Heritage Foods Ltd — Jan 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat (on Core Growth) / Inline (on Margins) **One-line:** Heritage has successfully navigated the "bulk fat" revenue drag of prior quarters, delivering a clean 10% topline growth led by double-digit VAP momentum and taking the first proactive steps to manage a cyclical U-turn in milk procurement prices.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat	Revenue growth accelerated to 10% (vs 4.2% in Q2) as core categories (Milk +6%, VAP +17.6%) outpaced the commodity drag.	□
Earnings Quality	High (Core driven)	Growth is volume-led (VAP volumes +14.3%) with significant outperformance in high-margin niches like Paneer (+71%) and Cheese (+60%).	□
Guidance Confidence	Neutral	Management expects a □1.5-2/L rise in procurement costs; confidence depends on the timing of market price hikes.	□
Management Credibility	Strong	Transparently flagged the end of the deflationary procurement cycle ("beginning of a U-turn") and maintained 7-8% margin guidance.	□
Business Quality Signal	Improving	VAP mix is holding steady at ~28-30% despite Q3 being the off-season for curd/drinks; Quick Commerce now contributes 7% of revenue.	□
Key Q&A Exchange	Q#3 & Q#16 Pricing Power	Management confirmed high pricing power in core Southern markets to offset coming RM inflation while using VAP to lead in non-core markets.	□
The Street's Primary Anxiety	Procurement U-Turn	Analysts questioned the impact of rising RM costs; Mgmt responded that supply is not a constraint and price hikes are "on the anvil."	□
Capital Cycle Stage	Investment	Continued rollout of "Heritage Happiness Points" and ongoing □200 Cr+ ice cream capex to drive future VAP mix.	□
Margin / Return Ratio Trajectory	Stable (YoY Improvement)	EBITDA margins expanded 170 bps YoY to 7.2%, though sequentially down from Q2 (8.16%) due to seasonal mix and festive marketing.	□
Pricing Power	Stable to Expanding	Maintained flat consumer prices for 6 quarters; now preparing for hikes as the industry lead follows cooperatives.	□
FCF Conversion & Quality	Not in document	Cash flow statement not provided in Q3 transcript; high other income (MF gains) suggests strong liquidity.	□
Competitive Moat Signals	Widening	Procurement volumes (+12.6%) are growing significantly faster than the industry average, signaling deeper farmer wallet share.	□
Balance Sheet Strength	Strong	Significant surplus funds parked in liquid mutual funds (□13.1 Cr gains in 9M).	□
Working Capital Efficiency	Stable	Efficient payment cycles (2-3 times/month) maintained for 300,000 farmers.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on VAP volume growth and maintaining the 7-8% EBITDA corridor.	□
Key Vulnerability / Red Flag	RM Inflation Lag	Potential temporary margin compression in Q4/Q1 if market price hikes lag the □1.5-2/L procurement cost increase.	□
Management Tone	Prudent & Vigilant	Posture was focused on navigating the transition from a "flush" to "lean" cycle without sacrificing volume growth.	□

Key Takeaways (Positives & Negatives): * **Positives:** Core revenue growth is re-accelerating as the strategic exit from low-margin bulk fat sales is now largely in the base. The VAP portfolio is firing on all cylinders with Paneer, Cheese, and Sweets growing 35-70% YoY. Quick Commerce (7% of rev) has emerged as a high-margin, high-realization channel for Ghee and premium SKUs. * **Negatives:** The multi-quarter tailwind of falling procurement prices has ended; management expects a □1.5-□2/L increase in RM costs in the coming months. Sequential EBITDA margins dipped from 8.16% to 7.16% due to the seasonal drop in high-margin ice cream/ curd and increased festive marketing spend (up 35 bps as % of rev). * **Forward Watchpoint:** Execution of market price hikes in Q4/Q1. If Heritage leads or quickly follows cooperatives in the South, they can protect the 8% EBITDA floor despite rising procurement costs.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT not available — numbers from concall*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	□1,033.9	↑ 10%	↑ 1.3%	↑	Volume-led growth; 3rd consecutive quarter >□1,000 Cr.
Gross Margin (%)	Not stated	↑	↓	↓	Impacted by sequential rise in buffalo milk prices (mix shift).
EBITDA (□Cr)	□74.1	↑ 43%	↓ 10.7%	↑	YoY growth remains strong on procurement tailwinds; QoQ dip on mix.
EBITDA Margin %	7.2%	↑ 170 bps	↓ 96 bps	↑	Long-term sustainable target remains 7-8%.
PAT (□Cr)	□43.1	↑ 60%	↓ 10.2%	↑	High PAT growth driven by operating leverage and MF gains.
Milk Sales (Mn LPD)	1.169	↑ 6%	↓ 1.7%	↑	Outperforming industry growth (~2.5%).
Procurement Price (□/L)	□41.91	↓ 2.7%	↑ 4.1%	↓	Sequentially higher due to more buffalo milk in flush mix.
VAP Revenue (□Cr)	□287.4	↑ 17.6%	↓ 3.5%	↑	Sweets and Fats drove growth; Curd/Drinks seasonal dip.
VAP % of Revenue	28%	↑ 100 bps	↓ 200 bps	↑	Growing structurally; YoY mix improvement continues.
Nutrivet Revenue (□Cr)	□50.9	↑ 15%	↑ 18.3%	↑	Improving operational efficiency and RM purchasing.
Marketing Spend (%)	0.95%	↑ 35 bps	Not stated	↓	Investing to gain share; target is ~1% of revenue.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Liquid Milk	~₹700 Cr	6% (Vol)	Moderate	→	Below	Prices flat for 18 months; preparando for hikes.
VAP (Total)	₹287.4	17.6%	High	↑	Above	Volumes up 14.3%; focus on premium SKUs.
- Curd	Not stated	12.37% (Vol)	High	↑	Above	Reached 380 metric tons per day.
- Paneer	Not stated	71% (Vol)	Very High	↑	Above	High growth in core/adjacent markets.
- Cheese	Not stated	60% (Vol)	Very High	↑	Above	Rapid adoption; revenue up 64%.
- Sweets	Not stated	38% (Vol)	Very High	↑	Above	Festive demand; scan-and-win promo success.
- Ice Cream	₹15.94	Not stated	High	↓	Mixed	Low season; ₹200 Cr capex ongoing.
Bulk Fat	₹54.66	4.8%	Low	→	Below	Seasonal fat liquidation (standard practice).
Cattle Feed	₹50.9	15%	Improving	↑	Inline	PBT up 172% to ₹5.6 Cr.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Targets >₹1,000 Cr/ quarter run-rate.	Delivered for 3 straight quarters; 10% YoY growth is stabilizing.	Delivered	Low
Guidance	Margins	7-8% long-term EBITDA.	Currently 7.2% (Q3) and 8.6% (H1); easily within corridor.	Delivered	Low
Guidance	VAP Mix	Reach 40% of revenue in 3 years.	Current 28-30% range; needs ~300-400 bps annual mix improvement.	Improving	Medium
Strategy	Capex	Ice cream capacity expansion.	₹200 Cr project in progress; targeting indulgent categories.	On-track	Low
Strategy	Distribution	Expand "Heritage Happiness Points."	Added 242 partners this quarter; total HP now 352.	Delivered	Low
Strategy	Channels	Quick Commerce growth.	Now 7% of revenue; market leader in core cities.	Delivered	Low
Macro	RM Prices	Procurement U-Turn.	Expecting ₹1.5-2/L increase as flush transitions to lean.	N/A (New)	High
Balance	Cash Usage	Mutual Fund investments.	Using surplus liquidity for ~7.3% yields until capex deployment.	Delivered	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Sameer Gupta, IIFL	RM Prices	Financials	Why are procurement prices up 4% QoQ during the buffalo flush season?	Management explained that while buffalo prices fell □2.7, cow milk prices rose marginally and the overall mix shifted toward buffalo milk. This indicates a seasonal mix change rather than underlying cost pressure yet.	None	4.5	Explained mix
2	3.5	Sameer Gupta, IIFL	RM Outlook	Outlook	Are there any unusual weather or supply constraints affecting milk?	CEO stated that supply is normal, fodder is available, and there are no shortfalls; price firming is purely inflationary and cyclical. Reassures that supply-side shocks (like Lumpy Skin disease) are absent.	None	4.0	Normal cycle
3	4.0	Sameer Gupta, IIFL	Bulk Fat	Financials	What is the amount of bulk fat sales this quarter?	Bulk fat sales were □54.66 Cr, slightly up from last year but significantly lower as a percentage of total revenue. Confirms strategy of reducing commodity reliance while liquidating seasonal fat.	None	5.0	Specific data
4	4.5	Aniruddha Joshi, ICICI	RM FY26	Outlook	How should we see milk prices moving in FY26 after 2	Management signaled the "U-turn" has begun, with a projected □1.5-2/L	None	4.0	Cyclical pivot

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					years of deflation?	increase over the next several months as we transition to the lean season. Prepares investors for the end of the gross margin expansion tailwind.			
5	4.0	Aniruddha Joshi, ICICI	Pricing	Outlook	What is the take on price hikes given cooperatives have started raising them?	Heritage has held prices flat for 18 months but noted that market hikes are now "not possible to avoid" and will follow industry leads. Crucial for protecting margins as RM costs rise.	Timing	3.5	Hike on anvil
6	3.0	Aniruddha Joshi, ICICI	Portfolio	Business Overview	Any updates on older launches like Mamie Yova, cheese variants, or ice cream?	Cheese and Paneer are growing 50-70% while ice cream is facing seasonal lows but preparing for capex-led scaling. Confirms structural growth in non-milk categories.	Specific brands	3.0	Portfolio shift
7	3.5	Disha Giria, Ashika	P&L Items	Financials	Why the spike in other income and other expenses (up 25%)?	Other income spiked due to □13.1 Cr MF gains (9M); expenses rose on 11% core growth, higher power tariffs, and increased marketing spend (up to 0.95% of rev). Clarifies that spend is a strategic	None	4.5	High quality

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						investment in "Heritage brand engagement."			
8	3.5	Disha Giria, Ashika	Market Share	Business Overview	What is the market share in new Eastern markets like Bengal/ Bihar?	Management admitted current share is "insignificant" as they launched only 2 quarters ago, focusing on milestone achievement rather than syndicated share tracks. Indicates long-gestation period for geographic expansion.	Share %	2.5	Early days
9	4.0	Digant Haria, GreenEdge	Margins	Financials	Has the margin peaked given gross margin erosion and lean season entry?	CEO argued that sequential margin comparisons are misleading due to seasonal mix (high-margin curd/ice cream peaks in Q1). Maintains that year-on-year fundamentals are improving structurally.	Guidance	3.0	Seasonal logic
10	4.0	Digant Haria, GreenEdge	Feed Biz	Business Overview	What drove the massive 172% rise in Nutrivet PBT?	Attributed equally to favorable raw material prices (Maize/ Molasses) and internal operational efficiencies. Shows the subsidiary is becoming a self-sustaining profit contributor.	None	4.0	High quality
11	4.0	Pratik Kothari, Unique	VAP Mix	Strategy	If VAP goes from 30% to 40%, why keep margin	Management noted that while gross margins improve with	None	4.0	Reinvestment

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					guidance capped at 7-8%?	VAP, they will reinvest the delta into marketing, distribution, and capacity (depreciation). Signals a preference for volume/market share over short-term margin maxing.			
12	3.0	Pratik Kothari, Unique	Fat Loss	Financials	What are the fat losses for the quarter (Bulk vs Consumer)?	Bulk fat loss was 1.29 Cr; Consumer pack fat loss was 7.4 Cr. Ongoing drag from fat liquidation, though reducing as consumer ghee share rises.	None	5.0	Quantified
13	3.0	Pratik Kothari, Unique	Distribution	Business Overview	What is the run rate for adding Happiness Points/ Retailers?	Adding ~35-40 Happiness Points per quarter and ~200 distribution partners. Consistent footprint expansion supports the 6% milk volume growth target.	None	4.0	Steady growth
14	3.5	Naitik, NV Alpha	Fat Margins	Financials	What helped the 10-12% gross margin increase in fat products?	Driven by price increases and a shift to Quick Commerce/E-commerce where realization is higher due to smaller pack sizes. Highlights channel mix as a margin lever.	None	4.0	Realization
15	3.5	Naitik, NV Alpha	Alternate Ch.	Business Overview	What is the contribution and growth of Quick	Quick commerce contributes 6.5-7% of revenue and is	None	4.0	Fast growth

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					Commerce/ E-comm?	growing "very, very fast," with Heritage as a market leader in core clusters. Proves the brand's digital relevance.			
16	4.0	Dhwanil Desai, Turtle	Ice Cream	Strategy	How will you scale ice cream from ₹100 Cr to ₹500 Cr?	Plans include 1,000-1,200 freezer additions annually, state-of-the-art new capacity for innovative SKUs, and expansion into Maharashtra/ Quick Comm. High-conviction growth pillar for FY26.	None	4.0	Clear roadmap

PATTERN FLAGS & SENTIMENT * **The Procurement Pivot:** The central theme was the end of the milk deflation cycle. Analysts were anxious about whether the 8% EBITDA margin could survive a ₹2/L cost increase. Management's posture was confident, emphasizing that (a) supply is not constrained and (b) they have held prices for 18 months, giving them ample "headroom" to raise prices and pass on costs. This concern is live but the risk appears mitigated by Heritage's core market strength. * **VAP Profitability vs. Spend:** There was friction regarding why higher VAP mix (now 28%) isn't leading to higher EBITDA guidance (>8%). Management's response—that they will "plough back" gains into marketing (now ~1% of revenue) and new markets—suggests they are prioritizing long-term business quality over immediate margin spikes. * **Analyst Sentiment Verdict:** Analysts were generally satisfied with the revenue re-acceleration (10% YoY) and the continued outperformance in VAP volumes. Skepticism remains regarding the pace of geographic expansion (Bengal/Bihar) and the timing of price hikes to offset RM inflation. Management's credibility remains high as they correctly called the "U-turn" in procurement early, allowing the Street to bake in normalized margins for H1FY26.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Procurement Costs | Stable/Falling (Prior Q) | "Beginning of a U-turn" | Shift from deflationary tailwind to inflationary headwind (₹1.5-2/L). | Medium - Temporary margin lag. | | EBITDA Margin | Potential for expansion (Street view) | Capped at 7-8% | Mgmt explicitly rejected guidance above 8%, citing reinvestment needs. | Low - Keeps expectations grounded. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2FY25)	This Quarter (Q3FY25)	Direction
Revenue Growth	4.2% YoY (Muted by bulk fat)	10% YoY (Core re-acceleration)	↑
Procurement Cycle	Deflationary (-₹2.94/L YoY)	Transitioning to Inflationary (U-turn)	↓ (Cost risk)
VAP Revenue	₹298 Cr	₹287.4 Cr (Seasonal dip)	↓ (Seasonal)
Quick Commerce	Not quantified	6.5-7.0% of Revenue	↑ (New lever)
Marketing Spend	Not specified	0.95% of Revenue (Up 35 bps YoY)	↓ (Margin drag)
Nutrivet PAT	₹4.0 Cr (H1)	₹5.6 Cr (PBT this quarter)	↑
Fat Sales	₹26 Cr (Strategic low)	₹54.66 Cr (Seasonal liquidation)	→

STOP HERE.