Ref: SECT: STOC: 76-26
July 21, 2026

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

Scrip Code: 519552

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

Scrip Code: HERITGFOOD

Sub: Transcript of Conference Call held on July 17, 2026 - reg.

Dear Sir / Madam,

In Continuation of our letter dated July 8, 2026, the Company had organized a conference call with the Investors/Analysts on Friday, July 17, 2026 at 4.00 PM (IST). A copy of Transcript of conference call held with the Investors/Analysts is enclosed herewith and the same has also been available on the Company's Website at www.heritagefoods.in.

Kindly take the same on record and display the same on the website of your exchange.

Thanks & Regards,
For HERITAGE FOODS LIMITED

Umakanta Barik
Digitally signed by Umakanta Barik
Date: 2026.07.21 11:49:09 +05'30'

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

Encl: a/a

HERITAGE FOODS LIMITED

Q1 FY27 Earnings Conference Call

July 17, 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. Garima Singla – GO India Advisors

Moderator: Ladies and gentlemen, good day, and welcome to the Heritage Foods Limited Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will remain 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 this conference call, please signal the operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Ms. Garima Singla from Go India Advisors for opening remarks. Thank you, and over to you.

Garima Singla: Thank you. Good afternoon, 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 Q1 FY27 Earnings Conference 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 Nutrivet Limited; 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.

M. Sambasiva Rao: Thank you, Garima. Good afternoon, everyone, and thank you for joining us today. Financial year '27 has begun with another quarter of disciplined execution for Heritage. Despite the challenging environment for the dairy industry, we delivered the highest quarterly revenue in the company's history while continuing to strengthen the building blocks of our long-term growth.

Throughout the quarter, we remain focused on our strategic priorities, namely reinforcing our procurement network, expanding our value-added products portfolio, investing in manufacturing capabilities and building new growth platforms.

Our integrated farm-to-consumer model continued to differentiate Heritage by ensuring reliable milk availability while supporting the rapid expansion of our value-added products portfolio. This disciplined execution was reflected in our financial performance. Consolidated revenue increased 18% year-on-year to INR13,381 million, marking another important milestone for Heritage. EBITDA stood at INR619 million with an EBITDA margin of 4.6%, while profit after tax stood at INR150 million, translating into PAT margin of 1.9%.

Although elevated milk procurement costs continue to weigh on the dairy industry, resilient demand across our value-added products portfolio, calibrated pricing actions and disciplined execution enabled us to deliver another quarter of healthy growth while continuing to invest for the future.

Every successful dairy business is built on a strong and resilient procurement network. During the quarter, milk procurement prices increased 7% year-on-year to INR46.61 per liter, reflecting continued supply tightness across key milk producing regions.

Despite these industry-wide challenges, Heritage increased milk procurement volumes by 2% year-on-year to 18.10 lakh liters per day through its sustained investments in farmer engagement, vet services, cattle nutrition programs and timely payments. These initiatives ensured uninterrupted milk availability while further reinforcing one of Heritage's most enduring competitive strengths.

On the demand side, milk sales volume remained stable, while average milk sale prices improved 4% year-on-year to INR58.68 per liter, reflecting the strength of the Heritage brand and sustained consumer trust. The benefits of these investments are becoming increasingly visible in the evolution of our business mix. Value-added products continue to be the primary growth engine during this quarter with VAP revenues growing 40% year-on-year to INR5,636 million.

Importantly, this performance was driven by healthy underlying volume growth across categories with paneer volumes growing 33%; curd, 26%; ice cream, 25%; butter milk, 60%; and lassi, 98% year-on-year, demonstrating the growing consumer preference for our differentiated portfolio.

Consequently, value-added products contributed a record 44% of consolidated revenues compared to 36% in the corresponding quarter last year. Including our consumer pack ghee and butter portfolio, the broader VAP portfolio grew 39% year-on-year to INR6,322 million, contributing a record 49% of consolidated revenues versus 41% a year ago.

This continued improvement in our product mix reflects the premiumization of our portfolio and our steady transition towards a more branded value-added business. Our ice cream business also continued to build strong momentum during the quarter. It crossed INR550 million, growing 65% year-on-year with Alpenvie, our new brand, delivering robust growth of 44%.

Get-A-Way also delivered an encouraging performance with revenue growing 196% year-on-year, supported by improved product availability following capacity expansion while achieving a near breakeven bottom line. Supporting this momentum, our newly commissioned ice cream facility ramped up well during the quarter, reaching approximately 40% capacity utilization.

The facility now manufactures both Alpenvie and Get-A-Way portfolios from a common platform, enabling faster capacity absorption, improving operating leverage and providing sufficient headroom to support future growth. Together, these developments reinforce our strategy of building differentiated high-growth brands across premium dairy and nutrition-led categories.

Beyond our core dairy operations, our adjacent business also delivered encouraging performance. Heritage Nutrivet reported revenue of INR728 million, represent a robust growth of 37% year-on-year despite elevated input costs across the animal nutrition industry, while delivering a PBT of INR20 million. This performance reflects the strength of the business model and the growing opportunities within the Animal Nutrition segment.

We also continued to strengthen our long-term growth platforms during the quarter. Heritage Novandie Foods became a wholly owned subsidiary, reinforcing our presence in the fast-growing high-protein yogurt category through Livo brand. We also increased our shareholding in Peanut butter and Jelly Limited to 71%, reflecting our conviction in the long-term potential of the better-for-you nutrition segment and further expanding our presence in attractive premium food categories.

Alongside these investments, we continue to build a stronger portfolio of brands. Alpenvie is undergoing a comprehensive brand refresh with a new identity and several new SKU launches. Nourish+ continues to gain strong traction, particularly its high-protein paneer variant, while Livo continues to perform well across organized retail.

Sampurna A2 Curd, chef's choice curd and organic milk are also witnessing encouraging consumer acceptance and building salience across the markets where they have been introduced. Collectively, these initiatives are expanding our presence across premium dairy, nutrition-led and differentiated food categories while reinforcing our long-term brand building strategy.

The quarter also brought encouraging external recognition. Heritage Foods received the Investor Relations Excellence Award in the F&B category from the Investor Relations Society, while our Vice Chairperson, Managing Director, Mrs. Bhuvaneswari Nara; and our Executive Director, Mrs. Nara Brahmani, were recognized among Fortune India's Most Powerful Women 2026.

These recognitions reflect our continued commitment to strong governance, transparent communication and long-term value creation. As we continue to invest for the future, we remain disciplined in allocating capital towards opportunities that strengthen our competitive positioning while maintaining a prudent balance sheet.

Our long-term direction remains unchanged. We are building a larger, more premium and more resilient branded value products category anchored on a trusted dairy platform. Every investment we are making today across procurement, manufacturing, brands and adjacent growth platforms is aimed at improving the quality, resilience and predictability of our business while creating sustainable long-term value for all our stakeholders.

On behalf of the entire management team at Heritage Foods, I would like to thank our farmers, employees, distribution partners, customers, consumers, shareholders and all our stakeholders for their continued trust and support.

With this, I would like to conclude my remarks and open the floor for discussion. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Sameer Gupta from IIFL Capital. Please go ahead.

Sameer Gupta: Hi. Good evening, everyone, and thanks for taking my question. First question is on the milk procurement outlook. So, we are now well into the summer flush or the cow flush. Any inkling to the milk production or procurement that has happened so far? Are the milk procurement prices kind of easing or they have continued to remain firm? Any outlook you could provide on the upcoming overall flush also would be helpful given that it is likely to be an El Nino year with deficient monsoon plus also in an inflationary environment? That would be my first question, sir.

J. Samba Murthy: Yes. I'd like to inform you that this time actually, this season generally, we expect a mini flush in April, May, which -- because of this weather condition, climatic conditions that could not happen much. And however, we have procured about 18.1 lakh liters during Q1 and the prices have gone up actually. So, if you take March to April to May to June, prices have gone up.

And looking that now prices are now stable, but still we have to see that there is any challenge further in that based on the geography and weather conditions because it is dependent on rain and some and temperatures and all. Different geographies are behaving differently, prices had increased but looking at stable now. And then as usual, we expect that in Q3 that October onwards, there is going to be a flush season. This Q2, actually, now we are observing that the price is going to be stable or a little bit increase.

But apart from that, whatever the quantity required for us, actually, we are able to source this by expanding our network at the village level through Heritage procurement centers by adding number of farmers actually each village level and improving the throughput at that village level procurement volumes and working with the farmers and improving the farmers level production actually.

So, productivity per animal has come down, but throughput from the farmer actually we are trying to increase it and to get more milk in Q2 as well. So that is the condition.

Sameer Gupta: Got it, sir. So, what I gather is that the mini flush in April, May, you said, right, typically happens. That hasn't happened. And typically, prices which should have come down have not come down, but firmed up and you still expect October flush to be stable to inflationary, which may not be the case normally. Is this a correct understanding?

J. Samba Murthy: Yes

Sameer Gupta: Got it. Sir, I understand that you will not have any procurement challenges, which brings me to my next question. So, when I am looking at milk procurement for Heritage, what I'm noticing is that it's been flattish to negative for the past 4 quarters. Any guideline here as to what is happening? Is it a conscious choice to not procure much given the inflation or your -- increase your third-party milk procurement using old cost inventory? What exactly is happening here?

Srideep Kesavan: Yes. Sameer, we do very measured material balancing planning. If you recall, last year was not very good as far as the volume growth was concerned. And the procurement was in line with that. And as Mr. Samba Murthy just explained now, in this year, as the volumes have gone up and we have had good performance in the -- on the sales side, demand side, we have grown the procurement volumes in line with that in spite of, let's say, the prices.

But we should remember that this is nothing to do with only Heritage. The industry is actually facing, there is a little bit of a shortage of milk on the supply side, and this is something that all companies are reporting. The industry has been facing this for the last several quarters and our lack of growth procurement is also in line with that.

Sameer Gupta: Got it. So basically, you're saying that the procurement is growing in line with consumption and that is likely to continue?

Srideep Kesavan: That is right. So, like Mr. Samba Murthy said, we are investing in growing our farmer procurement network. We are investing in expanding our village level collection centers, farmer productivity, etc., which is what is going to help us in good stead in the long term.

Sameer Gupta: Got it, sir. Got it. But I was actually looking at it in conjunction with the VAP growth also because that also will require milk procurement volumes to go up. So that was why the question was there. I mean...

Srideep Kesavan: So see, what we should understand, that is why I use the word our milk procurement is in line with material balance planning, which you see, value-added products, for example, if it is butter milk or, let's say, any of the drinkables, or if it's ice cream, the amount of solids and fats required is what we have to look at. It's not always one is to one. We are able to manage it with the materials level.

Sameer Gupta: No, got it. I absolutely agree. Fair. And last question, if I may squeeze in. VAP growth of 40% this quarter, how much would be from price hikes and how much would be volumes? Any blended level number could -- can help?

Srideep Kesavan: Yes, it is largely all volumes driven. Price hike, we have had price hike of about 5% in value-added products, weighted average. 5.12% weighted average price increase across value-added products and the balance 35% is all volume driven. If you have seen our largest value-added product, which is curd itself has grown at about 25%. Paneer has continued to grow at the trajectory of 33%.

So yes, 26% is the curd growth, 33% is paneer growth. Yogurt, of course, there is no base, and we have done about 150 tons in this quarter. All like whether it is drinkables, butter milk, for example, has grown at 60%. So it's largely volume-driven growth and prices contributed about 5%.

Sameer Gupta: Got it. And just on this one, curd, how much of value-added would be curd now as a percentage?

Srideep Kesavan: I don't know what is the purpose of that question, Sameer, but curd as a percentage contribution to the value-added products will continue to decline. Because curd grows slower than the rest of the value-added product category, right? Currently, it's at 68.9%. So it's about 69% of our value-added. So it used to be about 75% some time back.

Sameer Gupta: That was the purpose. So yes, I remember it used to be 75% and just wanted to gauge like how the contribution is trending. There is no other intention sir...

Srideep Kesavan: one should expect that the curd as a percentage contribution to value-added products will continue to dip.

Sameer Gupta: Yes, yes, and it is dipping, clearly. Thank, again, thank you, everyone, for answering these questions so patiently. I will come back in the queue for follow-ups.

Srideep Kesavan: Thank you Sameer.

Moderator: Thank you. Ladies and gentlemen, in the interest of time and fairness to others, we request you to restrict to three questions per participant and rejoin the question queue. We take the next question from the line of Abhishek Mathur from Systematix. Please go ahead.

Abhishek Mathur: Yes, hi, sir. Thank you for the opportunity. Sir, this growth in the value-added products of about 40% or so is quite exceptional in the light of the recent trajectory that we have been on. While you have indicated the category-wise volume growth in VAP. But still, if you can give some more color on how we are able to achieve a 35% volume growth? Is it to do with geographic expansion or distribution expansion? Or are we taking some share?

So, what exactly is driving this 35% volume growth in VAP? If you can shed some color on that? And also, as a corollary, we have in the past spoken about a 20% plus -- 20% to 25% growth in VAP. So does that guidance change in the light of this recent delivery? Or is that intact? That's my first question.

Srideep Kesavan: Yes. Thank you, Abhishek. . See, we should look at growth over a long period in time. On a year-on-year basis, there might be a little bit ups and downs because of weather influences, etcetera. We should also acknowledge the fact that we are cycling a low base of last year because investors will recall that last year, quarter 1 was heavily marred by rains and adverse weather.

So we are cycling a low base as well, number one. But when it was raining last quarter, we told you that the underlying business is pretty strong. There is nothing wrong. And if we had a decent support in terms of decent weather, the performance would come back. And we had delivered in the subsequent quarters of last year as well.

The long-term trajectory, what one should expect is that -- and this is something that we have mentioned in the past as well, is that we are aiming to grow in the mid- to high teens, so 16 to 17 percentage kind of growth is what we are aiming to deliver, which requires milk to grow at about 7% to 8% and value-added products in the range of 25%. Now this is what you should expect in the long period in time. And this on a sustained basis, we should be able to deliver.

Yes. You also asked about the underlying factors. Primarily, you can say that 90% or 80% of the growth is primarily due to distribution expansion, new distribution points opened in existing geographies. We have not opened any new geography whatsoever. 20 to 25 percentage of the growth is on account of consumer traction increasing, which is where we have gained market share. In most of the organized channels where we are able to measure our market share, where we get quantitative data as to our market share, we have made significant gains in market share in this quarter 1.

And that is something that -- in every category. We have gained market share in curd. We have gained market share in paneer. We have gained market share in butter milk. So this is something that we celebrate as well. So 80% is with distribution or increased availability, 20% is because of increased consumer traction with our brands getting stronger.

Abhishek Mathur: Just a follow-up. This market share gain that we have talked about, is it from the unorganized sector? Or is it from the other listed dairy peers, organized peers that we are talking about?

Srideep Kesavan: No, of course, all dairy growth, not just for Heritage, for every single branded company in the country, all growth comes from unorganized sector, right? So that's a given. I was mentioning market share gain in the organized channel. In the organized channel, there is only organized brand. So when we are gaining share, we are gaining share from other branded players.

Abhishek Mathur: Understood, sir. Very clear. Just a quick second question. Any pricing action, any hikes that we have taken in the month of July so far? That's it from me.

Srideep Kesavan: Yes, we have taken pricing. So as Mr. Samba Murthy actually elegantly put in the beginning that we are actually going through a phase of prices remaining firm and flush being weak. While we wait for the buffalo flush to come in October, November, at this point in time, we do not see prices easing, which means that we have to pass on the increased raw material prices to our consumer. There is no other way. And we are doing it successfully in each market. Even this week also, we have seen price increases across several of our markets.

Abhishek Mathur: Got it, sir. Thank you and all the best. Thanks.

Moderator: Thank you. We take the next question from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Hi, good afternoon. I think excellent delivery on the VAP side. Sir, my first question on gross margin, right? So, if we compare ourselves to last quarter Q4, the procurement price that we report is almost stable. The VAP share has gone up materially, even we have taken some price hikes between the 2. But gross margin has come down. So is this a mix change that is driving this? I mean, ideally would have expected gross margins to have started improving now.

Srideep Kesavan: Pratik, it's a very, very valid and very right question to ask. So, on a weighted average basis, the numbers are not really telling the story. Our weighted average milk price is INR46.61 in this quarter compared to INR46.67 last quarter. So, it looks like it is flat. But the reality is cow milk last quarter, which is Q4 of FY26 was INR42.10 and cow milk now is INR43.2. So, if I just look at cow milk, it has gone up by almost INR1. And buffalo milk was INR61.38, which has gone up to INR65.99. So that's a significant increase in buffalo milk.

But we saw in this quarter a heavy decline in buffalo milk volumes. We actually had over 20 percentage of decline -- degrowth in buffalo milk. It was very difficult to get buffalo milk. And because of the mix change and mix going towards cow milk, the weighted average is looking like that. But see, the gross margins are impacted primarily because many of the regions are purely on cow milk. So those regions like cow milk has actually gone up by INR1, and that is seriously impacted, number one.

Number two, if you look at it, the milk prices have gone up by about 2.1% in this manner, if you look at it. But about 0.5 % or so impact is also because of SMP that we consumed in this quarter, number one, in higher quantities and number two, at a higher price per kg. This also is another impact. So net, we have had about 2.5%.

And the other third impact that we have had is packing material. On account of the war, the packing material also had a significant material impact, almost 30 basis points of bottom line impact. All of these put together have worsened the gross margin. So if you see the gross margin declining by about 2.5% compared to last year, it's only -- it because of, one, mix change; number two, the SMP and the third is the packing material.

Pratik Kothari: Correct. Correct. And sir, I mean, we have called out a couple of areas where we wanted to, kind of, first break even and then make money. So one is the consumer packs and in the 2 new geographies which we have seeded, which is Mumbai and North of India. If you could just touch upon where are we in that journey of at least first breaking even there? And how do we see that? When does that break even? Over what time period? And where are we in that journey?

Srideep Kesavan: Okay. See, in ghee, last year same time, we had about -- we were negative about 12% in EBITDA. And now that EBITDA number is about minus 8.5%. So despite the entire business looking worse off compared to last year, ghee is actually better off by almost 4%, right? But it is still negative. Secondly, the reasons that you called out, again, the losses have reduced.

So while the overall profitability has declined for the company, the losses in the loss-making regions have reduced, which means they are on the right trajectory. So if you calculate the delta, it's quite significant.

If those regions have performed in line with the company's profit decline because those regions also had raw milk price increases, right? If they also declined in line with the raw milk increases, then we would have had additional INR1 crore of bottom line hit. So that was avoided. So you're right, Pratik, in asking that question. The negative businesses have improved. It's just that the positive businesses have declined because of our ability to -- or rather delay in passing on the raw milk increase to consumer.

Pratik Kothari: And last one, sir, I mean, this has been a pain point and you have kind of called it out and sorry for asking again. But this liquid milk growth volume-wise, etcetera. I mean, we have been in this band for a while now. I know even you guys are as worried, but just any breakthrough, anything that we are seeing to kind of solve this?

Srideep Kesavan: So I should admit that this is the main problem that we need to solve. If liquid milk volume growth comes back, it supports overhead absorption and the numbers would look very differently. It's something that we are working on.

J. Samba Murthy: Yes. so regarding this milk actually, we are now focusing on the distribution network expansion almost through adding that fresh distributors and Heritage happiness points and all. So now we have almost in the quarter compared to previous quarters, we got about 1 lakh liters addition, liters per kg, . And we are expanding it and focusing on expanding it basically on the network, distribution network expansion.

And even within that also, then we are also focusing on the throughput distribution point. So that's also there. And then we can see now month-on-month growth is there in the liquid milk like you take that March to April, April to May, May to June, June to even July, there is a growth actually. I think, yes, it is going actually in the right direction.

Srideep Kesavan: Yes. Thanks, Mr. Samba Murthy. So, the numbers that we report here is an average of the quarter. In March and April, we took the prices, which actually came with a little bit of decline in volumes. We usually see that. And the team with distribution expansion was able to claw back. There's always a work in progress, but you're right in calling it out. This is the highest priority for us.

Pratik Kothari: All right. Great. Thank you all the best. And the annual report also was very good. Thank you for that.

Srideep Kesavan: Thank you.

Moderator: Thank you. Ladies and gentlemen, in the interest of time and fairness to others, we request you to restrict to two questions per participant. We take the next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Hello, sir. And thank you for the opportunity. Sir, my first question is on the price hike part of it. I heard your earlier commentary and considering how the situation has and not -- the flush season, mini flush season that was expected didn't turn out in this quarter as well. So what kind of price increase are you in plan to be taken for the upcoming quarters? And also can you tell me if you took any price hike in quarter 1? I mean, was it at the start of the quarter or if you can give us a rough time line of that?

Srideep Kesavan: Mr. Vignesh. I didn't get the last question. Could you please repeat?

Vignesh Iyer: I wanted to know if you took any price hike in quarter 1? And if you could tell me if the price hike was taken on the later part of the quarter or the start of the quarter?

Srideep Kesavan: All right. Yes. Mr. Vignesh, so yes, we had taken up prices towards the end of quarter 4 of last year. And through quarter 1, so we got the benefit of that in quarter 1, right? For milk, for example, our prices were 4 percentage higher than same period last year, right? And like I mentioned, 5.1% for value-added products, etcetera.

But it doesn't mean that all pricing was done at one point. There were certain markets in which price increase was done in middle of May. There are certain other markets in beginning of June, etcetera, etcetera. Because all markets did not go up at the same time. It's also a function of competitive scenario.

Vignesh Iyer: Right. Also, any plans to take price hike, I mean, in this financial year? I mean -- or is it more depending on how the price fluctuation will happen from here on?

Srideep Kesavan: No. Like I mentioned as an answer to the previous question, we are taking price hikes as we speak. Even this week, we have increased prices in certain markets. So we are continuously increasing prices, not just for milk, but also for value-added products.

Vignesh Iyer: Okay. Just one more question from my side. And I'm sorry if you have already answered it. What is our target for the VAP part of business for this year? Do we have any internal target to reach VAP as a percentage of revenue?

Srideep Kesavan: So - for the last several years, we have been trying to improve value-added product contribution by about 2 to 2.5 % every year, which means in a 4-year period, we would like to see value-added products grow by 10 percentage. So let's say, our contribution was about 39% in last financial year.

So, we would like to end at around 50% by FY30. Now that's a goal that we have. Of course, this year, you have seen that we have grown -- the contribution has expanded much beyond the 2.5 percentage, but it's also a function of milk not growing as much.

Vignesh Iyer: Got it. Yes, that's all from my side and all the best. Thank you.

Moderator: Thank you. We take the next question from the line of Kshitij Sowlani from Yes Securities. Please go ahead.

Kshitij Sowlani: Hi, sir. Congratulations on a good set of numbers. I just wanted some color on the margins for your milk and your VAP products individually, if that would be possible?

A. Prabhakara Naidu: Milk EBITDA margin for Q1 was 3.03% and . VAP EBITDA margin is 8.06%.

Kshitij Sowlani: Got it, sir. Got it, sir. And within the VAP products, what would be the highest margin product for you guys?

Srideep Kesavan: It's usually ice creams, which are most profitable.

Kshitij Sowlani: Got it. Got it. And sir, just one more thing on the procurement costs. So can you just give me a best case and a worst case scenario of what you think the procurement prices would be after the October flush?

Srideep Kesavan: We'll wait and explain after it happens. See what -- Kshitij, what we would say is that this is a cyclical business, and it's a very large industry. It's very difficult to predict. So best case, we are hoping that the buffalo flush is good and the availability is great and prices come down. Worst case is it doesn't happen, prices continue to decline.

Kshitij Sowlani: Got it. So that would also mean that post the October flush, when we are in Jan, we will see further increase in the prices, right? So that would mean that for FY27, if I take a base case, the prices will continue to be a bit higher. Is that a fair assumption?

Brahmani Nara: Yes. What I'd like to say is that things are looking quite unpredictable as we've seen in Q1 itself and as we continue to see in Q2. And if you've been following all newspaper reports and conversations in the agri space, I think across regions also things are very different. Trends are very different. We're seeing the rains in certain areas. We're seeing deficit as of today, especially in the Southern Peninsula.

It's very different across the country, and that might be very different a couple of weeks from now, right? So I think for us at this point, given the fact that weather plays such an important role in really anticipating procurement price, it's quite difficult for us to say how things may look 2 quarters from now.

Having said that, I think we are doing what we can do as an organization to secure our milk procurement at the right price, right? As my colleague, Mr. Murthy had said, one thing that we continue to do is continue to add the number of farmers that are pouring milk to us within the existing procurement regions as well.

We've added close to 5,000 farmers in Q1, and our intention is to add another 5,000 farmers in Q2 itself. We want to increase the volume that for Heritage, primarily because we work very closely with them by supplying cattle feed, which is subsidized, artificial insemination programs, improving their health of their animals, etcetera.

So we will do -- no matter what the external condition is, we continue to do this work. That will continue to help us secure our milk volumes that we require for milk as well as value-added products growth, which are looking very encouraging this year. I hope I've answered your question.

Srideep Kesavan: If I could just add one. What we are also doing in the meanwhile is we -- irrespective of the procurement scenario, we are continuing to grow our business in terms of our volumes, in terms of our brands, in terms of our consumer acquisition, in terms of our consumer love and retention.

That is what is most important, which means this procurement price will not remain like this forever. It is a cyclical business. It will come down. And that day, we will have a tremendous consumer franchise with us. Just think about that. The volumes are much higher. We have strengthened our portfolio actually in the meanwhile. That's the important point to remember.

Moderator: We take the next question from the line of Parth Sodha from Trinetra Asset Managers. Please go ahead.

Parth Sodha: First of all, thank for the opportunity. So my question is, at what stage do you believe the richer product mix will begin translating into the structurally high EBITDA margin?

Srideep Kesavan: Yes. So, see, it is a constant work in progress. So, I don't think that there is any one point. And because of our ambitions, we'll continue to push -- so we haven't put -- we have several internal milestones, but there's no one day when it will change. It's a constant work in progress.

I'll give you two or three data points that you can reflect on. One is that, let's say, the EBITDA that the CFO spoke earlier, milk is 3% and value-added products is 8%, right? So already, you can see VAP is higher EBITDA compared to milk. Last year, same time, which is Q1 of FY26, milk EBITDA was 5.8%; and VAP EBITDA was 9.7%, which means while milk EBITDA declined by 2.8% because of raw milk price increase, 2.8 percentage decline in EBITDA, VAP declined only by 1.7%, right? So VAP was able to withstand the raw milk increase better than milk.

The second is I draw your attention to the P&L statement that we have put out for the quarter. You can see the operating leverage kicking in already. Like if you see the operating cost, which is what is shown as the other expenses in the P&L as a percentage of revenue, Q1 of FY26, which is last year quarter 1, operating cost was 9.64% of revenue. Now it is 9.01% of revenue. So, we have gained operating leverage of 0.63 percentage because of the higher value-added product revenues contribution volume growth.

Second, employee benefits used to be 7.21% of our revenue. It is down to 6.74 percentage of revenue. That is about 0.47%. Together, these 2 components, which contribute the operating leverage have improved our bottom line by 1.1%.

And this is not at all, right? As the value-added products continue to grow and our revenues continue to kick in, this leverage will continue to improve. The only number which has changed is raw material costs have gone up by about 2.54% and of course, depreciation and financing costs because of some of our new facilities coming into play.

Parth Sodha: Okay, got it. Thank you so much.

Srideep Kesavan: Thank you.

Moderator: Thank you. We take the next question from the line of Hitaindra Pradhan from Maximal Capital.

Hitaindra Pradhan: Yes, hi, sir. Thanks for the opportunity. So sir, just wanted to understand the VAP EBITDA margin was around 8% this quarter. So being summer, I assume the summer product portfolio would have been -- the sales and the mix would have been higher. So, going forward in Q2, Q3, I mean, what is the trajectory here, sir? I mean, just expected this margin to be slightly higher. So, if you can give us some sense and color on to that?

Srideep Kesavan: It's very difficult to give because the mix will change. You're right in saying that some of the summer parts, let's say, butter milk and all will come down in salience. So, there are several parts of the value-added products, which will sustain also. Like, for example, paneer is a nonseasonal part of is a significant contributor to our revenue now.

For example, this quarter, about INR52 crores of our revenue has come from paneer itself. So that's nonseasonal. Ice cream also because we are continuously growing, even though it is a seasonal business, we are sustaining. You can imagine that sequential numbers may not look so bad.

There are several other parts of the value-added products, even curd, which is because of our strength, has become less and less seasonal. And I also add one more thing, which like we just explained earlier, we are taking pricing up also. So prices are going up. So because of which -- but then there is some EBITDA expansion, but then some raw material cost is also going up, right? So very difficult to predict or give you an -- we don't -- we wouldn't like to give you an outlook on exactly how Q2 will be, but we are doing everything we can to improve our situation.

Hitaindra Pradhan: The second question is like the El Nino thing, what we hear also is that, that can also disrupt the post October and that can bring in unseasonal rain also. And that usually also impacts the yield and the fodder. So is that understanding correct? And so if that is correct, then would it be prudent to take more price hikes in the next quarter on the portfolio side? I mean, if you can give us your thought process there?

J. Samba Murthy: We will take a balanced view as we keep watching every quarter, every month, which way to balance the farmer interest, consumer pricing margin improvement. Objective being ensure consistent supply of milk by giving remunerative price to farmer and do not load consumer price in one go. We give some lag, we give in phasing and then partially absorb in the margins for a quarter and then pass it on.

We don't disturb the ecosystem. It's a very balanced way of handling the model, keeping all interest in view. And definitely, if the procurement prices go up, the pricing action will be there. If procurement prices go down, the margin expansion will be seen. And it is cyclical. Every year, we see the ups and downs. One season or one year, if it is low production, the farmers get a higher price.

That encourages them to take more interest in dairy in the following season. The milk production improves, additional care was taken towards animals and additional yield comes through productivity improvement. And that following year, the prices will go down a bit because of the good kind of scenario.

So this we have been seeing over a period of time. And Government of India also will not be silent. Just to give you a history, if you see in the last 15 years, there were years where the scarcity of milk was very high in India. Milk prices went up, then government intervened and allowed duty-free import of milk powder from Australia, New Zealand, Europe and then control the consumer prices.

There were years where we had the glut scenario, farmer prices crashed to as low as INR20, INR22 per liter of milk. And government encourage export of commodities by giving incentive to exports. So, there were years where government kept a neutral position, no import, no incentives.

So various situations are handled by government also over a period of time. So, when situation goes out of control in terms of scarcity, high scarcity, we may see import of duty-free commodities also. If glut comes, the government may encourage exports by giving incentives. So, we are not operating in an isolated environment.

It's a public interest, is always seen by government of India. State governments also intervene. So, we have to keep all the factors in view, including farmer, consumer and other stakeholders in the company, a balanced way of reacting to every situation keeps us moving in the right direction.

Moderator: Thank you. We take the next question from the line of Nishita Shanklesha from Sapphire Capital. Please go ahead.

Nishita Shanklesha: So, I just wanted to understand, you mentioned and you gave the milk margin and VAP margin separately. And you also mentioned that our VAP growth is going to be 20%, 25% going forward, which is going to be higher than milk. So, like going forward, can we expect our EBITDA to improve because currently, it's at 4.6% level. So, when can we expect it to go back to the 6%, 7% level, if you can give some sort of guidance on that?

Srideep Kesavan: Yes. A bit -- primarily because still three quarters of our revenue is attributable to -- sorry, raw materials attribute three quarters of our revenue. So, it's still quite significant, right? So hence, a large percentage of our EBITDA will still be driven by raw material. We still haven't reached a stage where EBITDA of value-added products can grow in spite of raw milk price volatility, right? We still haven't reached.

We are hoping that we will. We are working towards a situation where our value-added product salience in consumer basket reaches a level where we are able to price it irrespective of raw material prices.

Srideep Kesavan: Yes. So, talking about EBITDA improvement, our objective is not a 6% EBITDA. That's not what we are aiming for. We are looking at high single digits EBITDA. In fact, our average or median EBITDA in the last several years has been 7% or higher, 7.5%, etcetera. So, we should be aiming for -- we are aiming for high single-digit EBITDA. And that -- while value-added products is definitely one aspect which will help us improve. But primarily raw milk coming down will be a significant driver.

Nishita Shanklesha: Okay. Okay. Understood. And my next question is like what kind of capex have we planned for this year, FY27?

Srideep Kesavan: So, at this point in time, we have two projects that is being constructed, that's being executed. One is a paneer project and another one ghee. We have some other investments into raw milk procurement side, also minor capex. All of it should add up to about INR250 crores for the year.

Moderator: Ladies and gentlemen, in the interest of time and fairness to others, we request you to restrict to one question per participant. We take the next question from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya Khandelwal: Yes, hi, sir. Thanks for the opportunity. Sir, which are the major raw materials in our feed business? And what kind of cost inflation we are seeing in that? And secondly, sir, this rise in procurement prices, is it majorly due to the higher summer season which we are witnessing, which is leading to drop in yields or higher feed costs have also played a part?

Brij Mohan: Yes. Thanks very much for the question. . And just to answer your first question that there is a very high increase in all the ingredients which are going to the cattle nutrition. And they are increasing month-on-month. It started somewhere in quarter 3 of last year, and it's moving until today. Quarter 2 as well looks quite heavy on the cost part.

Secondly is, due to the cyclical weather condition and also you are aware of the ethanol industry impact on overall consumption of corn, rice milling also has slowed down. That is not giving enough raw material for the cattle feed. And increment in the cost, especially for the packing materials has put most of our margins in distress.

At the same time, we also have a good competition from other industry like chicken industry and egg industry. So overall, I can say that higher prices will continue for the ingredients, pushing further out on the margins. But at the same time, we have passed on these to the consumers, especially consumer in the sense to the -- to our dealers as well as our farmers.

Some of that we had absorbed ourselves and improved our productivity, increased our volumes and also enhanced our -- or expanded our geographies. So overall, I can say that quarter 2 looks a little stronger than the quarter 1. But yes, pressure is there on all of us on the margins.

Moderator: We take the next question from the line of Viraj from Enigma Investment.

Viraj Mehta: So sir, just one question. Like if we look back a year before this all price hikes increased, our understanding was that the business has significantly improved from what it was 3 years back and our normalized margins are in the range of 7% to 8% or probably even higher than that. Assuming that this is temporary, and we don't know whether it is or not, would you say that, that statement is still true? And with some price hikes that we take over next 1 year and slightly lower raw milk prices, if at all that they happen, that statement still is true for, let's say, 4 quarters, 6 quarters out?

Srideep Kesavan: Yes. Thank you, Viraj. If you look at -- you're taking a very long-term view, right? I was just looking very out of curiosity, I was just looking at what was the raw milk price of quarter 1 of FY25. In quarter 1 of FY25, the raw milk price was INR41.38. INR41.38, which means compared to quarter 1 of FY25, 2 years later today, the raw milk price is INR5.35 higher. And we procure roughly around 18 lakh liters of milk.

So, you can imagine that, that's about INR9.5 crores per month. That's the kind of money that has moved, right? So that is in just 2 years. And -- but our PBT, our profitability is not impacted so much because we have so many numbers have changed in the meantime, whether it is in terms of VAP contribution or in terms of operating leverage or in terms of prices going up as well.

What we have to also remember is that I'll also call out one more number for you because you raised this question. You go back 1 more year, 1 more year behind, which is quarter 1 of FY24, quarter 1 of FY24, that number was INR44.78. So just -- I'm just reading these numbers. Quarter 1 of FY24 was INR44.78, then quarter 1 of FY25, it came down to INR41.31 and now we are sitting at INR46.61. So, if you look at it like that, in 3 years' time, it has gone up by INR2 or INR3. This is okay.

So -- but another way to look at it is actually, if you look at isolate and look at cow milk and cow milk is what is actually a significant contributor to our business. It was INR40.58 in FY24, came down to INR37.51 in FY25 and which is now INR43 in FY27, which means cow milk has increased by about INR2.50 or INR2.60. That is -- even if I take INR2.60 increase over on 18 lakh liters of milk, we are talking about INR5 crore per month. That's the kind of impact.

Now this is a moving business, which means that if you look at 2 years down the line or 3 years down the line, the same price could be INR48 or INR49 or INR50 also. But in the middle, there could be years where it might go to INR50 and then come back to INR48, etcetera. One should look at the long-term trend.

And that long-term trend is about 3.5% to 4% year-on-year increase. Our intention is to shift value-added products, shift our business more towards value-added products so that our net revenue grows ahead of this 3.5 percentage to 4 percentage milk price inflation in the long term so that we are EBITDA accretive and our EBITDA continues to trend upwards going forward.

So at this point in time, I should say that we are in the trough of it. When the raw milk procurement prices come down, you will see the margins expand very widely. But that is not the normal. Again, I should remind you, because normal is always the trend something that goes in the middle.

And as long as the business is able to demonstrate that it is able to procure milk even in an inflationary situation as long as it has demonstrated that it can grow when the opportunity emerges and as long as it can demonstrate that every single year, it can expand value-added product portfolio by 3% or 4%, I think that we are -- our business is strong. And it will ride out the cycles.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, this was the last question. I now hand the conference back to Dr. Rao for his closing comments.

M. Sambasiva Rao: Thank you all for active engagement and interaction with us. Looking forward to catch up with you in the next quarter's call. Thank you. Good evening to all.

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

--0--