Heritage Foods Ltd — Jul 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Revenue / Miss on Margins **One-line:** The long-term thesis remains intact despite a margin soft-patch caused by a "once-in-a-decade" unseasonably cool summer; the fundamental shift toward Value-Added Products (VAP) is holding, evidenced by June's rapid volume recovery.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss on Margins	EBITDA margin of 6.5% vs. 8.0% in Q4 FY25; weather-led VAP mix shift.	□
Earnings Quality	High (Core driven)	Performance reflects core operations; no significant one-offs; marketing investments front-loaded.	□
Guidance Confidence	Strong	Reiteration of mid-teen revenue growth and 20% VAP growth targets despite Q1 weather.	□
Management Credibility	Strong	Transparent about weather impacts; provided granular data (temp/rainfall) to explain performance.	□
Business Quality Signal	Improving	June recovery (+15.1% revenue) proves demand is resilient; Novandie integration progressing.	□
Key Q&A Exchange	Q#3 Weather Impact	Management detailed a 3.5-degree temp drop and 3x rainfall vs last year as the primary margin culprit.	□
The Street's Primary Anxiety	Margin Volatility	Fear that milk inflation is returning; Mgmt clarified 4.7% YoY RM rise is normal/manageable.	□
Capital Cycle Stage	Investment	Commissioning greenfield ice cream facility (CY25 end) and "Livo" yogurt brand ramp-up.	□
Margin / Return Ratio Trajectory	Temporary Dip	Structural margin expansion (VAP) is intact but masked by seasonal loss of high-margin drinkables.	□
Pricing Power	Stable	Premium pricing vs cooperatives maintained; deliberate decision to hold prices in Q1 to drive volumes.	□
FCF Conversion & Quality	Not stated	CFO data not fully detailed in transcript; working capital remains efficient at 19 days.	□
Competitive Moat Signals	Widening	19% consumer loyalty (highest in South); milk procurement up 10% YoY, outperforming peers.	□
Balance Sheet Strength	Strong	Funding □220 Cr ice cream capex and Novandie buyout without leverage stress.	□
Working Capital Efficiency	Stable	WC cycle at 19 days vs 20 days YoY; indicates high operational hygiene.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting double-digit revenue growth; 3rd consecutive quarter of mid-teen momentum.	□
Key Vulnerability / Red Flag	Climate Sensitivity	Significant P&L volatility tied to "erratic summer" emphasizes the need for further de-seasonalization.	□
Management Tone	Confident & Resilient	Defensive on short-term numbers but aggressive on the June bounce-back and Vision 2030.	□

Key Takeaways (Positives & Negatives): * **Positives:** Heritage delivered its highest-ever quarterly revenue (□1,136.8 Cr) despite severe weather headwinds. The milk procurement network is expanding aggressively (+10% YoY volume), ensuring supply security. The rebranding of the Novandie JV into the "Livo" sub-brand allows Heritage to fully integrate high-protein yogurts into its existing cold chain, eliminating the need for a separate logistics arm. June’s 15.1% revenue bounce-back suggests the Q1 margin hit was a transient seasonal event, not a structural decline. * **Negatives:** EBITDA margins compressed 150 bps QoQ (6.5% vs 8.0%) as high-margin categories like curd and ice cream missed their peak season targets. Marketing spend surged by □7 Cr (front-loaded campaigns), further weighing on the bottom line. Bulk fat losses of □8.5 Cr remain a minor but persistent drag on P&L. * **Forward Watchpoint:** The commissioning of the new greenfield ice cream plant by the end of CY25 will be the definitive test of Heritage’s ability to de-seasonalize and capture high-margin market share in the West and North.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

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

Metric	Current Qtr (Q1 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	□1,136.8	↑ 10.0%	↑ 8.4%	↑	Highest ever quarterly revenue; 3rd consecutive double-digit growth quarter.
Gross Margin (%)	Not in doc	↓	↓	↓	Compressed due to lower VAP mix (soft curd/drinkables sales in April/May).
EBITDA (□Cr)	□73.9	↓ 1.1%*	↓ 11.9%*	↓	Impacted by □7 Cr higher marketing spend and lower VAP operating leverage.
EBITDA Margin %	6.5%	↓ 74 bps	↓ 150 bps	↓	Seasonality and product mix shift; June recovery shows normalization.
PAT (□Cr)	□40.5	↑ 14.1%	↓ 10.0%	↓	Driven by revenue scale but offset by higher opex.
ROCE (%)	Not in doc	-	-	-	Not discussed in transcript.
Working Capital (Days)	19 Days	↓ 1 Day	→	↑	Improved from 20 days YoY; target to keep below 20 days.
Milk Procurement (LPD)	17.8 Lakh	↑ 10.0%	↑ 3.5%	↑	Robust supply despite lean season; 300,000+ farmers.
Milk Sales (LPD)	11.6 Lakh	↑ 2.8%	→	→	Volume growth muted; realization up to □56.4/L.
VAP % of Revenue	39.9% (Consol)	↑ 400 bps	↑ 210 bps	↑	Includes Ghee/Butter; Standalone VAP (excl. Fats) was 36.1%.
Marketing Spend (□Cr)	~□16-17 Cr*	+□7 Cr YoY	↑	↓	Deliberate investment in Curd and Milk purity campaigns.
Ad Spend % of Rev	Not in doc	↑	↑	↓	Higher due to front-loaded season campaigns.
Inventory Days	35 Days	↑	↑	↓	Higher SMP stock (6,197 MT) due to lower VAP consumption in summer.
Receivable Days	3 Days	→	→	→	Maintained high collection efficiency.

**YoY/QoQ EBITDA and PAT changes calculated based on prior context data (Q4 FY25 EBITDA ~ 83.9 Cr, PAT ~ 45 Cr).*

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Liquid Milk	□654.2*	2.8% (Vol)	Moderate	→	Below	Realization improved to □56.4/L; purity campaign launched.
VAP (Core)	□454.0	7.4%	High	↓	Above	Curd hit record 510 TPD; June growth accelerated to 11%.
Fat Products	□91.0	20%+	Low	↑	Below	Bulk fat sales of □36 Cr (620 tons); consumer packs □50 Cr.
Nutrivet (Feed)	□53.3	26.0%	Improving	↑	Inline	PBT surged 130% YoY to □6.7 Cr; driving farm-side loyalty.
Novandie (Sub)	□1.0-2.0*	-	Negative	↓	Below	Operational loss □1.31 Cr; repurposed to Livo brand in late June.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Mid-teen growth (15-16%).	Currently at 10%; needs acceleration in Q2-Q4 to hit mid-teen average.	Consistent □1,000 Cr+ run-rate.	Medium
Guidance	VAP Growth	20% YoY growth target.	Current 7.4% is a significant lag; requires >25% growth in remaining quarters.	Historically delivered 15-20%.	High
Guidance	Margins	"Percentage correction" improvement.	Implies return to 7.5-8.0% EBITDA levels in Q2/Q3.	Reliable but climate-sensitive.	Medium
Guidance	Capex Plan	Ice Cream plant end of CY25.	On track for Summer FY27 peak season.	Consistent execution.	Low
Strategy	Portfolio Diversification	Ramping up "Livo" yogurt.	Target 2 TPD (Year 1) to 10 TPD (Year 3).	New sub-brand launch.	Medium
Macro	Input Cost	Stable milk availability.	4-5% YoY inflation expected; manageable via VAP mix.	Predicted Q4 "U-turn" correctly.	Low
Macro	Weather Risk	De-seasonalization via VAP.	Requires scaling sweets/paneer/ cheese.	Muted Q1 shows ongoing vulnerability.	High

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verd
1	4.5	Sameer Gupta, IIFL	Procurement	Financials	Why are procurement prices up sequentially if the market is moderating?	Management explained that the 4.7% YoY increase is seasonal (peak lean season) and exacerbated by a deliberate choice to hold consumer prices during the erratic summer. This confirms a temporary sacrifice of margin to protect volume share.	None	4.0	Clea logic
2	4.0	Sameer Gupta, IIFL	Fat Sales	Financials	Can you quantify the bulk fat sales and losses this quarter?	Bulk fat sales were ₹36 Cr (620 tons) with a total PBT-level fat loss of ₹8.5 Cr, which improved by 6% on a per-unit basis YoY. This indicates better management of the "fat-surplus" problem that historically plagues dairy margins.	None	4.5	Spec data prov
3	5.0	Aniruddha Joshi, I-Sec	Margins	Outlook	How do you think about milk prices and margins over the next 12 months?	Management expects stable supply due to a good monsoon but warns of short-term (Aug/Sept) lean-season inflation of ₹0.50-₹1.00. Investors should monitor Q2 margins for	12-month specific pricing	3.5	Dire

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						the lag between RM hikes and VAP price realization.			
4	4.0	Aniruddha Joshi, I-Sec	Novandie	Business Overview	What happens to the Novandie brands like Mamie Yova now that you own 94%?	The business has been repurposed under the "Livo" brand (Heritage's own sub-brand) to leverage existing sales and cold-chain synergies. This move reduces external royalty/ marketing leakage and streamlines the P&L.	None	4.5	Strat clari
5	3.5	Pratik Kothari, Unique	Vision 2030	Management Commentary	What are the qualitative and quantitative goals for Vision 2030?	Goals include mid-teen revenue growth, improving farmer income, and shifting the narrative to a "branded consumer business" resembling FMCG. This signals a move away from the commodity-led valuation multiples of the past.	Specific margin numbers	3.0	Visio but v
6	4.5	Pratik Kothari, Unique	Opex	Financials	Why are "other expenses" so high this quarter?	Higher costs were driven by a □7 Cr increase in marketing (purity and curd campaigns)	None	4.0	Qua sper

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						and ₹4 Cr in freight due to higher distances and fuel rates. High marketing spend in a "failed" summer season is a sunk cost that should deliver in Q2.			
7	4.0	Shirish Pardeshi, Motilal	Novandie	Business Overview	How will you scale the Novandie business distribution-wise?	Distribution is already integrated into the Heritage sales team, eliminating the need for the independent cold-chain mechanism used for Mamie Yova. This synergy is expected to drive 2 TPD volume in the first year.	None	4.5	High syne pote
8	4.0	Resha Mehta, GreenEdge	RM Trends	Financials	What is the milk procurement trend specifically in July?	Milk supply looks good across most states, but the weighted average price remains slightly elevated due to the 20% buffalo milk component and North India operations. This implies margin pressure may linger through early Q2.	Exact July pricing	3.0	Hea resp
9	4.0		Liquid Milk	Financials			None	4.0	

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		Resha Mehta, GreenEdge			Is there still room to take price hikes in liquid milk to restore margins?	Sequential realization is up 1.4%, and management confirmed further pricing opportunities exist in liquid milk and VAP (realized in June). This validates Heritage's "price-maker" status in its core southern markets.			Prici pow conf
10	3.0	Harsh Shah, Merisis	Innovation	Business Overview	Any plans for lactose-free milk as competitors enter that space?	Management noted that fermented products (curd, buttermilk) are inherently low-lactose, but they are working on innovations for "zero lactose" propositions. This shows awareness of emerging urban dietary trends.	Specific timeline	3.0	R&D pipe activ
11	3.5	Gopinadha, PNR	Fortification	Business Overview	Are you using Vitamin D2 or D3 for fortification?	Heritage fortifies all milk variants with Vitamins A and D (absorbable) and is expanding this to flavored milk and yogurts. This supports the "nutrition-first" premiumization strategy.	D2 vs D3 distinction	3.0	Qua
12	3.5	Lakshminarayanan, Tunga	Procurement	Business Overview	How much do you procure	Management claims direct procurement	Exact direct/ indirect %	3.0	Stan resp

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verd
					directly from farmers vs. middlemen?	from farmers with fair pricing on par with regional benchmarks; middlemen/ indirect procurement was not explicitly quantified but implied to be minimal.			

PATTERN FLAGS & SENTIMENT * **Weather as a Variable:** Multiple analysts (Sameer, Pratik, Resha) pushed for clarity on why margins dipped despite revenue growth. Management's defensive posture—backed by rainfall and temperature statistics—successfully shifted the narrative from "bad management" to "bad luck," provided the June recovery holds. * **The Novandie Repurposing:** Analysts were skeptical of the subsidiary's P&L drag. Management's response regarding the "Livo" brand integration and the removal of independent logistics costs was highly confident and appears to have satisfied the concern for now. * **Analyst Sentiment Verdict:** Skeptical but reassured. The primary friction point was the margin miss (6.5% vs 8.0%), but management's transparency on June's +15% revenue growth and 11% VAP growth provided a credible "out." The greatest risk remains Q2 performance—if margins do not return to the 7.5% range, management's "weather excuse" will lose credibility.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis |
|-------|----------|----------|----------|----------| | VAP Growth | Aiming for 20% YoY. | Q1 VAP growth was only 7.4%. | Massive Q1 shortfall due to weather. | High - FY26 targets now depend on a perfect Q2-Q4. | | Milk Prices | Moderating/Stable. | Seq. realization up 1.4%; 4.7% YoY RM inflation. | Inflation is persistent, not receding. | Medium - Pressure on gross margins if pricing isn't taken. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY25)	This Quarter (Q1 FY26)	Direction
EBITDA Margin	8.0%	6.5%	↓ (Seasonal hit)
Marketing Strategy	Core Curd Focus	Added Milk Purity & Livo Yogurt Brand	↑ (Investment)
Novandie Ownership	50% JV	94.4% Controlled Subsidiary	↑ (Control)
Inventory (SMP)	4,586 Tons	6,197 Tons	↓ (Higher working cap tie-up)
VAP Growth Rate	High teens (~18-20%)	7.4%	↓ (Weather impact)
Procurement Vol	1.72 Mn LPD	1.78 Mn LPD	↑ (Supply depth)
Consumer Loyalty	Not stated	19% (Ranked #1 in South)	↑ (Brand Moat)

- **Thesis Trajectory:** The thesis of a "VAP-led margin expansion" has stalled for exactly one quarter due to weather. However, the record milk procurement and June's recovery suggest the business engine is intact.

- **Working Capital:** A slight accumulation of SMP (6,197 tons) is the primary watchpoint; if VAP sales don't accelerate in Q2, this inventory could lead to "fat losses" or bulk sales that dilute gross margins further.
- **Novandie Pivot:** The shift from the "Mamie Yova" brand to "Livo" is a pivot towards higher efficiency and lower royalty costs—a net positive for long-term P&L control.

STOP HERE.