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October 22, 2025

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

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

Scrip Code: 519552

Scrip Code: HERITGFOOD

Sub: Transcript of Conference Call held on October 16, 2025 - reg.

Dear Sir / Madam,

In Continuation of our letter dated October 6, 2025 the Company had organized a conference call with the Investors/Analysts on Thursday, October 16, 2025 at 10.30 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

Regd. Off : H.No. 8-2-293/82/A/1286 , Plot No. 1286, Road No. 1 & 65, Jubilee Hills, Hyderabad - 500033, Telangana, INDIA.
Tel. : +91-40-23391221, 23391222, Fax: 23326789, 23318090 Email : hfl@heritagefoods.in, Website : www.heritagefoods.in





HERITAGE FOODS LIMITED

Q2 FY'26 Earnings Conference Call

October 16, 2025



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

Mr. Umakanta Barik – Company Secretary & Compliance Officer

INVESTOR RELATIONS REPRESENTATIVE:

Ms. Garima Singla – GO India Advisors



Moderator: Ladies and gentlemen, good day, and welcome to Heritage Foods Limited Q2 FY'26 Earnings Conference Call. As a reminder, all participant lines will be the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Garima Singla: Thank you. Good morning, everyone. I'm Garima Singla, and it's my pleasure to welcome you on behalf of Heritage Foods Limited. Thank you for joining us today for Quarter 2 Financial Year '26 Earnings Call. This call is being hosted by Go India Advisors.

Please note that today's discussion may include certain forward-looking statements. Therefore, they must be viewed in conjunction with the risks that the company faces. Today, on the call, we are joined by Mrs. Brahmani Nara, Executive Director; Dr. Sambasiva Rao, Whole-Time Director; Mr. Srideep Kesavan, CEO; Mr. A. Prabhakara Naidu, CFO; Mr. J. Samba Murthy, COO; and Mr. Umakanta Barik, CS and Compliance Officer. I now invite Dr. Rao to present the company's business outlook and performance, after which we will open the floor for Q&A. Thank you, and over to you, sir.

Sambasiva Rao: Good morning, and a warm welcome to all of you. I would like to begin this call by extending our heartfelt greetings to all of you on the occasion of Diwali, a festival that celebrates light, renewal and hope, may the season bring prosperity and positivity to all our shareholders, our farmer families, employees, partners and all shareholders alike.

Quarter 2 of this financial year was among the toughest quarters in the recent times, marked by an extended and intensive monsoon, a lead milk season and an intra-year butter shortage. Yet I am proud to say that Heritage Foods once again demonstrated its ability to navigate multiple headwinds with composure and strategic agility.

Despite these challenges, our business model remained resilient and delivered a stable and credible performance. Through agile planning, prudent cost management and a sharp focus on value creation, we continue to deliver growth. Heritage Foods reported consolidated revenue of INR11,125 million, up 9% year-on-year.

And this is our second consecutive quarter above INR11 billion revenue. This top line growth was underpinned by strong consumer traction across key categories, an expanding retail footprint and a strategic shift toward higher-value products.

Our value-added products portfolio remained the cornerstone of this growth with revenues at INR4,132 million, up 18% year-on-year, contributing nearly 38% of total sales. Categories such as curd, paneer, drinkables and ice cream registered double-digit growth, supported by improved distribution and new product launches.

Strategic moderation of low-margin B2B fat sales and strong B2C expansion further enhanced the quality of our sales mix. On profitability, EBITDA stood at INR772 million with a 6.9% margin, while PAT was INR510 million, up 5% year-on-year.

We acknowledge that EBITDA margins were lower by 122 basis points year-on-year, primarily due to a 6.3% increase in milk procurement costs versus a 4.5% rise in realizations. Pricing actions helped absorb much of the inflation, but the mismatch was temporary due to delayed pass-through during the lean season. Importantly, margins improved 44 basis points up sequentially, indicating that normalization has already begun.

Excluding the INR93.6 million GST refund, normalized EBITDA margin stood at around 6.1%, which we view as a sustainable base that will strengthen further as milk costs soften and volumes raise in the second half. The structural product mix -- the structural levers are product-mix improvement, procurement optimization and operational efficiencies are already visible.

Operationally, milk procurement averaged 16.1 lakh liters per day, down marginally 2% year-on-year with higher procurement costs. To ensure uninterrupted supply, we continue to support our farmer network through timely payments and feed support. This approach preserves long-term loyalty and strengthens milk security ahead of the flush season.

At the same time, milk sales grew 1.1% year-on-year to 12.1 lakh liters per day and realizations improved to INR57 per liter, reflecting pricing discipline and sustained consumer trust. Our procurement efficiency programs, including crude optimization, chilling infrastructure upgrades and digital tracking are helping contain logistics and handling costs despite volume fluctuations.

Within the value-added products segment, the margin profile remains healthy. Some new and scaling categories such as yogurt, drinkables, ghee are currently in the investment phase, while mature categories like curd, paneer and ice cream continue to deliver profitability. As emerging segments scale up, blended VAP margins will expand further.

The greenfield ice cream facility, which remains on track for commissioning by end of this financial year will materially enhance manufacturing efficiency, logistics cost per liter and our play in high-growth, high-margin frozen desserts.

Simultaneously, the Heritage Novandie Foods operational level integration continues to gain traction with yogurt now reaching Tier 2 cities and new SKUs expanding our health-oriented range. Our wholly owned subsidiary, Heritage Nutrivet Limited, delivered another strong quarter with revenue of INR581 million, a 34% increase year-on-year and PBT of INR54 million, an 80% increase year-on-year. This growth is sustainable backed by higher feed adoption and efficiency improvements.

Nutrivet's performance not only strengthens stand-alone profitability, but also enhances cost efficiency at the dairy level through improved yields and milk quality. The recent GST rate rationalization created an opportunity to sharpen competitiveness and helps conversion from unorganized sector faster.

While it led to temporary pricing adjustments, we expect stronger volumes and market share gains to more than offset the short-term impact. Encouraging traction from retail and digital channels supports our confidence in the growth trajectory for the coming quarters.

Looking ahead, we expect margins to normalize as milk costs ease, supply stabilizes and premium categories gain traction. Our focus remains on balanced margin management through calibrated pricing, mix optimization and tight cost discipline. As we enter the festive and flush season, the environment is improving, milk availability is easing, consumer sentiment is positive and GST-led competitiveness will drive broader market expansion.

The first half of FY '26 will be remembered as a period of resilience, recovery and renewal, one where we faced inflation and weather disruptions head on, yet remain firmly anchored to our purpose of building a sustainable value-driven enterprise. Our

focus continues to be guided by our Vision 2030 pillars, premiumization, digitalization, sustainability and farmer-first governance.

I'm happy to share Heritage has been recognized as the Best Workplace in FMCG 2025 by the Great Place to Work Institute. A heartfelt thanks to you, to our farmers, employees, partners for your continued trust and confidence. Every challenging year makes Heritage stronger, more agile and better positioned to capture emerging opportunities. With this, I now open the floor for interaction. Thank you.

Moderator: Thank you. The first question comes from the line of Sameer Gupta with India Infoline. Please go ahead.

Sameer Gupta: Firstly, on value-added dairy, I understand that there were weather vagaries this quarter. But even if I look at a few more quarter history, value-added dairy as a segment, excluding fat, is averaging around 16%, 17% kind of a growth. And our expectations generally from this segment is that given the opportunity and given its size today, 20% plus kind of a growth is something that we all expect. So in your assessment, is this largely a weather-related issue?

Or do you feel that now the base has caught up and growing at 20% plus on that kind of a base has its own challenges, but still the effort will be towards that side, but it's still a challenging proposition. Your thoughts, sir.

Srideep Kesavan: Thank you, Sameer. This quarter, our performance was about 15% and this performance is at least 5 percentage below our own internal expectation. That's all I can say. So our internal expectation and our internal targets are at least 5 or 6 percentage higher than what we are delivering now.

And the prime reason, there is only one reason that I can attribute this to, which is the weather because we look at the numbers on an everyday basis. And during these 92 days of quarter 2, there were days when the weather was good, and we would see significant uptick in volumes.

Please understand in value-added products, apart from paneer, all the other products have some dependence on weather, whether it is curd, our entire range of drinkables, which is butter milk and milk shakes and flavored milk, etcetera, ice creams. These all have dependency on weather. Except for sweets and paneer, every other category in

value-added has some dependency. So at this point in time, we cannot attribute this gap versus expectation to delivery to anything else.

Sameer Gupta: Got it, sir. This is very clear. Second question, can you just elaborate the reasons for the exceptionally lean milk season and the entire butter shortage? And following on to that, as we enter the flush season, buffalo flush is about to begin. So I mean, are there indications of a normal flush going as of -- as on the information available today or any deviations from normalcy that you're observing till now?

Srideep Kesavan: Yes. Sameer, Srideep here again. Yes, at this point in time, Q3 is usually good in terms of milk availability because of with the onset of flush post Diwali, this time around Diwali is earlier. So we expect flush season also to be advanced from that point of view. We do not see any reason to have any worry at this point in time. We don't see any structural problem. We are hoping that the flush season will be normal as it always is and the prices should ease.

Sameer Gupta: And the reasons for the lean milk season and the intra-year butter shortage?

Srideep Kesavan: See, there are so many factors actually. During quarter 1, the global GDP prices were strong, and we saw a lot of butter exports that happened out of the country. That must be one reason which actually created a little bit of a commodity shortage. So the fat prices across the country had gone up during that quarter.

So that's an indication of that, right? And whenever -- as butter prices actually went up quite significantly in quarter 1. And whenever such a thing happens, usually the demand of free float of milk increases, and it puts stress on prices. So it's -- very simply put, it is more supply-demand -- demand being higher than supply kind of scenario on the commodity side, right?

Secondly, the monsoon was quite erratic this year in the regions where we operate, we saw up to 29 percentage excess rainfall. And too much of rains -- good amount of rain is good because you have excellent water availability and water availability improves and the animal production stays good. But excess rainfall is not good because excess rainfall affects production, excess rainfall affects transport, excess rainfall affects collection of milk as well.

So this was the second factor which impacted the milk situation. So a combination of multiple factors is what resulted in shortage of milk and prices going up. Even then,

what you should look at, Sameer, is that if we had not been agile in the way we manage the situation, it would have been even worse.

So I think credit is due to our procurement team, which in a very agile fashion because of the advantage that we have of operating in multiple regions, we were able to balance from multiple regions. We were able to balance -- we were able to grow in regions which had decent availability of milk to manage the pricing, etcetera.

Sameer Gupta: Got it, sir. Just a last question, if I may squeeze in, more of a bookkeeping question. If I can have the bulk fat absolute sales and ice cream sales this quarter.

A. Prabhakara Naidu: Sameer. This is Prabhakar, CFO. Current quarter, bulk fat sale is negligible, INR3.67 crores only. Corresponding quarter, INR26.34 crores, last year.

Sameer Gupta: Got it. And the ice cream sales, sir, this quarter?

Srideep Kesavan: So while we get you the ice cream sale, it's a point to note that if I just look at, let's say, B2C business, which is excluding bulk fat, the growth is, yes, excluding bulk fat, the turnover growth is actually much better at 10.5%. In fact, actually 11% -- 11% is the growth if I exclude bulk fat.

A. Prabhakara Naidu: So ice cream sale is INR19.46 crores.

Moderator: Next question comes from the line of Abhishek Mathur with Systematix.

Abhishek Mathur: Just wanted to check, I think the mid- to high teens growth in VAP that we have delivered despite adverse seasonality, erratic rains, I think it is quite a commendable performance. The base was also not weak for us. So quite a good performance. The question here is that in your understanding, since you are the first dairy company to report, is this sort of VAP growth the trend that we should expect for the broader industry to deliver as well also? Or are there factors specific to Heritage that are at play here behind these numbers?

Srideep Kesavan: Yes. Abhishek, this is Srideep here. So let me just take -- first of all, thank you for your wishes. See, we should look at how the performance has been compared to the previous quarter, right? And if you look at the weather, the weather is actually worse in Q2 compared to Q1. In terms of number of days of rain, Q2 had more number of days of excess rainfall compared to Q1. In terms of average temperature drop below last 10 years, Q2 was worse off compared to Q1.

So in all aspects, actually, the impact of weather vagary and which is why in the opening remarks, our directors said that this probably was the toughest quarter that we had seen in recent times. The point to note actually is that we have been able to pull up our performance despite these things, right?

So, if you compare each and every category that we operate in value-added products, we have improved the growth rate compared to the previous quarter. So for example, while curd, for example, in the first quarter, we grew at 4% in terms of volumes. Here, I'm talking only volumes, right? With the worse weather in Q2, we grew at 10.1%.

Similarly, in the first quarter, I don't know, Abhishek, if you were on the call or not, one of the things that we reported was the drinkables portfolio actually degrew for us in quarter 1. With worse weather in Q2, we actually grew drinkables portfolio at 12%. Ice creams, we grew at about 5% in the first quarter, whereas ice creams with a worse weather grew at 17% in the second quarter.

So, with the worse weather, we were able to perform better. And this is attributable to the inputs and the work that we have done in building consumer traction and customer traction. On the customer traction side, we had expanded 60 odd distribution points in quarter 2 over quarter 1, which gave us roughly, you can say, about 6,000 retail outlets reached in addition over and above what we had in Q1.

So this is just a Q-o-Q comparison, right? Similarly, on the marketing side, I'm sure that you must have seen our investor presentation that we doubled down on marketing and consumer outreach. And we did several interventions. For example, our milk campaign was a very big success story from -- after spending close to about 5,000 GRP on television, we went on digital, which garnered 47 million views. Now these kind of numbers are really incredible.

And if you -- in the investor presentation, we had shared with you that the awareness levels across our markets have gone up tremendously. For example, in Bangalore, our awareness level went up by 12%. Trials went up by 22%. Chennai, 22%, 25% trial rates improved. Hyderabad, 30 percentage trial rates improved. So, these are all trials that is directly proportionate to consumers buying our product, right?

So significant numbers, we were able to clock across the markets as far as consumer traction is concerned. And in terms of new products, we launched several new products.

In the milk itself, we launched a successful variant called Sampurna cow milk. And in yogurts, yogurts is something that we launched towards the end of last quarter.

But in this quarter, we were able to successfully scale it up across the country. So now our yogurts, Livo, high-protein yogurt is available across all metro cities in India. And this was achieved in such a short time, right?

So we have done so many things in this quarter to turn around the performance and deliver the results that you're seeing. So I'll not be able to comment about the industry, but we are pretty confident that we are getting more control on internal matters and less and less dependent on external vagaries.

Abhishek Mathur:

Just 2 quick questions, small questions I have. Firstly, fair to assume that our milk procurement, which is slightly down Y-o-Y, maybe because of the rain season, should again pick up with us approaching the flush season, and we should -- we would again look to build up inventory as we approach this quarter?

And secondly, on the Ice Cream business, do you think, Srideep sir, that the traditional seasonality that we have come to expect from the ice cream segment in terms of the summer, winter, that seasonality is now starting to dilute a little bit and ice cream is becoming more of an all year-round consumption story in your view? That's it for me.

Srideep Kesavan:

Yes. Thanks, Abhishek. I'll answer the second question first. So let's hope that -- as we all see ice creams in India has got tremendous headroom, tremendous. I cannot even tell you how much. Like in India, the per capita consumption is 1/10 of what is in the Western world. Even if I compare with China, we'll be at 25% in terms of per capita consumption. And the recent GST relief, which changed the GST rate from 18 percentage to 5%.

That's a 13 percentage drop in GST, right? That's significant for a category like ice cream. So while -- so we are expecting that more and more households will have ice cream in their fridge instead of, let's say, a soft drink, right? So that's the -- if people want to indulge, let them indulge in a healthy product rather than an unhealthy product.

So we are hoping a lot of tailwinds, all these tailwinds will help reduce the seasonality and will make ice creams a winter product. So may your wish come true. Now as far as the milk availability is concerned, Abhishek, we -- I already spoke about that, and I think Director sir read out in his opening remarks that usually quarter 3 is when we see flush.

Usually, we see milk volumes coming back. So you should expect about at least 1 lakh or 2 lakh liters procurement will increase. And this is also the time when we store up commodities for the next lean season. So everything looks okay at this point in time.

Moderator: Next question comes from the line of Pradyumna Choudhary with JM Financial Family Office.

Pradyumna Choudhary: A couple of questions. One is on the milk volume growth. So that's been 1% Q2. So what's the reason for the same? Why has it reduced slowed down so badly. Last 3 quarters, the volume growth on the milk sales has been 3%, and now it's 1%.

Srideep Kesavan: Yes. This is Srideep here. Yes, milk growth has been a bit subdued for our liking. It's -- usually, we see that whenever we take up prices, we -- it has some impact in terms of volumes, consumption drops a little bit. So it's something that we have seen in the past as well. And in this quarter, we have taken up prices of milk by about 4.5%.

We had no go to do that because the raw milk prices had increased by about 6.3%. And although we were not able to pass on the full cost, 4.5 percentage out of that raw milk price increase was passed on to the consumer, and that impacted the volumes.

Pradyumna Choudhary: Understood. Second, on the procurement side, the procurement actually declined by 2% in this quarter. So what would be the reason for the same? Would it be attributable to the weather-related events itself? Or was there any other reason for the decline in procurement?

Srideep Kesavan: I thought I answered that in great detail. Just to summarize, multiple factors impacted. One is on the commodity side, across -- we felt a shortage of water, and that put pressure on milk demand. Secondly, the weather, then there was too much of excess rainfall, which affected production and transport of milk. I had addressed this question earlier.

Pradyumna Choudhary: Understood. that's what I just wanted to confirm whether it was weather related or something else as well. Just one more question. On the opex side, if I look at both your employee expense as well as other expenses, that's been growing really fast, like it's been growing at mid-teens or even higher levels for the last several quarters. So -- and even if you look at the current quarter numbers, our gross margin actually has been slightly up Y-o-Y.

The reason for the EBITDA margin decline is due to the growth in opex. So what's really happening here? What are the things due to which the opex is really growing fast? And where do we expect it to stabilize eventually?

And a related question will be on the normalization that you mentioned that we are already seeing signs of normalization. So what really is making us believe like in terms of -- are we seeing the procurement prices already falling? Or is there some other reason for us to believe that normalization is underway?

Srideep Kesavan:

Yes. So a few cost lines are higher. Like, for example, you spoke about employee expenses. Employee expenses are higher compared to same period last year by 13.8%. Similarly, like you rightly pointed out, operating costs are also higher compared to last year, which is related to, again, the same thing.

Marketing costs are also higher this year compared to last year because -- see, let me put it like this. So we are a tad below our own expectation. Not a tad below, I think, like I mentioned, about 4 to 5 % below expected growth trends that we have been expecting in this particular period. primarily impacted because of weather.

When you build capacities, you're building capacities hoping that these numbers are going to happen, right? And so from that point of view, we are probably performing tad below that number, which means that you have already invested to deliver the growth and -- but that growth is below what we had invested for.

The numbers currently is all a reflection of that. Assume the growth is 5 percentage higher than what we have delivered. All these numbers would look very different to you, right? As you will probably say that, okay, the employee cost has fallen, operating cost has declined, etcetera, etcetera.

So the gap is primarily driven only because the top line is not -- or rather actually the volume growth is not as much as we would have wanted it to be or as much we would have planned it for. And I believe it's a matter of time.

Like I mentioned and described before, despite a very bad quarter in terms of weather and all of that, we were still able to pull up the numbers, which gives me hope that if we actually get a little bit of normal weather, we are not asking or expecting any tailwind and all of that. But if things normalize, our performance would be much, much better.

And because our business is so much volume dependent, all these numbers would look very, very different.

Pradyumna Choudhary: I'll tell you where I'm coming from. Yes, partly, it's been answered, just to follow up like where I'm coming from. Last 2, 3 years, most of our expenses below the gross margins have been growing upwards of 15% to 20% Y-o-Y. So at such rate of growth of these expenses, there's no scope for any operating leverage to play out really.

So how do we really keep these expenses in check, right, be it something like employee expense, be it freight cost, be it selling and distribution, be it other expenses. All these have been growing very fast, which is leading to higher revenue not really flowing into higher margins?

Srideep Kesavan: So I don't know. We will have to define very fast. And in my opinion, employee cost has been growing at 13% to 14% -- and I agree with you that we also would like that to be in single digits, right? But the fact is we are expanding and we are adding more people. We are investing in facilities for manufacturing, etcetera. And this is a people-intensive operation. This is a people-intensive business, which means that the headcount will increase and hence, the cost will increase.

Now the reason why I said operating leverage, we are operating below our expectation as far as the operating leverage is concerned or actually in terms of capacity utilization is concerned, is because we know which are the investments that we have made or which are the markets we have opened and how much we are expecting and how much we are doing, right? So I hope for a fact that these numbers will look different in a normalized scenario.

Now coming to initiatives we are taking to reduce the operating costs. There are many. I think we have been talking about this for the last several years. And all of those initiatives are in full play. Starting with, let's say, milk procurement itself.

A few years ago, maybe 3 years ago, we used to have 214 chilling centers, and we were procuring about 13 lakh liters of milk. Today, we are procuring 17 lakh liters of milk with just 186 chilling centers, which means actually, if you look at it, the throughput per chilling center has almost doubled, right?

And which means actually my operating cost of a chilling center would have, if not half, must have significantly reduced. Of course, in this period, people's salaries and other

costs, electricity and everything has gone up. But had I not done this, my operating cost would have been completely gone out of back.

Secondly, we used to have close to 1,300 vehicles to pick up the 13 lakh liters of milk. Today, we have lesser number of vehicles, about 1,200-odd vehicles, which is procuring the higher volume that I'm talking about because we are sharply focused on a metric called as milk collected per kilometer.

And the milk collected per kilometer is increasing, which means actually the distance that we need to travel to get the milk is coming down, which improves the freshness of the milk as well as reduce the cost of pickup. Same is the case in terms of operations also, conversion of milk. For example, the number of liters produced per person has gone up by almost 10 % across our factories.

Electricity usage has come down as one metric that we track is liters of milk produced per kilowatt hour or unit of energy. That has gone up tremendously. But while we are improving all these parameters, what is also to be noted is that we are also investing in capex in terms of increasing capacity.

For example, we had invested close to 150 tons of additional manufacturing capacity for curd, for example, we increased our paneer capacity, we increase many of our value-added product capacity. And so it's a bit of like improved efficiency in our existing but additional new facilities coming up, and the volume is not catching up to the expectation. So it's simply a math which needs to work out, which I'm very pretty sure that in a normalized scenario, it will.

Pradyumna Choudhary: So do we have any margin targets for maybe FY '27 -- FY '26 can be a washout. But FY '27, do we have certain margin improvement targets in our internal calculation?

Srideep Kesavan: Yes, I think we should look at -- my request is if you look at the progression over the last 3 or 4 years and my request to our -- Go India Advisors to send across a comparison of how it has progressed over the last 3 or 4 years for you to better appreciate and understand the long-term trend. The reason why I'm saying is that our industry has -- is volatile. And it has a large dependency on weather. So some of these factors will play. We have seen in the past that every third or fourth year, the milk prices really go up and then it comes down, right? And then it comes down.

You must have seen that in FY '22, '23, it was a peak inflationary period where milk prices went up so high and then it came crashing down. And then we had a good 2 years, okay? Now this is another year where it seems to be going up. So this volatility is something that we will not be able to do anything much because it's a very large industry. India is the largest producer of milk.

And despite our size, we have only a very small percentage contribution in this. So we, as an individual player, there is very little we can do in terms of managing the industry volatility. That said, we are hoping that, like I mentioned before, law of averages catch up and next year prices softened. Usually, it happens after a peak inflationary year, and it is good for all of us.

Moderator: Next question comes from the line of Disha Giria with Ashika Institutional Desk.

Disha Giria: My first question is regarding the ice cream capex. Is there any recent update on it? And when do we actually see the factory being commissioning. And now that because of the seasonal impact, I am presuming that the high stream sales would not have had happened as much as you had expected. So if you have your own capacity, right now, it's more of like an outsourced manufacturing. So how do you plan on kind of utilizing it to its max. Or what is your utilization -- initial utilization targets, if you have anything in mind?

Nara Brahmani: I'll take this question. This is Brahmani, Executive Director. Actually, in fact, we are manufacturing our ice creams internally only. We have our own processing facility with a capacity of 25,000 liters per day, which we've, in fact, maxed out in peak summer season in the 3 months of Q4, which is why we had taken the Board approval to invest into a larger automated ice cream facility, not just to produce our existing range of SKUs, but also to widen our portfolio with exciting new SKUs, which is the need of the market or what consumers are asking for.

Having said that, in terms of capacities, we are commissioning our ice cream plant, as mentioned by Whole-Time Director sir, that it will be commissioned by the end of the financial year, just in time for the summer season. And we intend to use a fair amount of the budgeted capacity for the next financial year in Q1 of the coming financial years that might be, Yes.

Disha Giria: My question regarding the outsourced manufacturing was basically because I remember last time when I had met during the plant visit, we had this discussion that for this

summer season, you had already onboarded outsourced manufacturers to meet the excess demand. But because of the weather-related impact, I'm assuming that demand would have not been generated.

Nara Brahmani: Yes. So, we did outsource part of our manufacturing, expecting a normal season. But had the season been normal, that would have been required. But since the season was different, we could have done it internally. However, we given the current growth rate of 15%, 16%, and that's expected to go up during the later quarters, we will definitely need this higher capacity that we're investing into.

Srideep Kesavan: If I could just add, the growth of ice cream in quarter 2 was 16.5%. Volume growth. There's only volume growth because revenue growth is about 20%.

Disha Giria: With the existing SKUs?

Srideep Kesavan: Yes.

Nara Brahmani: Yes, that is right.

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

Pratik Kothari: Sir, my question again on operating leverage. So one of our intent was to grow our revenue curve much faster than the cost curve. And this was, I think, mentioned in the annual report, too. I mean even if assuming this non-weather effect. And let's say we were growing 5 percentage points higher. Still, our other expense, our employee expense is growing faster than that number.

So other expense has been growing at 20% odd this year, even last year. And I'm not just talking about Q2, I mean you can look at H1 last year, last 4, 6, 8 quarters. So my question is to achieve our intent of growing cost curve lower than revenue curve, I mean, how much more investment per se is required? I mean, when can we see that our other expense -- employee expense goes up 10%, but revenue starts growing at 15%, 17%, how far are we in that journey?

Srideep Kesavan: Yes, Pratik, this is Srideep here. See, it's not linear, I'm not very sure if I was clear in my answer. It's not a very linear thing, right? The way we report employee benefits, we are also talking about the indirect manpower that we have in our system to produce. So we have equal number of indirect employees as direct employees, right?

And these are -- at the moment you have production usually as per budgeted numbers or as per planned numbers, the per unit drop of our cost is significant because we are -- please understand that we are a volume player, right? We call ourselves a mass, premium player for a reason because everything for us is actually volume driven, everything?

And if those volume numbers happen, the cost structures look significantly different, significantly, right? And it's not a linear equation. That's all I'm trying to say. Hypothetically, if I just say that if I had clocked the numbers that I had planned to with the kind of capacities that we had installed, the EBITDA margin and everything shoot up because of the better cost absorption of across the board.

So the overhead per se in terms of like where we are investing in terms of fixed people, where it will stay fixed is only at the management level, which is an investment which the company has consciously made because the company believes in investing in building people assets, operating assets as well as brand assets.

And this is something that, Pratik, in the previous conversations also, I have mentioned to you that we are investing in building brand assets. For example, marketing cost has gone up, and we are okay with it, because we are very confident when we see the numbers, such as, for example, awareness level going up by 25% to 30%, trial rates going up by 25% to 30%. These are all fantastic numbers because this is what is going to pay returns in the long run, right?

Similarly, operating assets, we are investing capex in the last several years, we've been putting in capex of INR150 crores on an average per year. This has all gone into creating capacity for value-added products. And we are happy with it.

Similarly, we have invested in people assets as well. Today, we have got a bunch of fantastic people who is helping us deliver results despite weather downturn. So all those assets are going to perform better and operating leverage is exponential and not linear. These are 2 points I just wanted to plan.

Pratik Kothari:

Correct. Great. And sir, one on liquid milk sales, right? So I mean, for the last, I think, 6 to 8 quarters, you've been growing at 5%, 6%. I mean last year, we did not take any price hikes. So all growth came from volume growth. And this year, we took price hikes, so volume is off and I mean because for us as a consolidated company to grow much faster in early teens that we kind of aspire to?

I mean. Liquid milk also then has to ramp up from 5%, 6% to maybe 8%, 9%. I believe this would not be as weather dependent. So if you can just highlight, what can we do, what are our plans to take this up from 5%, 6% to 8%, 9%. I mean -- and I understand that the price hike that we took this year, but last year, we did still the volume did not come through?

Srideep Kesavan:

Srideep here again. Yes, that's a very fair question. Again, we are looking at what we do internally to see pricing, raw material price, market price, weather, these are all external factors, and we are trying to reduce the impact of these in our business through actions we are taking internally. So one of the most important initiatives which we have taken this year was to invest in building our brand in milk itself.

I've mentioned it previously, we had run a very successful television campaign on Pure Doodh ki Shakti which clocked 5,000 GRP. 5,000 GRP, if I can just give you a sense of it, we were the most visible advertiser in our core market. So roughly about 40 percentage of the GRPs, share of voice, we had got with this campaign. And the same campaign on digital ran very strongly in Q2 with almost 47 million views.

Similarly, at this point in time, as we speak now, we are the cosponsor for one of the biggest television properties called Big Boss in both Telugu as well as in Kannada. These are all -- and this is primarily led by milk, and you can see how the contestants use our milk in their kitchen and stuff like that, right? These are things which we believe are very fundamental in building people's belief and trust in our brand.

Secondly, we've just launched -- I spoke about Sampurna cow milk, which just got launched in this particular quarter. We are in the process of scaling it up. In fact, yesterday, day before yesterday, we launched 2 new variants in -- for our country markets, which is called Sampurna milk which will come in Q3. These are all initiatives we are taking to drive milk volumes in -- through new product introduction. And third is continued investment in expanding retail distribution. There's no substitute to that. In quarter 2, we had expanded 60 distributor points at 2,000 retail points.

You should assume that every retail point should give us at least 5 to 6 liters of milk. That's about 20,000. So if we have to sustain and get growth to 8% or 9 percentage like you rightly mentioned, we need to sustain this growth momentum, which means that in quarter 3, we need to add 10,000 more retail outlets.



If you add 10,000 more retail outlets, that will give me 50,000 liters of milk, right? So we are absolutely focused on doing what needs to be done on the ground so that irrespective of price increases, irrespective of whether we can continue to drive growth, especially in milk.

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

Resha Mehta: I think a really good performance, especially on the VAP growth given the challenges we had. I have a couple of questions. Maybe I'll outline all of them in one go. So clearly, I think our ad spend seem to have been up if that could be quantified for this quarter as well as the previous quarter of the previous year. Knowingly what is the path to profitability? I think we were envisioning breakeven in Q2.

So have we achieved that? If not, how far away are we from that? And new markets, if you could just comment on how is the East market doing for us? And also some time back, we had entered into Singapore and U.S. So what is the kind of traction that we are seeing there? And overall, some exports, do we see any meaningful numbers going ahead? Yes. So these are my 3 questions.

Srideep Kesavan: Thank you, Resha. This is Srideep here. First, on marketing spends. I think marketing spends went up from -- sorry, 1 second. Please hold on. Is it okay if we send across the number, but I can tell you that roughly it has gone up by about 60% year-on-year.

Resha Mehta: Okay. Okay. Yes, sure. I mean maybe Garima can send me the number.

Srideep Kesavan: We'll give the numbers to you. I'm speaking from memory, we are looking for the numbers. it has gone up significantly -- significantly. It has gone up in marketing, and it's something that we are very happy about. We're very happy about because it's going to really give us leverage in the long run, for sure, right? Yes. Sorry, can you just please remind me of the other questions. Could you please tell Resha.

So see, the yogurts, I don't think -- I think there is a misunderstanding. We never said that the business will break even in Q2 because we just started the business in Q2. So it's not possible to break even so quickly. But we can tell you that the operating metrics are looking already wonderful, right? In just a couple of months, we have already achieved the volumes that Mamie Yova was doing.

So imagine Mamie Yova was doing x volume, we are doing the same volume with Livo brand in just 2 months' time, right? So which means actually we could actually grow

tremendously from here. This is despite the bad weather because Yogurt is also a category which is weather dependent. -- consumption goes up during summer and during rains, it comes down.

So volume-wise, it is a great performance. And in terms of unit economics also, I believe that the profitability as in the losses are much lesser compared to the previous operation. We'll share those specific numbers with you one on one.

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

Param Vora: So what I wanted to ask was that with growing lactose intolerance amongst the nation, so are there any plans for Heritage to introduce a concentrated portfolio of low lactose or lactose-free dairy products?

Srideep Kesavan: Yes. Thank you. Yes, our entire portfolio of fermented products are all low lactose or no lactose. Because -- so if you're a lactose intolerant, you can consume curd or butter milk, and lassi and all of that because they are low in lactose or no lactose. We also have plans to look at milk, lactose-free milk is something that we are thinking about.

Moderator: Next question comes from the line of Naitik with NV Alpha Fund.

Naitik: My first question is, if you could give us the breakup between your VAP products, what percentage of it is coming from curd and what percentage coming from non-curd. And attached to this, the same additional question is that how would this sort of look like, say, a year or 2 down the line once the ice cream facility comes online?

Srideep Kesavan: See, curd is still about 70% of our -- see, actually curd is our biggest differentiator. Let me just put it like this to give you a sense. If you look at global large dairy players, whether it is Danone or Lactalis and all of that. They all talk about yogurts and cheese as to products that they sell, right? A bulk of the revenue comes from their revenue comes from these 2. In India, the equivalent of a yogurt and cheese is actually curd and paneer, right? So which is what is the leading elements in our portfolio also. Curd will be, what, 70%, 71%.

71% of all value-added products will be curd for us. And after that will be paneer. So these are 2 main value-added products that we are trying to build. Apart from that, we have about 5-odd percent of our revenues coming from ice creams and roughly around 10 percentage of revenue coming from drinkables. The contribution of sweeps is very small. And of course, ice cream will grow fastest. Drinkables will grow faster than -- and

paneer will also continue to grow. So over a period in time, the contribution of curd will reduce, but curd is very important for us.

Moderator: Next question comes from the line of Sucrit D Patil with Eyesight Fintrade Pvt Ltd.

Sucrit Patil: I have a specific question for Mr. Naidu. As you plan for the coming quarters, what steps are being taken to improve margins, especially in terms of pricing, supply chain efficiency or cost control? How do you see profitability evolving in the medium term?

Nara Brahmani: Brahmani. I think this question has been answered by my colleagues already. But of course, I think for us, value-added products drive margins. I think getting our distribution network expansion, which we've done very successfully in the second quarter will continue to be a focus area in terms of driving margins.

Aside from that, there's a lot of work that we're doing on the operations side, some of which has been mentioned by CEO already. But aside from that, automation is something that we are heavily focused on all our new processing facilities.

Our fully automated facilities and whatever expansion is happening in existing facilities or renovation is happening in existing facilities is in that direction. Aside from that, when it comes to our transactions or daily operations as well, we are automating a lot of processes. If you recollect, we are the first dairy company to go on SAP end-to-end to also evolve in SAP. And now we are using a lot of RPA.

We are using copilots and agents to improve efficiencies in which we operate and do things. CEO also had mentioned about the other initiatives that we're taking in terms of logistics. We are constantly tracking the amount of milk collected per kilometer. We're constantly looking at productivity of people at different levels, both on the sales side as well as on the procurement as well as operations side.

We are also measuring things as minute as milk handled per unit electricity in our operational facilities. And of course, renewable energy is a huge focus area as well, both from reducing our carbon footprint and managing our power costs or operating costs.

So there are several initiatives that are being taken both from a monitoring standpoint and a tech-enabled sort of growth standpoint in terms of improving our margins. And of course, value-added products in terms of sales will drive this through continued strong distribution network expansion that will happen.

- Moderator:** Next question comes from the line of with Kiran with Green Investor. Since there is no reply from the line of Mr. Kiran, we'll promote the next Darshil Jhaveri with Crown Capital.
- Darshil Jhaveri:** So a lot of my questions have already been answered. Just one question from my end. So based on like how H1 has gone for us, what is the outlook that we see for H2 in terms of our revenue growth and margins? I think margins, we were trying to get it better. But if we could quantify it, that would be really helpful.
- Srideep Kesavan:** Sir, it's difficult to quantify. I can only say that we usually see milk supply getting better in quarter 3. And during first season, the prices come down, which means if X is the price in quarter 2, X minus delta X will be the price in quarter 3. Assuming the market prices, we don't change because we usually don't drop our market prices, it should be better.
- But that said, I want all investors to know that each of our quarter has a unique mix, like quarter 1 is very high on value-added products. This year, it did not happen because of bad weather. Quarter 2 is high on milk, but moderate on value-added products. Quarter 3 is low on value-added products as far as mix is concerned.
- See, we will continue to grow value-added products. We might grow at 20% in quarter 3 also, value-added products. Every indication shows us that value-added product growth in quarter 3 will be higher than quarter 2. But that said, the mix changes because quarter 3 is more festive and all of that, so our fat sales go up. Fats is not as profitable as value-added products.
- So even though raw milk prices might come down, the product mix change is something that will influence. So rather than look at on a quarter-on-quarter basis, you should look at a long-term trend.
- The long-term trend is that as long as we keep improving the contribution of value-added products, like in quarter 2, we were able to improve the value-added products by almost 3%. If we continue to do that over a long period in time, this is a great business, and that's what we are focused on. So my request is to look in the long term and not quarter-on-quarter.



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

Sambasiva Rao: Thank you very much to all the participants for your continued interest in Heritage. Looking forward to catch up with you for the next earnings call, quarter 3 later. And I again extend heartfelt Diwali greetings from myself and on behalf of Heritage family here. Thank you very much.

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

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