainfall actually caused stretched at the animal level and which is possibly what has caused productivity decline at the farm level. And this was observed not just in procurement region, but we procure from across 9 states in the country, and we felt this across. Usually, in the flush season, we receive a lot of milk this year. If I can just give some numbers last year, from Q2 to Q3, we had 1.8 lakh increase in milk.

So just to give Q2 last year was about 16.44 lakh liters of milk and Q3 of last year was about 18.4 lakh liters. So, 2 lakh increase from Q2 to Q3. This year, Q2 was about 16.1 lakh liter and Q3 was 16.7 lakh liter. only 60,000 liters has increased. So, that's primarily the big impact that we are talking about.

Is it going to be like this? Usually, no, because usually, after a season of constrained supply, usually, it eases because prices are very firm at this point in time. It is highly profitable for a dairy farmer to produce milk today. So, we expect dairy farmers to increase production, and that should eventually sequentially bring down the prices. How long will it take?

We are not sure. We are expecting the mini flush season or the cow flush season in the South India, which starts from May onwards, we expect that at least to normalize because the prices in South of India is very firm at this point in time. So, with that, we expect things to ease out, but we'll have to wait to see how it happens. But one thing is -- one thing we are observing now is the impact of climate is palpable in our industry. And you will see -- you will read upon a lot of reports in this regard in the media.

I hope, I've been able to answered the question.

Sameer Gupta: Got it. Yes, yes. This is very, very helpful. Just to reiterate, basically excessive rainfall is only -- is the only reason. But usually, what we have seen is that excessive rainfall also results in good groundwater.

And the next year typically results in a better year in terms of everything, in terms of agri production, in terms of milk production, etcetera, something that happened last time. See, we can't really predict as to other factors, but this sole factor alone should result in better milk productivity. Is that a fair understanding?

Srideep Kesavan: I would say so. But see, the dynamics are so complex with over a dozen variables. It's very difficult to predict. We are also -- maybe up to 5, 6 percentage of milk -- up to 5, 6 percentage of rainfall access is good because you get a lot of green powder, and the farmer income also improves.

So, beyond that point, it creates stress for everyone. Possibly, that's what I'm -- we are waiting for more scientific reports to come in, and then we'll be able to update. But what we felt was a palpable shortage of milk.

Sameer Gupta: Got it. fair. And just another related question. So, I remember that during the analyst meet earlier this last year, you had indicated a 7% to 9% kind of an EBITDA margin range. And this was taking into account the weather vagaries and milk price volatility. Now 9 months is 5.9% for stand-alone and 6.3% for consol. Would you still reiterate this margin guidance? Or do you think that one should basically trim it downwards?

Srideep Kesavan: Sameer, the only point I'd like to -- only word I'd like to call out here is guidance. When we said 7 to 9 percentage is our targeted range, I use the word -- I must have used the word targeted range and not guidance. We would like to keep our EBITDA towards the 7 to 9 percentage range, which means that at this point in time, which I feel is the lowest point we would have hit, we're still about 0.7, 0.9 percentage below that level, so which means that we need to work harder on an apple-to-apple basis, improve our business performance by about 1 percentage so that we can move.

Currently, even this year also, you must have seen that the EBITDA has declined by nearly about 1.8%, which means that actually, if I can improve the business performance on a like-to-like basis by about 1 percentage point with similar raw material situation, we should be around 7 percentage and a better raw material situation, which should be around 9%. That's what I meant when I said what I said. There is an impact of EBITDA on account of various other factors which we need to work on as well.

- Moderator:** We have the next question from the line of Saumil Mehta from Kotak AMC.
- Saumil Mehta:** So, if you can just quantify while the quarterly procurement prices are very high, what were the exit prices? And what are the pricing trends you're seeing at least for the month of Jan and any price hikes we have taken in liquid sales for the regions where we operate?
- Srideep Kesavan:** You're asking about exit price, right?
- Saumil Mehta:** Yes, the pricing trends in specific month of December and the Jan pricing. Yes.
- Srideep Kesavan:** Jan, I wouldn't be able to comment. So, December, I'll be able to tell you. Just give me 1 minute. Have you got the weighted average procurement price for the month of -- for the quarter? Hello?
- Saumil Mehta:** Yes. Sorry, I was not able to hear you.
- Srideep Kesavan:** Yes. So, the month ending cost of milk price in the month of December was -- weighted average price was INR46.01. So, if it gives you a sense of how sequentially that has increased because for the quarter, the reported number that we have put is about INR45.57.
- But December is INR46.01, which means that you can see how it has climbed up from October, November, December. We expect the prices to further harden in the next 30 to 45 days, but should ease off, like I mentioned, once the mini flush or the cow flush in the South starts from May onwards.
- Saumil Mehta:** Sure. And in terms of our end product prices, any price hikes we've taken or at least we envisaged to take at least in the forthcoming quarters at this point in time?
- Srideep Kesavan:** Yes. So, for the quarter that went by, which is Q3, our raw milk -- while the raw milk prices increased by about 8.9%, the market milk prices on a weighted average basis across our regions, we have been able to increase by about 4.9%. So, we have passed on. In absolute terms, if I can just give you the number, the absolute milk price has increased by INR2.67 per liter, which is about 4.9%. That's as much as we could pass on, which brought down the gross margin in milk itself by about 12%.
- Actually, that has been the biggest impact. Actually, the impact, everything is dependent on how much milk is absorbed, how much milk had to absorb of the raw material

increase. Value-added products also on a percentage basis, we have taken up prices by about 6.6%. Weighted average value-added price per liter now is about INR75 compared to INR70.40 last year. Ghee also, we have taken up prices by about 15% compared to last year.

So, we have taken significant price increase compared to last year. But weighted average, if you look at all of this put together, the revenue has not been -- has not increased enough to compensate for the raw material increase.

Saumil Mehta: Sure. And my last question, what would be the carrying inventory for the bulk fat?

Srideep Kesavan: I'll ask CFO to answer this, please. Give me a second.

Saumil Mehta: Sure.

Srideep Kesavan: Okay. Without looking, I can tell you that the fats we are carrying at this point in time is very, very, very nominal, maybe 300, 400 tonnes, which is what would be less than a month's cover, I believe. 390 tonnes of butter is exactly what we are carrying. So, we don't have any butter.

Saumil Mehta: Sure. Sure. All the best for subsequent quarters.

Moderator: We have the next question from the line of Rehan Saiyyed from Trinetra Asset Managers.

Rehan Saiyyed: So, sir, I have a couple of questions. First on your ice cream plant at Shamirpet. So, you have said that, Shamirpet plant expected to commence commercial production by March 2026. So, what peak capacity utilization should we assume over the next 2 to 3 years? And how margin accretive is this facility at steady state?

Srideep Kesavan: We are expecting the commissioning to happen towards the end of February or beginning of March as we had promised earlier. It's well on track. As we speak now, trial runs are happening.

We are just waiting for the commercial production date. In the first year of operation, we expect a capacity utilization of about 40% to 45%. 40% is what we are expecting, and this is on -- as per business plan. We don't expect any surprises unless the summer goes bad and ice cream business is impacted. As we speak now, ice cream is a product category, which has grown strongly for us in Q3.



We are on the back of -- we are entering Q4 with a year-on-year growth of about 21% on ice cream. So that's a very strong number. We are -- if you look at it, Q2, the growth was about 16%, 17%. So, every quarter, we are increasing the growth rate of ice cream, which is actually good news. We are expecting to enter the summer season with a very strong growth rate as well as volumes.

In terms of how value accretive it will be, it is -- on an EBITDA basis, it is actually a very profitable business, ice cream, as you would know. But then there is also the asset - it's a new asset investment with its depreciation and all that will come in. So, it will take at least a year or 2 for the profitability to normalize.

Rehan Saiyyed:

Okay. So, you have said right now that your ice cream business is really doing well from the last 2 to 3 quarters. And you have also given the commentary in the last quarter that 20% CAGR over the -- that you can grow paneer, curd and ice cream categories are expected to grow at 20% CAGR over the next 7 years. So how is Heritage prioritizing capital and marketing spend across these categories to maximize their returns on ROCE, ROIC basis?

Srideep Kesavan:

So, except for ice cream, where we -- ice cream is -- it's the nature of the product that it is seasonal, 1. Number 2, you can't increase the capacity on an incremental basis. Except for ice cream, most of our value-added product categories where our capital investment over the years has been incremental to keep our utilization, plant utilization very high percentage.

And as we speak now, the key categories for us as far as value-added products is concerned there is curd, paneer, butter milk, ice cream that you called out, flavored milk as well as ghee. These are the categories where we have -- these are the products where we have made capital investment.

And curd is something in which every year we make capital investments so that we -- our plant utilization stays at around 90%. Paneer is something in which we have -- even this quarter also, we have grown Paneer by about 30%. So, Paneer is something which is growing very strong for us. So, we have some capex in the pipeline, which will get commissioned in the second or third quarter of next financial year.

Rehan Saiyyed:

Okay. Fair enough. And one more last question, like kind of if you can understand a bit understanding regarding your -- like how -- am I audible?



M. Sambasiva Rao: Yes. Go ahead.

Rehan Saiyyed: So, like I want to be understanding regarding your southern market, like how -- like if you see that organized dairy penetration is expected to rise from 40% to 60% over the next decade. So, like how Heritage is realistically targeting it in its core southern markets to cater?

Srideep Kesavan: Overall dairy. I believe your question is regarding overall dairy, right?

Rehan Saiyyed: Yes, yes.

Srideep Kesavan: Yes. Okay. So, see, we are very sharply focused on our core markets. See, the size of dairy industry is huge. Even in the markets where we operate, the headroom for growth is tremendous. Like if I can just give you an example, the penetration of curd, packaged curd in a state like Andhra Pradesh, which is actually a very high curd consuming state is only 25%, okay?

75 percentage of curd that gets consumed in Andhra Pradesh is in the unpackaged form. And in a city like Hyderabad, it is about 40% is the penetration of packaged curd. So, the headroom for growth for us is tremendous. And our own core markets are delivering so much of growth.

So, we are -- our priority at this point in time is doubling down and going deeper. With cold chain, cold chain is one of the biggest enablers of our business. With cold chain improving, what we are seeing is that the retail outlets that are stocking dairy, especially value-added dairy is expanding manifold.

Maybe 5 years ago, the number of retail outlets that used to stock dairy were very limited because you had to buy dairy, you will have to either go to a milk boot or you have to go to a modern trade. Today, as an average retail outlet has started stocking dairy products.

And this is the biggest opportunity that we are capitalizing on. The headroom for us is tremendous, and we are working on expanding our distribution footprint as well as consumer traction for this. I hope I have answered. So that is our strategy. Stay focused on where we are strong and keep building strength.

For the benefit of all investors, see the advantage we have is that we are dealing with products and categories which don't need explanation. It's not something that you need

to explain what this product is. It's something that consumers are already consuming as something that people are familiar for thousands of years. It's just that we are improving the product delivery in terms of quality, taste and convenience, which is what is switching people from unpackaged to packaged, apart from other aspects such as trust built on purity and transparency.

Moderator: We have the next question from the line of Pradyam Chaudhry from JM Financial.

Pradyam Chaudhry: Sir, a couple of questions. The first one is on -- like you mentioned that margins should progressively improve from here on. But if I look at your commentary on the procurement price, we are expecting the procurement price to further harden from here. So why are we really -- like, why do we feel that the margins have bottomed out?

Like are we expecting improvement in our selling price also? Currently, you mentioned that last quarter, the selling price had increased by INR2.9. So, are we expecting a further increase here in the current quarter?

Srideep Kesavan: Thank you, Pradyumna. Yes, you picked on that point when I said the margins probably would have bottomed out and probably should improve. This is an estimate at this point in time, and we'll have to see how this plays out. There are 2 or 3 reasons why I mentioned what I said.

One is raw material prices will increase at least in the very short term, okay? Let's talk about 30 days or so. That's a given. We were hoping, number 1, to pass on some of this to the consumer through higher pricing.

Number 2, we're also entering summer, which means actually already in many of the regions and markets where we operate, the temperatures have started hitting 30 degrees. We are our business -- many of our value-added products, especially the more profitable ones such as curd, butter milk, ice cream, these are all highly seasonal.

So, the contribution of these products to -- or the salience of these products in our kitty in Q4 will be much higher than that in Q3. So, it's an improvement of the weighted gross margins as well as our ability to pass on some of this pricing to the consumer. But you're right, procurement price, at least in the near short term, will increase.

This is something that we are cautious about. But our effort at this point in time is that as we grow volumes on the consumer side, we need to keep growing our procurement in line so that we don't have milk shortage. That's our highest priority. As we enter the

season, we will require at least a couple of lakh liters of milk from the current levels. So, our teams are focused on getting this milk at this point in time. Margins will be a result of how well we grow the value-added products.

Pradyam Chaudhry: Sorry, just a follow-up here. When was the last price hike we took in milk? Just to understand how much of it is yet to be passed on? And are we planning to take any further -- or have we already taken any further price hikes in the current quarter?

Srideep Kesavan: We operate in close to 8,500 villages. And this is across some 15 or 18 regions as we call it, as divided among all the 9 states we operate. At some point in time, some price is always changing, right? So, it's not like on one particular day, we changed the price. So, this price movement is a continuous phenomenon.

So, I won't be able to give a date when was the last time we changed.

Pradyam Chaudhry: Like let me just put it another way. The increase, absolute increase in selling price we are expecting in the current quarter, would it be higher than the absolute increase in the average procurement price in the current quarter?

Srideep Kesavan: We would like to match it is the way I'll put it. And the weighted average improvement would be beneficial.

Pradyam Chaudhry: Understood. And my second question is on the slow growth in value-added products, right? Like we mentioned -- you mentioned that we took a 6.6% price increase in value-added products. And despite that, I think the VAP grew by around 14% for us compared to earlier it used to grow at 18%, 20%. This is the third consecutive quarter of slower VAP growth.

While I understand the first half was due to cooler temperatures. But any particular reason to point out here? In Q3 as well, the VAP growth was quite slow, especially if we look at the volume growth.

Srideep Kesavan: Yes. So yes. So, see, value-added products, we -- primarily, curd growth was lower this quarter. Curd growth came down to about 10%. Usually, we grow curd around 13%, 14%.

So, curd growth was lower. We also saw muted growth in drinkables primarily led by butter milk and flavored milk. The growth was muted. The drinkables grew only at 16%.

See, we used to grow and rather actually, our knobs are, or rather actually our attempt and objective is to grow value-added products at 20% to 22%, right?

The low 20s is the targeted growth rate of value-added products. And if it has to clock that kind of number, then our core value-added products, which is curd, etcetera, has to grow at about 14%, 15%. And then the smaller value-added products such as drinkables and ice creams and all of that need to grow at around 30%. Only then, you get a weighted average like that. So Q3, weather-wise was soft.

It's something I spoke about, primarily due to excessive rainfalls and lower temperature. On a weighted average basis, the average temperature across our region was about 1 degree lower than not just last year, but even last 10-year average.

So that impacted the weather-dependent categories with curd and the core value-added products coming to about 14%, 15% and the smaller categories such as ice creams and drinkables going to about 30%, which is what we expect in Q4 and paneer holding strong at around 30% as it will continue, should give us a weighted average of about 20% kind of value-added products.

But the key point to note, if I may call out, is that value-added product contribution to our revenue has expanded by 1.8% in this quarter, which is, you can say, roughly around 2%, which means that it is in line with the value-added products contribution improvement over the years. We've been growing value-added product contribution roughly 2% year-on-year.

Pradyam Chaudhry: Understood. And last couple of questions. The first one is the -- like there are 2 new plants that are starting, is on the ice cream side and one on the flavored milk side. If you can tell me full year revenue potential from these plants once they are operating at full capacity, what sort of a revenue potential do these 2 plants hold? And like, that gives me an idea regarding what sort of value-added products revenue potential I can expect?

And second, on the continued growth of other expenses, right? Previously also, we've spoken about this and that continues to be a concern. So how are we really addressing this part? And how much of our other expenses? I think we incurred close to around INR117 crores, INR118 crores of other expenses in Q3. How much of this would be related to the new plants starting up?



Srideep Kesavan:

Thank you. Just quick answers to both. See, the ice cream plant has a potential to deliver about INR500 crores to INR600 crores of revenue. That will take about 6 to 7 years for us to realize that, right? Our current revenues this year, we might close at around INR110 crores.

So that's a 4x or a 5x kind of multiple is possible because it's not just with volumes also because of revenue per liter increase, right, over a period, and it might take about 7 years for us to get there. Flavored milk, on the other hand, has a potential to grow up to about INR120 crores in revenue.

We are targeting ourselves probably in the next 4 or 5 years, we should be crossing the INR100 crore mark with the flavored milk. So, these are all categories of significant categories which are profitable, which we are investing on.

As far as the other expenses are concerned, see, primarily, I'll just call out 2 numbers, while there are many, many smaller items, but the two big ones which has changed for us, one is the whole logistics cost, which has -- as a percentage of revenue has gone up from 2.7% to 2.9%, which is a roughly 0.2 percentage increase, which you will see in the EBITDA decline also.

The 0.2 percentage is impacted because of logistics, primarily because of revenue not growing in line with the cost and also our distribution expenses going up as we are pushing the distribution, right? So that's a small 0.2 percentage impact.

The other expense, which has gone up is our marketing investments this year in quarter 3 of this year compared to quarter 3 of previous year has gone up by about 0.5%. Last year, Q3 was about 1.2 percentage of revenue. This year, Q3 is about 1.8 percentage of revenue.

While this looks like a 0.5 percentage hit to the P&L, we consider it as a timely investment as we are getting on to a high selling season. Our salience in terms of organized trade is increasing. Organized trade is already contributing about 18%, 19 percentage of our sales. And we are seeing a higher uptick, higher stickiness, higher retention rate for our brands in these channels, thanks to these marketing efforts. This is something that we are consciously doing, which will help us differentially take up prices as far as the consumer is concerned.

- Pradyam Chaudhry:** So, at 10.5% other expenses as a percentage of revenue in the current quarter, can we say that most of it is sticky in nature because a large increase has come from marketing costs, which will continue going forward as well. So, the other expense at least seems to be more sticky in nature.
- Srideep Kesavan:** Yes. See, the way I'll put it is that marketing is the only cost which is absolute, and it's not a percentage thing. And so, with revenues, let's say, for example, moving up by about INR100 crores or INR200 crores in the coming quarters, as a percentage of revenue, this marketing expense will continue to come down, right? I'm not going to see it's an absolute spend. It's, let's say, for example, in a quarter, I spent INR20 crores.
- So that will continue to come down as a percentage. And in terms of other expenses, we also count operating expenses, which has also gone up, especially the conversion cost, which we feel as we -- as the volumes increase, the absorptions in our plants will be much better, and that will also sequentially come down.
- Pradyam Chaudhry:** And the two plants which are starting, what would be -- the two plants which are starting, I'm assuming that...
- Srideep Kesavan:** That will have no impact. No, that has -- is there any impact of pre-operating expenses paying. I'll hand over to CFO to answer that question. Pre-operating expenses...
- A. Prabhakara Naidu:** Ice cream, right now which is not there actually -- but it is not significant actually as far as ice cream is concerned because in the month of February and March, actually, we are going to commission. So, nominal actually then revenue expenditure has been taken into account to be charged within that, not very much.
- Srideep Kesavan:** Nothing significant at all. Ideally everyone should get capitalized because it's a total greenfield facility.
- Moderator:** We have the next question from the line of Pratik Kothari from Unique PMS.
- Pratik Kothari:** Sir, first on consumer fat, I think, I mean, very healthy set of numbers growth. If you can talk about what is going right? One, you spoke about the price hike we took. But other than that, how is our brand developing there? I mean, we are seeing quite strong ramp-up there. And also, the fat loss number for this quarter, if you can share.
- Srideep Kesavan:** Yes. Thank you, Pratik. Volumes have grown about 45% and overall revenue growth is about 69%. And this is primarily in ghee. The bulk fat has degrown 99.9%. So

practically, there's no bulk fat this quarter. Unfortunately, the milk supplies that we had, raw milk procurement was just enough for us to meet the requirement for our own thing. So, there was no surplus butter generated.

So, to meet the growing demand for ghee, we had to actually buy butter from the market, which happened at a very high price because the butter prices in the market were quite strong, quite high compared to last year. So, in terms of prices on a per liter or per kg basis, while sales side, we saw a strong improvement.

Weighted average basis, prices went up by about INR106. We've never seen this kind of price increase any time. INR106 price increase per liter, we have seen liter kg because I'm combining ghee and butter together.

It's not the right way to look at it, because you should understand that there is a conversion factor of 81% to butter to ghee. But if I just do a simple weighted average, it's about INR106 is a weighted average price of -- on the sales side, but the raw material side also went up by about INR103.

So, which means actually there's no benefit at all. So, because of which even though the business shifted from bulk to consumer, the losses are pretty much similar actually. INR10.15 crores compared to INR9 crores last year. So, it's more -- or this much. Except that we are just cycling much higher volumes now.

Pratik Kothari: Correct. And sir, secondly, again, on other expense. So, it's been about 7 quarters since...

Srideep Kesavan: The good news is -- I'll just indicate. The good news is we have been able to establish a much higher consumer price in our ghee. The revenues are much higher, like, I just indicated the amount of revenue numbers that I spoke about at a much higher volume level, which means that with commodities easing, we should be in a very good position. We are just hoping for that.

Pratik Kothari: Correct. No point taken. Sir, coming back on other expenses again. So, it's been about 7 quarters since we have not seen those -- the targeted VAP numbers or a consolidated revenue number. So, I understand that marketing is a good spend to have.

We want to build that brand. But ex of that, are there no levers where we can kind of slow down, cut costs at time when one we are not seeing growth, one where we are seeing increase in milk price to kind of manage our cost for last many quarters, our other expense has been growing at 20% year-on-year.

I think maybe 10, 12 quarters now despite no revenue growth or lower revenue growth rather. So, I understand we are investing for growth. But if that growth is not coming, do we not have any levers to kind of curtail this ex of marketing, which I understand is a good spend to have?

Srideep Kesavan:

I agree. So, if I -- Pratik, a couple of things I'll call out. One is operating leverage. right, which is actually the most important thing in our business because we are not -- while we call it premium, but we are actually mass premium players, right? Our business is totally dependent on volumes.

And if you look at the volumes of this year, the volume growth is nothing great, actually. We need strong volume growth. And volume growth is what is going to completely offset our operating costs, and the operating leverage has to kick in. And for some reason or the other, this year has been from Q1, if you recall, maybe 2 quarters ago, in the same investor call, we mentioned that the Q1 was a washout, complete total washout because of rains. And the rains continued into Q2, okay?

So somehow this -- this is a very, very strange year, which the way it is going. We are actually building strength because we know that the per sales point offtake has improved, per consumer stickiness has increased, per distributor sales has improved. We know the unit metrics are looking good, but we have not been able to convert that in terms of large volume growth. We need volume growth coming back in low double digits and revenue growth in mid-teens. Revenue growth is fine.

4 to 5 percentage of NR increase is fine, but we need volume growth happening in 10 to 11 percentage. That's when operating leverage kicks in. And that is the reason why I was answering a previous question, I mentioned that we can offset the cost by about 0.6, 0.7 percentage the EBITDA on a like-to-like basis, today's EBITDA would be instead of 6.2% or something on a consol basis, it will be close to 7%, which I believe is a bottom-up number.

If we can do that, then we are working in the range of 7% to 9% going forward. But that operating leverage is what we see. And I have no -- nothing to -- yes, we can't be excuse here. We need to work harder to get those volumes.

Pratik Kothari:

No, correct. But sir, if other expense is growing at 20%, the operating leverage will only come in if the top line starts growing beyond 20%, right? If you still grow volume at 10%, price at 4%, 5% and consol at 15%, you'll still not see operating leverage kick in.

- Srideep Kesavan:** No. See, operating -- I'm talking about, see, while the operating expenses that we report, a good percentage of it is actually fixed in nature and we can't do anything about. There are variable costs, which will keep increasing. But the other expenses as a percentage of revenue will come down the moment volumes kick in. That's what I meant. There are other factors as well, which has gone a little bit beyond our control. Like this quarter, we had close to INR1.7 crores of GST -- INR1.2 crores of GST impact.
- A. Prabhakara Naidu:** GST in the sense, actually, we are not able to absorb the ineligible portion of GST charge it to the P&L, because the dairy products GST has come down from -- in the case of actually ghee, actually from 12% to 5% and paneer has become 0%, those kind of things. So the input GST, we are not able to recover, then the ineligible GST, we are charging to the P&L. In this quarter itself around 1.2 is the impact on account of that.
- Srideep Kesavan:** So that I'll consider as a variable number, which is what actually has softened the gross margins of paneer a little bit. The only option for us is to increase the NR. But excepting for these kind of things, many of the other things, other costs in the other expenses are actually fixed in nature, which will come down with operating leverage.
- Moderator:** We have the next question from the line of Abhishek from Systematix Group.
- Abhishek:** This is Abhishek from Systematix. Just wanted to check on this mini flush or the cow flush that you were talking about earlier. What is this -- what would this be as a percentage of the main flush? How significant would this be? Because what I'm trying to understand is in case for whatever reason there is some kind of a tepidity or a failure to this also, is there a risk of milk procurement costs remaining firm till the next flush and do things like till October?
- Just wanted to understand your perspective on that.
- M. Sambasiva Rao:** Possible the mini flush is witnessed over a period of decades in South India, where the cows are predominant. There will be 2, 3 months of milk product improvement and some amount of price softening happens is a standard feature. But this climate vagaries and related issues like diseases can sometimes impact. Like 1 year, we had lumpy skin disease, which had impacted. And occasionally, there will be some problems, but it is a standard feature of the cow.
- There will be mini flush in the April, May, June period in South India that we expect to be normal this year, particularly the milk prices are very remunerative now to farmers.

They would take greater care and production should come. And the buffalo flush will typically occur in October, November, December period, which did not happen in the expected or standard way this year.

Abhishek:

Right. Understood, sir. And secondly, on the price hikes that you have just detailed in your opening remarks. I understand from one of the earlier calls of the one of the listed competitors that probably some of the other private dairies and probably some cooperatives have not taken price hikes. They've chosen to not take hikes, while we have taken something like a 4.9% on milk and 6.6% on that.

Is there -- are we seeing some bit of market share impact of that in January? Or is there a risk that we see in this current quarter mainly because of this, yes. That's it from me.

Srideep Kesavan:

Thank you, Abhishek. Yes. So, some of the -- see, there's also -- see, the volume growth, I'm sure that you must have done the analysis of all the operators of dairy, others who have declared results as well, accepting some of those new businesses, the core apple-to-apple business for everyone has been soft this quarter. So, I believe -- I think the industry will have to increase prices. It cannot remain like this. Everybody's cost has gone up. Everyone has reported higher costs in Q3. It's not just Heritage. So, we have been -- we have passed on part of it to the consumer.

We believe others also will do so. Usually, it is just before March that everybody passes on some bit to the consumer. So, we are waiting for -- waiting to see how this shapes up. I'll not be able to specifically comment why they have not increased prices or why they have reduced -- why they have taken lesser price increase. I can only tell you our reasons.

Moderator:

We have the next question from the line of Resham Mehta from GreenEdge Wealth.

Resham Mehta:

I do have a couple of questions. Sir, one is on the heavy rainfall or erratic rainfall kind of disrupting growth. Well, that is well understood. But how does excess rainfall hamper milk production? Because -- so does it happen that artificial insemination or natural mating gets impacted or farmers become lax. They don't give animal feed to their cattle. How does this basically hamper milk production?

Moderator:

Ladies and gentlemen, the line for the management has been disconnected. Please stay connected while we join them back. Ladies and gentlemen, the line for the management has...

- M. Sambasiva Rao:** Yes. I don't know, you heard Dr. Brij's clarification on animal health and milk production drop.
- Resham Mehta:** Sorry, sir. I missed that. If you could repeat your answer because...
- Brij Mohan:** Yes. Sure. I'm repeating myself. This is Dr. Brij Mohan from Heritage Nutrivet. We have observed that across Indian states, we have the cross-breed cattle. And as you know, that major milk collection is happening from the cattle, not from the buffalos. And these cross-breed cattle, they are -- so yes, I'm repeating again, but very briefly now that Indian states, we have the cattle, which are cross-breed, and they are found to have decline in their milk yield after a couple of lactations.
- So two or three lactations, it goes down. And second is there are hormonal cycles during -- especially during the rain side. That time, there are a couple of complications like mastitis infections, which are widespread that reduces the milk yield. Hope I just answer your query.
- Resham Mehta:** But then structurally, how can this get resolved and from a midterm standpoint, how can the milk shortage be addressed? Because seeing a 9% degrowth on milk procurement was really huge. And how also in terms of how do we meet this milk procurement requirement considering the growth plans that we have. So my fear is that have we already lost out on some sales revenues because we were not able to procure milk? And is that expected to continue?
- Srideep Kesavan:** No, no. Resha -- okay. So Resha, no, we had sufficient -- see, what happened structurally, we had sufficient milk in Q3 to service our needs. You just see the quantity we procured. We procured about 16.73 lakh liters of milk.
- And if you see our average, our total sale of Q3 is roughly around 17 lakh liters. So we managed. But usually, what happens is in Q3, we get about 19 lakh liters of milk. You see that historically, you see the last quarter 3. That surplus milk is what converts into commodities.
- It also brings down the prices, raw milk prices, it increases profitability, that butter we use it for ghee, etcetera, etcetera, etcetera. That didn't happen. Right now it doesn't mean that we don't have milk. Now what we are currently -- and to address your question, we have got 1 percentage share of the industry, right? It's a very humongously huge industry, Indian dairy.

It's very difficult for one small actor to impact the whole ecosystem. It's impossible nearly. What we are focusing on is to double down on what we do best, which is actually in the villages, in the farmers, with the farmers that we work with, we are trying to work on farmer productivity. On an average, 3 or 4 years ago, an average farmer that we used to work with, I'm not talking about Indian average farmer, an average farmer that we used to work with used to produce about 7 liters per day. Now it is about 10 liters per day.

Now we need to -- okay, we might have hit a small air pocket that productivity has come down a little bit in Q3 of this year because of all these events. But we'll have to continuously working on taking the 10 liters to 11 to 12 to 13 kind of thing. That's what we can work on. But this is a -- this thing takes time. It cannot be addressed on a quarter-to-quarter basis.

So while the overall -- so we'll have to expect the overall milk availability to improve, which will also improve our farmers. But our farmer productivity, we work with, let's say, 2 lakh farmers. These farmers are not going to produce 12 liters per day tomorrow. This is not going to happen, right? Because this is a long-term thing and it will take time.

So what we'll focus on here is that structurally, if you see, while earlier, somebody asked this question on like what changed. Our EBITDA is down by about 1.8%. Let's look at it like that. We are about -- at a consol level, 6.2% and on a stand-alone basis, about 5.4%.

We are saying that this should actually be about -- out of this, we spoke about marketing and other costs about 0.6, 0.7 percentage, which can be offset through operating leverage, which is revenues and volumes coming back, which means on a like-to-like basis, we should be -- we should look at this margin offset by that much amount getting into the next quarter and beyond, right?

And there are other operating leverages, which I mentioned, alluded to once the volumes kick in because we are still cycling much lower volume growth. We need the volume growth to come back for which we are working. I think all the metrics are looking good, but we also need a little bit of weather and other consumption boost everything.

All of those things also to kick in. All in all, all these factors are what's going to stabilize, normalize our business in terms of margin potential. But that said, a 1.5 to 2 percentage swing in EBITDA will always be -- because this is a cyclical business. This is an agri commodity that we are....

Resham Mehta: No, no Srideep, sorry to interrupt. My question was not on margins. I think that was well covered. My question was more on -- so what I understood from what you're saying is that...

Moderator: Sorry to interrupt in between Resha. I would request you to kindly rejoin the queue for the follow-up question. As we have a...

Resha Mehta: I think a lot of time got spent in this -- the connection issue. And I think all the other participants were given a fair chance to ask their question. I've just asked one question.

Moderator: Resham I've just also...

Srideep Kesavan: I'll answer very simply that we are working with the number of farmers and the villages where we are operating. What we are trying to do is to recruit more farmers in the villages where we are operating. We are trying to get them to add more animals. We're also expecting, let's say, the mini flush to play to our benefit. That's the only thing we can work on, right? We are working on the variables that we have influence over.

Resha Mehta: So, in the markets that where we have taken price hikes, would our peers would have also taken price hikes? Or is it only us?

Srideep Kesavan: I think Mr. Samba Murthy, COO, will be able to answer this better.

J. Samba Murthy: Yes. Some places, we have taken it up and some competitors have taken it up, but most of the competitors have not taken up. But certain places, certain markets, they have also taken up. So, it's not that everywhere others have taken it up. So, some places they have taken it up along with us as well. So, the...

Moderator: We have the next question from the line of Harsh Dubey from LFC Securities.

Harsh Dubey: I just had one, like, a couple of questions, but I will restrict it to one. Just wanted to understand that the El Nino effect that is going to come into the weather. So, what is the expectation? Like clearly, the milk supply is really low in the industry as well as the prices are stiff, and you are saying that this is not something that we can expect in the next 30 to 60 days as well.

So, when we talk about the value-added product, how do you think that is going to do in this summer as well as since we are not able to convert excess of the milk into the

commodities now, so how about the prices and the margins? Will be sold on lower price on the margin?

Srideep Kesavan:

So, I'll not be able to comment on El Nino. But yes, excess of anything in summer, if there is excess heat, also that affects milk production, excess rainfall -- excess of anything impacts our business, right? Business has to operate in a particular corridor of comfort.

That said, excess heat is good for our sales side. That is for sure. Products such as curd, butter milk, ice cream and all of that should be -- should go well. Whether it is El Nino or not, we expect the summer to be normal. If it's a normal summer, I believe the growth that we'll deliver will be strong because we already have good indications of -- even with soft weather, when the days weather would open up, our numbers are quite strong.

If I can just say, we crossed for curd, for example, 400 tonnes is a big number that we crossed and it's the first time we crossed that number in quarter 3. All other numbers are also strong. So, we are entering the summer in a strong manner.

Nara Brahmani:

I just wanted to add one more point that our numbers show a lot of positive progress when we look at scientific numbers such as brand health track, loyalty awareness, etcetera. So, a lot of effort is going in that direction to mitigate some of these external factors that are impacting our sales, and that's been quite positive.

Aside from that, we are also seeing through platforms where things are measurable such as e-commerce platforms that the stickiness with the brand for our products in certain categories is improving significantly. Last but not the least, I think it is very important for us to a certain extent to de-seasonalize ourselves as a business.

And hence, the functional proposition is becoming exceptionally important for us. I think all along, we've been very focused on fortification as a lever to be able to do it. We are also focusing significantly on probiotics. Our butter milk, one of our variants of butter milk is probiotic in nature and is growing pretty well so that people consume it more for the functional benefits and not just seasonal reasons. Aside from that, protein is a huge, huge proposition for us.

And dairy naturally is a great source of protein, if R&D and packaging is done the right way and it's delivered to the consumer with a good amount of awareness. I'm also happy



to say that in the past quarter, we had launched Nourish+ paneer, which is 60 grams protein paneer, a high protein paneer along with Nourish+ milk as well.

And the initial offtake has been very, very positive through new age e-commerce platforms. So, I think there are several levers that we are working on very consciously to sort of season proof ourselves and to make ourselves a formidable brand. So, we are less affected by external conditions, and we're also putting in that effort in building awareness among our consumers.

Harsh Dubey:

Thank you for that detail. And sir, I would just like to have one follow-up in this guide up. When we talk about the milk procurement that we were not able to increase our milk procurement because of the industry problem that we are facing right now.

I just wanted to understand since bulk commodity is not there right now on our balance sheet. So, when we talk about value-added product sales, will there be milk shortages that you expect in the coming quarters? Is there chances of that? Or will we lost our sales because of that? Is that a possibility?

M. Sambasiva Rao:

No, that is not foreseen. We will find the sources of milk. And also, we have enough SMP purchased and stored for meeting the requirements of next season.

Moderator:

Thank you very much. Ladies and gentlemen, that will be the last question for today. I now hand the conference over to Mr. Dr. Rao for the closing comments. Thank you, and over to you, sir.

M. Sambasiva Rao:

Thank you very much for your continued interest in Heritage. I'm sure you got the essence of the quarter, and we look forward to meet you all soon for the next earnings call. Thank you again.

Moderator:

Thank you, management members. On behalf of Heritage Foods Limited and Go India Advisors, that concludes this conference. Thank you for joining with us today, and you may now disconnect your lines.

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