

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat **One-line:** Heritage delivered its first-ever ₹1,000 Cr+ revenue quarter with a massive margin beat driven by a cyclical collapse in procurement costs, though the structural shift toward Value-Added Products (VAP) is the real long-term thesis driver.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA margins (9.08%) significantly exceeded the long-term 7-8% guidance corridor.	☐
Earnings Quality	High (Core driven)	Performance driven by core gross margin expansion and VAP growth; fat losses were minimal (₹6.4 Cr).	☐
Guidance Confidence	Neutral	Management maintains a 7-8% margin target despite the 9% print, suggesting they view current spreads as transitory.	☐
Management Credibility	Strong	High transparency regarding procurement price benefits and clear articulation of operational efficiency gains (₹0.50/L).	☐
Business Quality Signal	Improving	VAP contribution reached an all-time high of 41.5%, shifting the business away from the volatile liquid milk commodity cycle.	☐
Key Q&A Exchange	Q#3 Margin Peak	Management admitted current 9% margins include a "slight advantage" from milk prices and they prioritize the 7-8% corridor.	☐
The Street's Primary Anxiety	Margin Sustainability	Analysts repeatedly questioned if 9% is the new base; management steered back to a conservative 7-8% sustainable range.	☐
Capital Cycle Stage	Harvesting / Optimization	Focus on replacement Capex for automation and logistics efficiency (₹0.50/L opex reduction).	☐
Margin / Return Ratio Trajectory	Improving	Gross margins expanded as procurement prices fell 7.75% YoY while selling prices remained stable (+0.40%).	☐
Pricing Power	Stable	Successfully held prices in Hyderabad/Telangana despite local competitors cutting prices during the flush surplus.	☐
FCF Conversion & Quality	Strong	PAT growth of 249% YoY on a 12% revenue increase indicates high operating leverage and cash generation.	☐
Competitive Moat Signals	Stable	Procurement network (10,000 villages) and "no milk holiday" policy for 32 years sustains farmer loyalty against cooperatives.	☐
Balance Sheet Strength	Strong	Significant reduction in interest costs and healthy working capital management.	☐
Working Capital Efficiency	Stable	SMP inventory (₹117 Cr) is strategic to cover needs until the next flush season (Nov/Dec).	☐
Mgmt Guidance Track Record	Reliable	Consistently delivering on the VAP mix expansion toward the 40% target.	☐
Key Vulnerability / Red Flag	Revenue Run-rate	17-18% FY25 revenue growth target requires a ~20% run-rate for the rest of the year vs 12% in Q1.	☐
Management Tone	Confident & Prudent	Balanced excitement about record revenue with caution regarding procurement price volatility and competitive intensity.	☐

Key Takeaways (Positives & Negatives): * **Positives:** Heritage achieved a milestone ₹1,033 Cr revenue, with EBITDA margins surging to 9.08% due to a ₹3.47/liter drop in procurement costs. The Value-Added Product (VAP) portfolio is scaling rapidly, growing 20% YoY and now contributing 41.5% to revenue. Operational efficiencies in logistics and automation contributed a ₹0.50/liter cost reduction, showcasing execution beyond just raw material tailwinds. * **Negatives:** Despite the record quarter, the 17-18% full-year revenue growth target looks ambitious given the 12% Q1 growth, implying significant acceleration is needed in Q2-Q4. Management views current margin levels as transitory, sticking to a 7-8% long-term target, which may disappoint investors looking for a permanent re-rating. * **Street Concern:** The primary friction point was whether Heritage would pass on procurement benefits to consumers/farmers or retain them. Management's response suggests they will hold prices unless competition forces a move, prioritizing brand equity and farmer stability. * **Forward Watchpoint:**

Monitor the "flush season" (Oct-Dec) procurement prices and the entry into 1,500 new villages to see if the 17-18% revenue growth target remains feasible without aggressive discounting.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	1,033	↑ 12%	First entry	↑	Crossed ₹1,000 Cr quarterly milestone for the first time.
Gross Margin (Implied)	Not Stated	↑	First entry	↑	Driven by 7.75% YoY decline in procurement prices.
EBITDA (₹Cr)	94	↑ 133%	First entry	↑	Strong operating leverage from VAP growth and lower RM.
EBITDA Margin %	9.08%	↑ 472 bps	First entry	↑	Benefit of lower milk prices and higher VAP mix (41.5%).
PAT (₹Cr)	58	↑ 249%	First entry	↑	Surge in profitability; margins at 5.66%.
Milk Volume (Mn LPD)	1.13	↑ 4.26%	First entry	↑	Growth driven by volume expansion; ASP was flat (+0.4%).
Procurement Vol (Mn LPD)	1.62	↑ 6.66%	First entry	↑	Healthy milk availability; stable production period.
Procurement Price (₹/L)	41.31	↓ 7.75%	↑ 0.6%	↑	Down ₹3.47/L YoY; increased slightly (₹0.24) vs Q4 FY24.
VAP Revenue (₹Cr)	423	↑ 20%	First entry	↑	VAP share rose to 41.5% from 38.6% YoY.
SMP Inventory (₹Cr)	117	First entry	First entry	→	4,586 tons held; covers requirements until Dec 2024.
Cash Flow (OCF)	Not Stated	First entry	First entry	—	Not explicitly quantified in concall.
Net Debt / (Cash)	Not Stated	First entry	First entry	—	Management noted reduction in interest costs.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Value Added Products	423	20%	High	↑	Above	Contribution increased to 41.5%.
Liquid Milk	~610	Mid-single	Lower	→	Below	Volume growth of 4.26%.
Heritage Nutrivet	42	29%	Improving	↑	Below	PAT grew 363% to ₹3 Cr.
Novandie JV (Yogurt)	Not Stated	Strong	Negative	↑	Below	Reduced losses to ₹3.11 Cr (vs ₹3.34 Cr).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	17-18% YoY growth for FY25.	Needs ~19.5% growth for Q2-Q4 to hit 17.5% avg; current 12.1% is a slow start.	First entry	High
Guidance	Margins	Maintain 7-8% EBITDA margin corridor.	Currently at 9.08%; provides a 100-200 bps buffer for the rest of FY25.	First entry	Low
Guidance	VAP Mix	Reach 40% VAP share (excl. fat) in 2 years.	Currently at 37.5% (excl. fat); needs ~125 bps improvement per year.	First entry	Low
Guidance	Volume	Mid-to-high single-digit milk volume growth.	4.26% in Q1; slightly below "high single-digit" target.	First entry	Medium
Strategy	Efficiency	Reduce operating costs via automation.	Reduced opex by ₹0.50/L in FY24; aiming for similar reductions in FY25.	Delivered	Low
Macro	Milk Prices	Expect stability in procurement prices.	Depends on monsoon and fodder crop; current SMP stocks provide a hedge.	First entry	Medium
Balance	Debt	Zero/Low debt target.	CFO confirmed interest cost reduction; focus on internal accruals for Capex.	Delivered	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.5	Abneesh Roy, Nuvama	Milk Prices	Outlook	What is the expectation on milk prices and price cuts taken?	Management expects price stability with region-wise fluctuations and reported a ₹0.47/L drop in procurement cost vs Q4. This implies gross margin expansion is likely to persist in Q2, supporting the elevated EBITDA levels.	None	4.0	Directional with data
2	4.0	Abneesh Roy, Nuvama	Competition	Strategy	How is competitive intensity from unorganized players changing?	Management noted rapid consolidation where consumers prefer high-quality brands and Heritage is winning on procurement through farmer trust. This signals a widening moat for branded players as unorganized vendors lose grip on supply chains.	None	4.5	Strategic clarity
3	5.0	Sameer Gupta, IIFL	Pricing	Financials	Have we taken price hikes following Amul/Mother Dairy in the North?	Management followed hikes in the North to offset farmer price increases but kept Southern prices stable due to sufficient milk availability (₹3.5/L lower RM YoY). This selective pricing strategy protects margins in the South while maintaining	None	5.0	Specific & Quantified

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						competitive parity in the North.			
4	5.0	Sameer Gupta, IIFL	Margins	Financials	Is the 9% EBITDA margin the peak, and where will it settle for the year?	Management clarified that while Q1 had a "slight advantage" from lower milk prices, they aim to stay within the 7-8% EBITDA corridor for the full year. This sets a conservative expectation for investors, suggesting potential margin normalization as marketing spend or RM costs rise.	None	4.0	Prudent guidance
5	4.5	Aniruddha Joshi, ICICI	Ice Cream	Business Overview	How was the ice cream season and Novandie's performance?	Ice cream revenue grew ~20% (volumes +18-19%) despite late-quarter rains in the South, while Novandie reduced losses through better channel penetration. Strong seasonal performance validates the premiumization strategy through brand Alpenvie.	None	4.5	Quantified data
6	4.0	Aniruddha Joshi, ICICI	Subsidies	Management	Clarification on subsidies in Karnataka, AP, and Maharashtra.	Karnataka has a ₹6/L subsidy, Telangana ₹4/L, and Maharashtra recently announced ₹5/L (subject to companies paying ₹30/L). Subsidies help maintain farmer	None	5.0	Factual/ Verified

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						interest and milk production levels, reducing the risk of a sharp supply shortage in FY26.			
7	4.0	Vandit Dharamshi, Alpha	Pricing	Strategy	Competitors cut prices in Hyderabad; why did Heritage not follow?	Heritage sustained prices for 45 days with no loss in market share, citing brand loyalty and superior product quality. This demonstrates significant pricing power and brand strength in core markets.	None	4.0	Confident tone
8	4.5	Vandit Dharamshi, Alpha	Inventory	Financials	What is the SMP inventory situation for Heritage and the industry?	Heritage holds 4,586 tons of SMP (₹117 Cr), which covers requirements until the next flush cycle (Nov/ Dec). This inventory acts as a margin buffer if milk prices spike before the winter flush.	None	5.0	Highly Specific
9	4.0	Rishabh Gang	Branding	Business Overview	How does Heritage differentiate its brand and what is the marketing spend?	Branding is based on freshness (18 local factories) and farmer transparency, with marketing spend currently at 0.9% of revenue. Low ad-spend indicates growth is currently driven more by distribution and product quality than expensive media buys.	None	4.0	Consistent

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
10	4.5	Vicky Punjabi, UTI	Efficiency	Capex	How much more "juice" is left in operational efficiency and cost levers?	Management identified further scope in VAP mix (target 40% vs current 30% baseline) and logistics (liters per km) and automation. Continued focus on opex (which fell ₹0.50/L last year) suggests the 7-8% margin floor is increasingly robust.	None	4.0	Directional evidence
11	4.5	Ankit, Adhesive	Guidance	Outlook	What is the 3-year growth and margin profile?	Management aims for 17-18% revenue growth (12-13% volume, 5-6% price/mix) with sustainable 7-8% EBITDA margins. The high volume target implies aggressive market share gains from the unorganized sector.	None	3.5	Ambitious target
12	4.0	Pradeep (Retail)	Ghee	Business Overview	What is the differentiation in ghee vs competitors like ITC?	Heritage ghee is made directly from milk (not cream/butter), focused on regional granularity and consistency preferences. Highlighting "milk-to-ghee" process indicates a purity play that resonates with health-conscious consumers.	None	4.0	Qualitative color

PATTERN FLAGS & SENTIMENT

- **Margin Peak Anxiety:** A dominant theme was whether the 9% EBITDA margin is sustainable. Management was notably defensive about staying in the 7-8% range, likely to prevent over-inflating Street expectations. They view the current spread as a "cyclical gift" rather than a permanent structural shift.
- **Competitive Pricing Resilience:** Analysts were concerned about price wars in Hyderabad/Telangana. Management's posture was extremely confident, asserting that Heritage's brand equity allows them to maintain prices even when competitors (cooperatives/local private players) discount. This suggests the moat in the South is deepening.
- **Revenue Growth Gap:** While profitability was praised, the gap between Q1's 12% growth and the 17-18% FY guidance was a quiet undercurrent. Management remains confident, banking on 1,500 new villages and VAP acceleration, but this remains a live "wait-and-watch" issue for the next quarter.

Analyst Sentiment Verdict: The overall analyst sentiment was highly positive regarding the margin beat and VAP trajectory, though tempered by skepticism regarding the feasibility of the 17-18% revenue growth target. Management's credibility improved due to their conservative margin stance (7-8% target despite 9% achievement) and specific data on operational cost savings. The greatest unresolved risk is the aggressive volume growth required in Q2-Q4 to hit annual targets.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Revenue Growth	Aiming for 17-18% growth.	Q1 growth was 12% (mostly volume).	Needs ~20% growth for the rest of FY25 to meet the target.	High risk of a topline miss if expansion into new villages is slower than planned.
Margin Base	EBITDA at 9.08%.	Target remains 7-8% corridor.	Implies a 100-200 bps contraction expected in future quarters as costs normalize.	Low risk; provides a cushion for earnings.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Quarterly Revenue	Not in document	₹1,033 Cr	↑ (Record high)
EBITDA Margin	Not in document	9.08%	↑ (Expansion)
VAP Share	38.6% (Q1FY24)	41.5%	↑ (Structural shift)
Procurement Costs	Not in document	₹41.31/L (↓ 7.75% YoY)	↓ (Margin tailwind)
VAP Definition	Not in document	Incl. consumer fat	→ (Clarified ex-fat at 37.5%)
Nutrivet Profitability	Not in document	₹3 Cr (↑ 363% YoY)	↑ (Improving subsidiary)
Geographic Focus	South/North	Entry into Odisha	↑ (Expansion)

STOP HERE.