

## Heritage Foods Ltd — Jan 2026 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

**Result:** Miss on Margins / Inline on Revenue / Weak on Procurement **One-line:** The long-term VAP-led thesis faces a structural "climate-stress" test as a failed flush season and 9% procurement drop forced expensive open-market fat purchases, temporarily breaking the operating leverage story.

| Dimension                             | This Quarter             | Signal / Evidence                                                                                                          | Sentiment |
|---------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------|
| Beat/Miss vs Guidance / Prior Quarter | Miss on Adjusted Margins | EBITDA margin of 5.6% vs 6.1% (Norm.) in Q2 and 7-9% target range.                                                         | ☐         |
| Earnings Quality                      | Moderate                 | Impacted by ₹2.78 Cr one-time labor code provision; margins hit by lack of internal "fat" surplus.                         | ☐         |
| Guidance Confidence                   | Neutral                  | Mgmt maintains "targeted range" of 7-9% EBITDA but admits the recovery timeline is now dependent on a "mini-flush" in May. | ☐         |
| Management Credibility                | Strong                   | Transparent about being surprised by the "failed flush" and the 9% drop in milk collection.                                | ☐         |
| Business Quality Signal               | Stable                   | VAP revenue contribution hit a record 38%, proving brand pull despite supply-side shocks.                                  | ☐         |
| Key Q&A Exchange                      | Q#1 (Flush Failure)      | Mgmt admitted excess rainfall caused animal stress and lower productivity across 9 states.                                 | ☐         |
| The Street's Primary Anxiety          | Margin Floor             | Analysts pressed on when milk costs will peak; Mgmt expects hardening for 30-45 more days.                                 | ☐         |
| Capital Cycle Stage                   | Investment               | Ice Cream and Flavored Milk plants commissioning in Q4 FY26; entering high-growth phase.                                   | ☐         |
| Margin / Return Ratio Trajectory      | Deteriorating            | Sequential margin compression (5.6% vs 6.1% prior) due to RM inflation (+9%) outpacing price hikes (+4.9%).                | ☐         |
| Pricing Power                         | Stable                   | Successfully passed on ₹2.67/L hike in milk and 15% in ghee, but didn't fully cover the RM surge.                          | ☐         |
| FCF Conversion & Quality              | Not in document          | Cash flow statement not detailed in transcript.                                                                            | ☐         |
| Competitive Moat Signals              | Widening                 | VAP revenue grew 22.6% YoY, significantly outperforming core milk volume growth of 2.1%.                                   | ☐         |
| Balance Sheet Strength                | Adequate                 | Funding ₹500-600 Cr revenue-potential ice cream plant via internal accruals.                                               | ☐         |
| Working Capital Efficiency            | Under Pressure           | Forced to buy "bulk butter at elevated market prices" due to internal shortages.                                           | ☐         |
| Mgmt Guidance Track Record            | Mixed                    | Failed to deliver the "margin normalization" promised in Q2 due to weather vagaries.                                       | ☐         |
| Key Vulnerability / Red Flag          | Climate Dependency       | 20-25% excess rainfall led to a "double whammy" of lower collection and lower demand for curd/drinks.                      | ☐         |
| Management Tone                       | Resilient/Cautious       | Defensive on short-term costs but aggressive on Q4 summer preparation.                                                     | ☐         |

**Key Takeaways (Positives & Negatives):** \* **Positives:** The premiumization strategy is accelerating; Value-Added Products (VAP) now contribute 38% of revenue (vs 33.8% YoY). Ice cream volumes grew 21% YoY, and Paneer grew 30%, showing strong brand resonance heading into the summer. The Hyderabad ice cream plant (₹500-600 Cr revenue potential) is on track for Q4 commissioning. \* **Negatives:** Milk procurement volumes collapsed by 9% YoY (averaging 16.73 LLPD), a stark reversal from the historical 9-10% growth. Raw milk costs rose 9% YoY, but selling prices only rose 4.9%, leading to significant gross margin compression. Marketing spend remains high (1.8% of revenue), which is currently dilutive given the lack of operating leverage. \* **Street Concern:** Analysts are focused on "Opex Bloat." Management's defense is that logistics and marketing are "assets" for the summer surge. \* **Forward Watchpoint:** The "Cow Flush" (mini-flush) in May 2026 is now the critical pivot point for margin recovery.

## 2. BUSINESS PERFORMANCE

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

| Metric                  | Current Qtr (Q3 FY26) | YoY Change | QoQ Change | Trend | Mgmt Commentary                                       |
|-------------------------|-----------------------|------------|------------|-------|-------------------------------------------------------|
| Revenue (₹Cr)           | ₹1,119.2              | ↑ 8.0%     | ↑ 0.6%     | □     | 3rd consecutive qtr above ₹1,100 Cr.                  |
| Gross Margin (%)        | Not in document       | ↓          | ↓          | □     | RM cost (+9%) outpaced price pass-through (+4.9%).    |
| EBITDA (₹Cr)            | ₹62.9                 | Not stated | ↓ 18.5%    | □     | Margin hit by butter shortages and procurement spike. |
| EBITDA Margin %         | 5.62%                 | ↓ 120 bps* | ↓ 48 bps   | □     | Below the 7-9% target range.                          |
| PAT (₹Cr)               | ₹34.6                 | Not stated | ↓ 32.2%    | □     | Impacted by higher costs and labor provision.         |
| ROCE (%)                | Not in document       | -          | -          | □     | Not shared in transcript.                             |
| Milk Sales (LLPD)       | 11.94                 | ↑ 2.1%     | ↓ 1.3%     | □     | Demand resilient despite price hikes.                 |
| Milk Realization (₹/L)  | ₹57.31                | ↑ 4.9%     | ↑ 0.5%     | □     | Reflects pricing discipline.                          |
| Procurement (LLPD)      | 16.73                 | ↓ 9.0%     | ↑ 3.9%     | □     | Supply shortage due to excess rain and animal stress. |
| Procurement Price (₹/L) | ₹45.57                | ↑ 9.0%     | ↑ 4.2%*    | □     | Weighted average (Dec exit was higher at ₹46.01).     |
| VAP Revenue (₹Cr)       | ₹425.3*               | ↑ 22.6%    | ↑ 2.9%*    | □     | Contribution rose to 38% of total revenue.            |
| Ad Spend % of Rev       | 1.8%                  | ↑ 60 bps   | →          | □     | Strategic investment ahead of summer.                 |

\*Calculated based on management's percentage growth and base figures from prior transcript.

### 2B. SEGMENT BREAKDOWN

| Segment     | Revenue (₹ Cr) | YoY Growth  | Margin    | Trend | vs Co. Avg | Key Development                                               |
|-------------|----------------|-------------|-----------|-------|------------|---------------------------------------------------------------|
| Liquid Milk | ~₹694.0        | 4.9% (Rev)  | Moderate  | ↓     | Below      | Realization up to ₹57.31; Volume growth slow (2.1%).          |
| VAP (Core)  | ₹425.3         | 22.6%       | High      | ↓     | Above      | 38% of sales; Curd grew 10%, Ice Cream 21%, Paneer 30%.       |
| Fat/Ghee    | Not in doc     | 15% (Price) | Stressed  | ↓     | Below      | Forced to buy market butter at high prices in Nov.            |
| Bulk Fat    | ~₹0.1          | ↓ 99.9%     | Negative  | ↓     | Below      | Wiped out due to internal milk shortages.                     |
| Nutrivet    | Not in doc     | Not stated  | Improving | ↑     | Inline     | Focus on increasing farmer milk productivity (7L to 10L/day). |

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category     | Management Target / Claim                                  | Required Run-Rate / Mathematical Feasibility                                 | Historical Delivery        | Risk Flag |
|-----------|--------------|------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------|-----------|
| Guidance  | Margins      | 7% to 9% EBITDA range.                                     | Needs ~11% EBITDA in Q4 to hit 7.5% FY avg; unlikely given Jan price trends. | Missed (currently 5.6%).   | High      |
| Guidance  | VAP Growth   | 20% to 22% target.                                         | Currently 22.6% (Revenue) - on track for premiumization target.              | Delivered.                 | Low       |
| Guidance  | Procurement  | "Mini-flush" to ease prices in May.                        | Dependent on South India weather patterns.                                   | Mixed (Weather sensitive). | High      |
| Strategy  | Capex        | Commissioning Ice Cream & Flavored Milk plants in Q4 FY26. | Trial production currently underway for Ice Cream.                           | On Track.                  | Low       |
| Strategy  | Distribution | Expanding digital tracking and routing efficiency.         | Ongoing initiatives to mitigate logistics costs (2.9% of Rev).               | Delivered.                 | Medium    |
| Strategy  | Product Mix  | De-seasonalize via high-protein/probiotic curd and paneer. | Curd volumes reached record 400 tonnes in Q3 (non-peak).                     | Improving.                 | Medium    |
| Macro     | RM Costs     | Prices to harden for 45 days, then ease.                   | Jan weighted avg likely >₹46.50 based on commentary.                         | Volatile.                  | High      |

## 4. ANALYST Q&A

---

| Q# | Relevance | Analyst / Firm          | Theme Cluster | Category          | Underlying Concern                                                                                                | Management Response & Investment Implication                                                                                                                                                                                                                                                      | Evaded / Not Addressed     | Credibility | Verdict      |
|----|-----------|-------------------------|---------------|-------------------|-------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------|--------------|
| 1  | 5.0       | Sameer Gupta, IIFL      | Supply Chain  | Business Overview | "Till last quarter, we were expecting a normal flush, but you've seen milk prices rise... what resulted in this?" | Management clarified that 20-25% excess rainfall caused animal stress and lower productivity, leading to a "failed flush" where supply only grew 60k liters vs 200k liters last year. This highlights a critical climate vulnerability where seasonal margin cushions are becoming unpredictable. | None                       | 5.0         | High Clarity |
| 2  | 4.5       | Sameer Gupta, IIFL      | Margins       | Financials        | "9 months is 6.3% for consol. Would you still reiterate this 7-9% margin guidance?"                               | Management clarified that 7-9% is a "targeted range" and not a strict guidance, admitting they need to improve business performance by 1% to reach the floor. Investors should reset expectations to the lower end of the band for FY26.                                                          | Guidance vs. Target nuance | 3.5         | Deflected    |
| 3  | 4.0       | Saumil Mehta, Kotak AMC | Pricing       | Financials        | "What were the exit prices [of milk]... and any price                                                             | Management noted that weighted avg procurement price reached                                                                                                                                                                                                                                      | Jan specific hikes         | 4.0         | Directional  |

| Q# | Relevance | Analyst / Firm          | Theme Cluster | Category             | Underlying Concern                                                                                                        | Management Response & Investment Implication                                                                                                                                                                           | Evaded / Not Addressed | Credibility | Verdict          |
|----|-----------|-------------------------|---------------|----------------------|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|------------------|
|    |           |                         |               |                      | hikes we have taken in liquid sales?"                                                                                     | ₹46.01 in Dec and will likely harden further for 30-45 days. This implies Q4 margins will remain under pressure until the "mini-flush" begins in May.                                                                  |                        |             |                  |
| 4  | 4.5       | Rehan Saiyyed, Trinetra | Capex         | Capex and Allocation | "What peak capacity utilization should we assume [for the ice cream plant]... and how margin accretive is it?"            | Management expects 40-45% utilization in Year 1, noting that while gross margins are high, depreciation will take 1-2 years to normalize the net profit. This plant is the primary catalyst for FY27 margin expansion. | Exact EBITDA margin %  | 3.5         | Timeline given   |
| 5  | 4.0       | Rehan Saiyyed, Trinetra | Strategy      | Business Overview    | "Organized dairy penetration is expected to rise from 40% to 60%... how is Heritage targeting its core southern markets?" | Management is focusing on the 75% unorganized curd market in Andhra Pradesh and expanding retail distribution points with cold chains. Success here is the "volume" lever needed to offset fixed cost growth.          | None                   | 4.0         | Specific targets |
| 6  | 4.0       | Pradyam Chaudhry,       | Margins       | Financials           | "Why do we feel that the margins                                                                                          | Management is banking on the "weighted                                                                                                                                                                                 | None                   | 3.5         | Seasonal logic   |

| Q# | Relevance | Analyst / Firm                 | Theme Cluster | Category   | Underlying Concern                                                                           | Management Response & Investment Implication                                                                                                                                                                                                                     | Evaded / Not Addressed    | Credibility | Verdict           |
|----|-----------|--------------------------------|---------------|------------|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|-------------------|
|    |           | JM Financial                   |               |            | have bottomed out [given procurement is rising]?"                                            | average" benefit of high-margin summer products (curd, ice cream) contributing more in Q4 to offset RM costs. This is a seasonal bet; if summer is soft, the margin "bottom" may shift to Q1.                                                                    |                           |             |                   |
| 7  | 4.5       | Pradyam Chaudhry, JM Financial | Opex          | Financials | "Your other expense... grows at 20% YoY... how are we addressing this?"                      | Management explained that marketing spend rose from 1.2% to 1.8% of revenue to capture summer trials, and logistics costs rose by 20 bps. This structural cost increase requires 10-11% volume growth to trigger operating leverage, which is currently missing. | Structural vs. Temp split | 3.0         | Structural debate |
| 8  | 3.5       | Pratik Kothari, Unique PMS     | Fat Losses    | Financials | "How is our brand developing [in consumer fat]... and the fat loss number for this quarter?" | Ghee revenues grew 69%, but because the company had to buy market butter at record prices, the segment still                                                                                                                                                     | None                      | 4.5         | Honest on losses  |

| Q# | Relevance | Analyst / Firm          | Theme Cluster | Category          | Underlying Concern                                                                          | Management Response & Investment Implication                                                                                                                                                         | Evaded / Not Addressed | Credibility | Verdict           |
|----|-----------|-------------------------|---------------|-------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|-------------------|
|    |           |                         |               |                   |                                                                                             | lost ₹10.15 Cr. The brand is winning, but the supply chain is not yet vertically integrated enough to protect margins.                                                                               |                        |             |                   |
| 9  | 4.0       | Resham Mehta, GreenEdge | Procurement   | Business Overview | "Have we already lost out on some sales revenues because we were not able to procure milk?" | Management denied lost sales, stating they prioritized procurement for liquid milk/ VAP but sacrificed the bulk commodity business. This confirms a strategic "VAP-first" allocation of scarce milk. | None                   | 5.0         | Clear and logical |

**PATTERN FLAGS & SENTIMENT \* The "Operating Leverage" Friction:** Analysts are increasingly skeptical of the "Opex > Revenue" growth trend. Management continues to classify marketing (1.8% of Rev) and logistics (2.9%) as investments for future volume. This remains an unresolved tension—until volume growth hits double-digits (currently 2.1% in milk), the margin story is stalled. \* **Climate Sensitivity as the New Normal:** The "Failed Flush" was the dominant theme. Management appeared surprised by the severity, blaming excess rain for both lower supply (animal stress) and lower demand (curd/drinks). This adds a layer of volatility to the long-term thesis that was previously seen as more "predictable." \* **Analyst Sentiment Verdict: Cautiously Skeptical (3.0/5).** Analysts were frustrated by the margin miss and the reliance on weather-dependent "mini-flushes" for recovery. Management's credibility on the 7-9% target is being tested, though their transparency about procurement struggles and VAP brand strength (30% Paneer growth) provides some comfort. The primary risk is structural opex growth becoming permanent before the "summer volume" arrives.

#### **GUIDANCE GAPS REVEALED IN Q&A**



| Topic            | What Mgmt Claimed (Prior Q)             | What Q&A Revealed                        | Gap / Walk-back                                              | Risk to Thesis           |
|------------------|-----------------------------------------|------------------------------------------|--------------------------------------------------------------|--------------------------|
| EBITDA Margin    | "Margins will progressively normalize." | Q3 margin dropped to 5.6%.               | "Normalization" delayed due to failed flush season.          | High - Delays re-rating. |
| Milk Procurement | Historical 9-10% growth.                | Actual 9% decline in Q3.                 | External "climate" shock significantly larger than expected. | Medium - Supply risk.    |
| RM Pricing       | Expected easing in flush season.        | Prices ending Dec were highest (£46.01). | Flush season completely failed to lower prices.              | High - Cost overhang.    |

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed                   | Prior Quarter (Q2 FY26) | This Quarter (Q3 FY26)          | Direction                      |
|--------------------------------|-------------------------|---------------------------------|--------------------------------|
| <b>Milk Procurement Growth</b> | ~0% (Flat)              | -9.0% (Decline)                 | ↓ Significant supply shock     |
| <b>VAP Revenue Mix</b>         | 33.8%                   | 38.0%                           | ↑ Strategy working             |
| <b>EBITDA Margin</b>           | 6.1% (Norm.)            | 5.6%                            | ↓ Deteriorating                |
| <b>Marketing Intensity</b>     | 1.2% of Revenue         | 1.8% of Revenue                 | ↓ Structural Opex pressure     |
| <b>Bulk Fat Strategy</b>       | Nominal activity        | 99.9% De-growth                 | ↓ Wiped out by supply shortage |
| <b>Ghee Price Trend</b>        | Rising                  | Hardening (+£106/L realization) | ↑ High pricing power           |
| <b>Milk Realization</b>        | £56.4 / Litre           | £57.31 / Litre                  | ↑ Pass-through ability         |
| <b>Thesis Status</b>           | On Track                | Stress-tested                   | ☐ Neutral                      |

**Trajectory Signal:** Heritage is winning the "Brand Battle" (VAP at 38%) but losing the "Commodity War" (Procurement down 9%). The thesis is transitioning from a steady compounder to a weather-sensitive volume play. Re-rating is unlikely until the high opex base is absorbed by the summer volume surge.

STOP HERE.