"Heritage Foods Limited Q4 FY'16 and 12 Months FY'16 Results Discussion Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Heritage Foods Limited Q4 FY'16 and 12 Months FY'16 Results Discussion Call hosted by Sunidhi Securities and Finance Limited. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shailesh Kumar from Sunidhi Securities. Thank you and over to you.

Shailesh Kumar: Good afternoon, ladies and gentlemen. On behalf of Sunidhi Securities I extend a very warm welcome to all of you. Heritage Foods has come out with an excellent set of number to put light on that and discuss the same, we have with us Dr. M. Sambasiva Rao -- President and Mr. A. Prabhakara Naidu -- CFO of the company. Without much ado, I will now hand over the phone to Dr. Rao for initial remarks and then it would be followed by question-and-answer session.

Dr. M. Sambasiva Rao: Yes, good afternoon I am Rao here from Heritage Foods and we have our senior team Ms. Brahmani -- Executive Director; Mr. Prabhakara Naidu -- CFO and Mr. Murthy -- Head of Dairy business and Mr. Dharmender -- Head of Retail. We are all here to interact with you over the call. To begin with I would summarize the quarter four results which we have announced yesterday.

The revenue growth is 16% which is Rs. 662 crores at company level compare to previous year same quarter Rs. 544 crores. At EBITDA level profit is Rs. 40 crores compare to Rs. 32 crores of last quarter previous year.

Profit before-tax is Rs. 27 crores which is a 40% higher than the previous same time quarter. PAT level it is Rs. 18 crores compare to Rs. 12.6 crores of the **Q4 last year 0:02:25**. Dairy has also grown at 14% in revenue, retail has grown at 23% in revenue. Value add products growth is 24% in revenue terms during this quarter, milk sale is 9% in volume terms in this quarter. Agri business also delivered Rs. 43 lakh positive EBITDA.

In addition to these activities we have also commissioned one wind power unit of 2.1 megawatts in Anantapur district of Andhra Pradesh with a CAPEX of Rs. 14 crores, this is meant for our captive purpose for our dairy plans in that area.

Now I take up the full financial year's performance 2015-2016. Company delivered a top-line of Rs. 2,381 crores with a 15% growth over the previous year and EBITDA is Rs. 136 crores profit 55% growth over the previous year and profit before-tax is Rs. 86 crores compare to Rs. 39 crores of the previous year and PAT is Rs. 55 crores compared to Rs. 28 crores of the previous year.

Dairy itself grew 14% that is Rs. 1,769 crores compared to Rs. 1,556 crores and value add products in dairy have delivered 21% higher revenue that is Rs. 382 crores. Milk volumetric growth is around 3% compare to the previous year, retail business has delivered Rs. 583 crores top-line which is 18% higher than last year.

At EBITDA level we have reported Rs. 4.29 crores loss compare to Rs. 2.31 crores loss in the previous financial year. Agri business at EBITDA level is positive with Rs. 1.26 crores which is 22% higher than previous year.

Coming to the debt level, we have a long-term debt of Rs. 76 crores at the end of the financial year and short-term working capital limits of Rs. 39 crores total fund base that is Rs. 115 crores this year. And CAPEX during 2015-2016 we have spent about Rs. 68 crores out of which Rs. 40 crores were towards dairy infrastructure and Rs. 13 crores for retail and about Rs. 14 crores for wind power project these are broadly the major CAPEX commitments incurred in the previous year.

Now, I open it for discussion.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take our next question which is from the line of Kartikeyan VK from Suyash Advisors. Please proceed.

Kartikeyan VK: Sir, a couple of questions, one would be on the value added products business. How do you see the growth momentum any specific thoughts on how we should think about the next two years' growth outlook?

Dr. M. Sambasiva Rao: Value add products are growing well on the strength of the Package Curd essentially which is our line share in that. We do expect same trend of 25%-30% growth in the coming two years - three years.

Kartikeyan VK: Okay. And would you be able to share with us the EBITDA number for the value added products business sir, can you just split?

Dr. M. Sambasiva Rao: Yes, Mr. Prabhakara will highlight.

A. Prabhakara Naidu: For the quarter four value added products EBITDA is around 17.05%. For full year value added products EBITDA is 17.68%.

Kartikeyan VK: Okay, that is fantastic. Sir, the next question would be how do you see the volumes ramping up in Delhi and Mumbai for the Liquid Milk business?

Dr. M. Sambasiva Rao: Mumbai growing quite healthy, we have now reached around Mumbai and Pune put together around 45,000 liters.

Kartikeyan VK: 45,000 liters, okay.

Dr. M. Sambasiva Rao: 45,000 liters, our plant capacity currently is only 50,000 liters, so we are trying to expand by debottlenecking, we are only about 20,000 liters we will be able to expand in this month or next month. This will take care of the growth for the current year. For the next year's growth in Maharashtra state we are looking for establishing another packaging station with 1 lakh liter capacity may be it is a year away. During this year our growth can be handled with existing plant…

Kartikeyan VK: So this 70,000 liters is what you think you could achieve this year roughly?

Dr. M. Sambasiva Rao: We are targeting that much and we will try to handle from the existing plant. We are exploring for alternate plant in the coming year, current year itself so that it will be ready for next year's growth.

Kartikeyan VK: And that would cost you roughly about Rs. 20 crores 1 lakh liters per day capacity?

Dr. M. Sambasiva Rao: Yes, it is around Rs. 15 crores subject to the land price which could be plus or minus Rs. 2 crores - Rs. 3 crores. Coming to Delhi we have set up as you know 75,000 liter capacity which is 50,000 liters milk and 25,000 liters products and operations initial teething problems are over and plant is stabilized now. Own milk procurement also went up to 30,000 liters to 40,000 liters in this year in Rajasthan state. Currently we are dealing around 30,000 liters only for sale so, we expect the 75,000 liters to be exhausted by next summer then we have to look at another plant for Delhi also in the next year but this year there is no problem current plant can handle our growth plans.

Kartikeyan VK: Right. And you think profitability matches with what you achieve in Hyderabad and other parts of this thing or is it better?

Dr. M. Sambasiva Rao: Certainly not for the several reasons including the underutilization of installed capacity higher overheads and higher logistics cost et cetera it an inefficient operation for some time we achieve the threshold volume is around here is around 45,000 liters - 50,000 liters then it becomes profitable after that so, we have to bear with it for the initial growth period gestation period for may be one more year.

Kartikeyan VK: Okay. One last question if I may sir, your thoughts on the retail business one would have expected slightly better profitability there. Were there reasons for shall we say the continuing losses in that business?

Dr. M. Sambasiva Rao: Yes, we have some unfortunate things happened in the last year like in Chennai we had rain for November, December two months very heavy rain two days - three days our business was closed because city was shut down for few days. It has resulted in loss of sale and loss of a lot of perishable commodities and cost on top of it for renovating our leaking, false roofs and damage the generators, a lot of expenses I would say couple of lakh crores we have had a setback in Chennai due to that heavy rainfall and secondly, our new stores opening also to delayed by three months in Chennai. Two months we could not work and one more month workers recouping and coming our expansion in Chennai to get backseat for three months - four months so expected additional revenue also did not kick in during the Chennai. Chennai was a setback for this year that was only exceptional. Another exceptionally this revised bonus calculations of government of India's new act every industry has got this new provision. Eligibility for bonus for employees is moved up from Rs. 10,000 to Rs. 20,000 slab. Calculation of bonus is also based on the double base amount. So I think retail business had to commit another Rs. 1 crore on the bonus extra this year that itself stepped up the last bonus and Chennai and one more I would add is the competition from online sales also compelled us to half our additional promotions, bill busters to protect our sales in the stores and some impact on the margins and sales for some time. So we have also partnered with one of the online companies for a few month and that company has now shut operations so we are looking out for our own online sales in a limited way so, customer need not go to other on liners for their convenience. There were certain specific issues we face during this year which has resulted in this unexpected EBITDA we were hoping to achieve breakeven this year but these things have come in the way. Current year we are gearing up for EBITDA profits in retail.

Moderator: Thank you. The next question is from the line of Alok Agarwal from Striver Capital. Please proceed.

Alok Agarwal: I have got three questions, since I dropped out I do not know if they are repetitive. But first one is on the milk procurement. Last year the environment has been fairly benign as compared to the earlier years. What is your outlook for the coming year with SMP prices is at historic low but low in the five years - six years, do you think the environment will remain benign for you this year as well.

Dr. M. Sambasiva Rao: See coming to the milk procurement weather is favorable at the moment, already rainfall started in our states in our areas and Tamil Nadu, Telangana, Andhra Pradesh already rains have come Karnataka also. Forecasts seem to be fair weather and good monsoons anticipate by weather man**.** If that continues then the procurement should not be an issue it will be smooth and prices will remain more or less same on the milk procurement but if weather changes and anticipated favorable weather conditions do not come, then we have to wait and see because it is a very-very weather sensitive product. Coming to Milk Powder globally yes, there is a depressed price at the moment though there was some movement in the last two months it is not significant so prices may remain stable for Milk Powder marginally go up by Rs. 10 a kg - Rs. 20 a kg at the best. So we can assume at least next six months Powder prices will not beyond the present levels and after six months' new seasons begins so production will begin again so situation may continue. It is again depending on global factors as you must have read the Chinese economy and their purchases have come down and New Zealand is sitting with surplus stocks and global trade is subdued.

Alok Agarwal: Right. So that is good for the…

Dr. M. Sambasiva Rao: Many factor which you cannot determine today, they keep changing ever quarter.

Alok Agarwal: Right. So, sir our procurement of about 11.8 lakh liters to 12 lakh liters per day can to go about 14 lakh liters in the coming year that is the target?

Dr. M. Sambasiva Rao: Target will be around 10% increase may be 1.5.

Alok Agarwal: So about 13.5 roughly it is not 14?

Dr. M. Sambasiva Rao: Right .

Alok Agarwal: Okay. I have two more questions like this is more specifics to the announcements we have made earlier over last five months - six months. First was the appoint of the KPMG to get to a suitable strategic part as far as retail business goes so how is that progressed as such over the last four months - five months?

Dr. M. Sambasiva Rao: This is still in work in progress.

Alok Agarwal: I mean that is too little sir, I mean something more I mean when do you see that happening in terms of time line in this next quarter or two, is it possible?

Dr. M. Sambasiva Rao: That is again a function of appetite of the investors how hungry he is, how fast he is, as of now nothing in sight, we are still exploring the options.

Alok Agarwal: So nothing in sight as of now and the lastly, like you appointed SBI Caps as one of the investment bankers to look for your Cheese and whey forays and looking for a European partner in specific and if I recall in the last con-call you have mentioned something over quarter of two should fructify how far we have gone and where have we reached have you figured out at least in terms of partner, in terms of products, in terms of investment size and all?

Dr. M. Sambasiva Rao: Yes, I will ask Brahmani our Executive Director to response, she is quite actively associated in that.

Brahmani Nara: Hello, Alok this is Brahmani here. So on this topic we have been talking to some players when it comes to value added products and this work in progress we are specifically interested in cheeses and yogurt's and within the next financial year we can expect something to fructify on this.

Alok Agarwal: Okay. To be a little more specific Brahmani, I mean good to hear you, I mean this is the first time possibly you are coming on the con-call and thanks for interacting with the investors. But something more specific would be nearly helpful like have you identified the partner and in terms of size of the project?

Brahmani Nara: So we are talking to some partner's potential partners and I think till that time that we are able to reach a certain stage we are not able to share more information but like I said cheeses is something that we are looking at we feel that the market is growing and that is what is we are excited it about.

Dr. M. Sambasiva Rao: See exchanges are happening a couple of visits happen from outside to their side, there side our side negotiations are in progress so as per the conditionality's we are not supposed to speak out much as it comes to some level where we can disclose details we will surely happily do it.

Alok Agarwal: So over the next couple of quarters we can hear more on this.

Dr. M. Sambasiva Rao: Yes.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please proceed.

Shailesh Kumar: I have a couple of questions sir, first thing is what is our EBITDA margin in fat products?

Dr. M. Sambasiva Rao: It will be around 18%.

Shailesh Kumar: Okay. Can I have segment wise bifurcation of fixed assets and debt as well?

Dr. M. Sambasiva Rao: Prabhakara, our CFO will like to share.

A. Prabhakara Naidu: In fixed assets, net fixed assets I will tell you if you want gross also I can tell you, which one you need?

Shailesh Kumar: If you could tell me gross that would be helpful.

A. Prabhakara Naidu: Gross for dairy Rs. 322 crores, retail Rs. 111 crores then agri Rs. 42 crores, bakery Rs. 12 crores, renewable energy both wind and solar both put together Rs. 31 crores.

Shailesh Kumar: Rs. 31 crores.

A. Prabhakara Naidu: Yes.

Shailesh Kumar: And if I could have bifurcations of debt?

A. Prabhakara Naidu: Solar is 17, 14 is wind power.

Dr. M. Sambasiva Rao: All others, I think 40 may be debt break-up….

Brahmani Nara: So the debt break-up is dairy is of the Rs. 76 crores of debt outstanding long-term debt outstanding dairy at Rs. 40.58 crores. retail is at Rs. 20 crores and renewable energy is at Rs. 15.6 crores. agri is almost negligible 24 lakhs.

Shailesh Kumar: One thing I wanted to understand, if you could throw some light on that, I mean how come our retail operations become EBITDA positive in the fourth quarter I have seen this trend for last couple of years.

Dr. M. Sambasiva Rao: Yes, I will ask our Retail COO Mr. Dharmender will address this…

Dharmender K. Matai: In retail what happens we have worked a lot of incomes which comes during the year end there is a lot of target incentives which are part of our joint business plan with all of the companies. So all this income to get cumulated for the year as like, we have a lot of agreements, any quarterly income, so if you do not achieve in quarter one targets if you achieve in quarter two end up the year cumulatively achieve the target all those in terms are coming in the year end. So that is reason you see a lot income getting reported in the quarter four, these are basically incentives earned over year on quantitative targets from the vendors.

Shailesh Kumar: Okay. One small thing just to have some clarity on this retail EBITDA front, are we expecting to be EBITDA positive on fully year I mean at the end of the year or from Q1 FY'17 itself now that we have reached around 390,000 square feet of carpet area and the retail which is close to breakeven point.

Dr. M. Sambasiva Rao: Yes, I think we are more looking positive post Q2 onward for the next financial year.

Moderator: Thank you. The next question is from the line of Digant Hariya from Antique Stock Broking. Please proceed.

Digant Hariya: Just wanted to ask as our value added products increased and we have been saying that the EBITDA margins in pure milk operation is around 6% and in around value added it is almost double at around 12. So on a blended basis say a year later can we expect 8% EBITDA margins for the dairy operations as a whole?

Management: As of now 2015-2016, it is around 9.9%, value add product 17.68%.

Digant Hariya: Okay. So depending on milk prices and how our value added products grow we can be around that range, right 9% to 10% of EBITDA margins on the dairy operations overall.

Dr. M. Sambasiva Rao: Yes, it is again based on the contribution increase from value add products as we increase the equation gets in favor of higher EBITDA margin.

Moderator: Thank you very much. The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please proceed.

Rukun Tarachandani: Sir, can you talk a bit about the competitive scenario in milk, I think on the last call you have mentioned about increased competition from Amul and Nandini so, how is that scenario currently?

Dr. M. Sambasiva Rao: Competition continues to be same. The Nandini has afford milk at Rs. 34 a liter in Hyderabad whereas we are all offering at Rs. 40 Amul is offering at Rs. 38, the toned milk price in Hyderabad per liter is that. They have grown to some extent like Nandini has taken lower price segment at Rs. 34 they have to around 75,000 liters in one year's time and Amul has also reached 130,000 liters - 140,000 liters in two years at Rs. 38. So their growth is now almost I do not think we are able to grow beyond that and we have been able to restore our volumes whatever we have lost two years back when Amul entered. we are now stable back to the growth track. Customers have seen the quality advantage of continuing with Heritage though it is Rs. 2 higher per liter. And we believe, we will continue our growth from now onwards having reached our earlier growth levels.

Rukun Tarachandani: Okay, got it. And sir, on the value added products front, most of the increase it seems on the value added side is coming from package Curd, so how are the other products growing and what is the plan on the other products to increase their contribution as well?

Dr. M. Sambasiva Rao: Yes, consumption of customers is different here. See the growth is there in other products also but consumers are the quantity of package Curd consumed is higher compare to quality of ice cream consumed. These markets are more in favor of Curd and also Buttermilk these are the two products which grew and which are continuing to grow at the higher rate whereas other products are also growing but their volumes and values are not as significant as this that is why you do not see the visibility of those products while they are also growing except ice-cream and frozen dessert which was not growing this year because of the seasonal fluctuations we went through last year in general in coastal Andhra Pradesh, Telangana, Hyderabad, rains were spread over many days and there were heavy rains for two months - three months. So we lost ice cream volumes due to weather fluctuations and we regained this year generally the summer has come early this year to India and this was quite hot in all the markets, it is more a seasonal and summer driven products but all others are growing at quite healthy.

Moderator: Thank you. The next question is from the line of Aman C. from Ventura Securities. Please proceed.

Aman C.: My question the milk procurement volumes in Rajasthan have jumped significantly over the last few quarters so, it is around 1,70,000 liters. So what different are we doing in this Rajasthan market wherein other volumes are shot up significant and what much up-side is there and how much can we grow in this market?

Dr. M. Sambasiva Rao: See Rajasthan is a specific scenario of this year, we have hired a powder making plant in Haryana for one year to convert the milk into powder and use it so that is why we have procured much more milk in Rajasthan and used it for conversion into powder as a separate line that will not continue beyond our agreement period. It is nothing to do with our liquid milk sale or value add products it was more towards commodity development we have done that at least ends now so we are evaluating options whether we should continue this year or not the same arrangement therefore this was a specific growth required for a purpose. It would not be there in the same manner unless we continue the arrangement.

Aman C.: Okay, fine. And there was a drop in milk procured Q-on-Q basis in the third quarter and the fourth quarter so, do we expect it to gain up again or is it expected to stay at around 12 lakhs liter per day?

Dr. M. Sambasiva Rao: Yes, it will grow again once the season kicks-in, now it will drop in this summer period as you know the milk…

Aman C.: Milk availability is low.

Dr. M. Sambasiva Rao: Yes, in winter we get back to 14 lakhs also it may even cross 14 and it will average over to 13.5 over the year.

Aman C.: Okay, so around 10% to 15% growth?

Dr. M. Sambasiva Rao: Yes, 10% is definitely possible.

Moderator: Thank you. The next question is from the line of Resha Hariya from Green Edge Wealth. Please proceed.

Resha Hariya: Sir, and the retail business, if you could just help me understand that typically how much time does it take for us to breakeven and currently how many stores would be loss making?

Dr. M. Sambasiva Rao: Currently we have got 110 stores to of which 93% of our stores are profitable at store level. The 102 stores are profitable against 110 stores.

Resha Hariya: Okay. And typically how much time does it take for a store to achieve a breakeven?

Dr. M. Sambasiva Rao: We normally work for a breakeven right from 1st March.

Resha Hariya: Okay. And in the retail business what sort of working capital would be required let us say to do revenue of around Rs. 1,000 crores how much working capital would be required?

Dr. M. Sambasiva Rao: This is we work on working capital I think one is basically the fixed CAPEX which we work about Rs. 1500 crore we have paid that is for the CAPEX okay. And for working capital it will be abut say Rs. 15 crores to Rs. 20 crores.

Resha Hariya: Okay. On a 1000 crore sort of a sales or this would be on our retail sales which is around Rs. 550-odd crores?

Dr. M. Sambasiva Rao: We did Rs. 20 crores - Rs. 25 crores because it also depends how we rotate the product and to the categories approximately Rs. 20 crores can be assumed.

Resha Hariya: Okay. And when exactly do we expect the retail business to become positive at the EBITDA level that will be Q2 FY'17 onwards?

Dr. M. Sambasiva Rao: Yes, Q3.

Resha Hariya: Q3, okay. And what can be the peak EBITDA margins that can be expected from the retail business.

Dr. M. Sambasiva Rao: The EBITDA margin should be somewhere between 7.5% to 8%.

Resha Hariya: Okay. And what would be the maintenance CAPEX for the dairy business?

Dr. M. Sambasiva Rao: Maintenance will not go to CAPEX or replacement CAPEX, can you elaborate what is the maintenance CAPEX?

Resha Hariya: So on an ongoing basis for the maintenance of your fixed assets some amount will….

Management: 10 crores is required for maintenance for our dairy plats.

Resha Hariya: Okay. And for retail that would be?

Dr. M. Sambasiva Rao: Retail is around Rs. 2 per SFT, press release month around Rs. 6 lakh - Rs. 7 lakhs a month, Rs. 1 crores a year approximately at the current size.

Resha Hariya: Okay, all right. On the dairy business so we have a vision to achieve Rs. 4,500 crores revenue by 2020 which means that with the current sales we somewhere need to grow at (+25%) for the next four years so you know what exactly will drive this growth, would it be certainly value added products is growing at a very rapid pace but how do we expect our milk business to grow going forward?

Dr. M. Sambasiva Rao: The growth for the next four years will be driven in multiple directions and multiple levels, we have to grow geographically into new markets, we have to penetrate deeper in the existing market into Tier-II cities Tier-III wherever the opportunities exist that is the milk and value-add products and we have to grow through value-add products. We have get new lines of products which we do not have currently additional products, the new products we are trying through joint venture arrangement with developed country companies. So all the aspects geographical then new products existing products we have to create infrastructure at the back-end and at the front-end cumulative effect of all these actions we are trying to reach there.

Resha Hariya: Okay. And for FY'16, I think I missed the share of value-added products in the dairy business, what will that number be?

Dr. M. Sambasiva Rao: Around 21.6% is the contribution in the dairy.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investments. Please proceed.

Girish Raj: Yes, you mentioned we restored volume due to quality advantage in the dairy business. So what are the parameters on which quality is judged and does the consumer understand this?

Dr. M. Sambasiva Rao: Okay. Purity of milk without any adulterations, chemical or biological that is the first element everyone would look at whether it is pure or any adulterants have entered. Second is freshness that within 24 hours of milking the milk is delivered to the customer through a cold chain without any breakage of cold chain. And third is the solids in the milk what is the percentage of fat, what is the percentage of non-fat solids including proteins, etc., which are declared on the pack of the milk what is the percentage of this fats and non-fats solids in the milk. Consumer understands every one of them the stale milk they understand the if the microbiome is higher than tolerable limits the milk will be taste will change it will break and color will change. The fat and non-fat solid is the only thing where customer will not easily recognize if there is any drop in the percentages but if it is significantly drop they can feel diluted kind of milk will be there but it is a difficult thing without measuring with the tools.

Girish Raj: Okay. So why is there an assessment that our competitors the quality is not as good as ours. What gives you that feeling?

Dr. M. Sambasiva Rao: We should have a call outside this. Though we understand but it is not right on might part to say why they do not do it we have ethics and we have values and we have absolutely….

Girish Raj: No, what I was trying to understand is there is a problem with the distribution system or the capacity that they hold in your region?

Brahmani Nara: What we can say about ourselves, which we think is somewhat unique to us is the fact that we do something call relationship forming with all our farmers. We go much beyond just procuring milk from them or in that case even fruits and vegetable. We do a lot of input activities such as subsidizing cattle feed which can go to their cattle so the quality of milk is much better. We also give them a lot of loan so they are able to buy animals and care for them much better. We also have something called Heritage Farmers Welfare Trust wherein for every liter of milk that we procure, we put in certain amount into that trust and farmers also put in certain amount and that fund is actually used for the welfare of farmers to improve the quality of milk. So some groups of farmers choose to buy hygienic stainless steel cans for the procurement of milk, another group may choose to buy LED lights so when they milk their animal in the evening, they are able to ensure that there is no extraneous outside matter that fall into milk et cetera. So basically our relationship with the farmer is something that ensures really good quality of milk and we feel this is unique to us. Number two, is we have a fairly large extensive quality team and in fact, quality as a function is the biggest team for our dairy division. It is larger than our procurement team, it is larger than our operations team or any other function. So we have the team constantly policing the quality of milk at different check points. So we put in a lot of effort into making sure that quality is up to the mark through our relationship with the farmer and by having a separate quality team just focusing on this.

Girish Raj: Okay. So the funding to farmers or the loan to farmers is through our balance sheet or how does it work?

Dr. M. Sambasiva Rao: Through the banks we have a facilitation arrangement.

Girish Raj: Okay, it is a facilitation.

Dr. M. Sambasiva Rao: We do not underwrite anything.

Girish Raj: Okay. The question is one of you mentioned that with Rs. 20 crores of retail business we do Rs. 1,000 crores turnover is around 50x, is that the correct understanding or how do I take it?

Dr. M. Sambasiva Rao: Rs. 20 on working capital requirement for achieving a Rs. 1,000 crores turnover because much of it is credit supplies by the vendors.

Girish Raj: Okay. So our fund is limited to Rs. 20 crores.

Dr. M. Sambasiva Rao: Yes, right.

Moderator: Thank you. The next question is a follow-up question from the line of Shailesh Kumar from Sunidhi Securities. Please proceed.

Shailesh Kumar: If my understanding is right, we have plan to spend close to Rs. 100 crores in CAPEX over next two years, out of this Rs. 80 crores will go towards the diary business and around Rs. 20 crores towards the retail business. Assuming this JV which we are striving for materializes will that lead to additional CAPEX that is the first question? In case for some reason we are not successful in getting that JV, do we have any fallback plan?

Dr. M. Sambasiva Rao: Yes, first one you are right, the JV fructifies it requires additional CAPEX, it is not factored into our regular growth plan. Second one, if JV does not happen, we have to venture on our own with the products. We were looking for the advantage of technology knowhow recipe brand, if some mature business joins us in that specialized line, if it does not happen we may take time but we will move into lines in our own.

Shailesh Kumar: Sir, this out of Rs. 80 crore dairy CAPEX plan for next two years, I mean what money will go towards value added product especially Curd? And what kind of capacity we would be adding?

Dr. M. Sambasiva Rao: I cannot directly say because the Curd alone you cannot invest in a project, it requires milk first, you have to invest in the procurement of milk in the village first, that procured milk has to come by processing station where pasteurization and homogenization is required then part of the milk can go for milk sale as liquid milk part can go for the curd, so the infrastructure same from village to the packing station. At the packing station certain investment is required for the Curd manufacturing, they are all integrated plants there is no separate exclusive Curd plant where you can have investment only on that. It will be part of the dairy processing station where entire investment is on every product including curd, so if you want to segregate it is very difficult to isolate and see what goes to Curd.

Shailesh Kumar: Assuming we are standing Rs. 80 crores just in layman's term if I want to understand what is the capacity of Curd that will be added?

Dr. M. Sambasiva Rao: See that is discretionary as you go on. See if I create a plant with Rs. 15 crores or Rs. 20 crores the tilt for curd may be Rs. 2 crores - Rs. 3 crores only the rest of the Rs. 15 crores or Rs. 14 crores is common for everything. So it cannot be exclusively for Curd, you cannot determine because if I do Curd, if I do not liquid milk the entire Rs. 20 crores become investment on Curd.

Brahmani Nara: But what we can say is that I mean the previous financial year end you know the currencies or somewhat we have pretty much maxed out our Curd capacities especially when it was the season and curd is growing at about 30% in terms of volume year-on-year. So that could sort of give you an indication of what sort of growth we are looking at.

Shailesh Kumar: Great. And just one last question, in terms of EBITDA margin what is it that Curd fetches if not you the industry and what is that Cheese fetches in terms of EBITDA margin?

Management: The margin is 18.5%.

Shailesh Kumar: In Curd?

Management: Curd.

Shailesh Kumar: Okay. And in Cheese?

Dr. M. Sambasiva Rao: Yes, some 15%-16% it will be a little lower than that, about 16%.

Shailesh Kumar: So Cheese has got lower EBITDA margin compare to Curd?

Dr. M. Sambasiva Rao: Yes.

Shailesh Kumar: And still we are looking to grow into Cheese?

Dr. M. Sambasiva Rao: Because everybody would not eat only Curd, no. There is customer requirements of all products. Today I am supplying milk though it is half of the Curd I wish to supply everything as Curd it is only margin driving, it is customer who is driving, customer food habits that drive.

Brahmani Nara: And one thing we would like to clarify is the investment at the new value added products is not happening at the cost of existing products. so I mean if you can see our debt equity also we are pretty comfortable at about 0.27 so certainly existing products also will be strengthen.

Shailesh Kumar: Okay. And in case we go ahead with our planned CAPEX do we need to have more debt on the book or our existing cash flows is sufficient to fund the CAPEX?

Dr. M. Sambasiva Rao: Yes, we need to go for debt.

Shailesh Kumar: If we go for that JV additional investment.

Dr. M. Sambasiva Rao: Surely, we can contribute margin money from internal accruals at least 60% to 70% has to come as debt.

Moderator: Thank you. The next is a follow-up question from the line of Resha Hariya from Green Edge Wealth. Please proceed.

Resha Hariya: Just wanted to know what is the reason for this short-term borrowings going down significantly year-on-year?

Management: In dairy division during this particular year actually we are liquidating our inventory time to time. So cash flow is generated much early. Inventory levels are 22 days' stocks we are keeping even though the growth is around 15% on top-line so, working capital management we are able to efficiently manage and the working capital is slightly reduced. One more thing is actually this year we have not purchased **(Inaudible) 47:40** during flush season so every year we require a lot of funds for skimmed milk power during that October, November, and December, during that earlier we have accumulated this talk and that is going to be sufficient for next six months SMP stock so for that reason actually we do not require as of now the working capital utilization is around Rs. 30 crores only.

Resha Hariya: Okay. And we expect this to remain at this level for the next six months, right?

Management: Yes, next six months it is going to be like this only.

Moderator: The next question is a follow-up question from the line of Rukun Tarachandani from Kotak Asset Management. Please proceed.

Rukun Tarachandani: Going forward, is it fair to assume that most of the incremental capital allocation would be on the dairy segment and very little on the retail segment?

Dr. M. Sambasiva Rao: I would not say little but retail let us say, dairy will have larger allocation certainly, retail also will have something like Rs. 20 crores a year kind of thing for ensuring the expected level of 1 lakh SFT additional space per annum.

Moderator: Thank you. I now hand the conference over to Mr. Bajrang Bafna for closing comments. Over to you, sir.

Bajrang Bafna: I am sincerely thankful to the management of Heritage Foods Limited and all the participants for making conference call successful. Wish all of you a great day. Thank you very much.

Management: Thank you.

Dr. M. Sambasiva Rao: Thank you.

Moderator: Thank you very much Mr. Bafna and members of the management. Ladies and gentlemen, on behalf of Sunidhi Securities, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.