

Heritage Foods Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat (on Margins) / Inline (on Revenue) **One-line:** Heritage has successfully navigated the cyclical "U-turn" in procurement costs flagged last quarter, delivering a 248 bps expansion in annual EBITDA margins to 8% while doubling down on its VAP-first transformation through the acquisition of the Novandie JV.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat	FY25 EBITDA margins hit 8.0%, the upper end of long-term guidance, despite a 3% rise in RM costs.	☐
Earnings Quality	High (Core driven)	Growth driven by VAP (high teens) and operational efficiencies; one-time Novandie impairment (₹8.7 Cr) is non-core.	☐
Guidance Confidence	Strong	Management reiterated the ₹6,000 Cr FY27 "ambition" and is now targeting 40% VAP mix in 2-3 years.	☐
Management Credibility	Strong	Successfully passed on RM inflation via Q4 price hikes, proving the "pricing headroom" claimed in Q3.	☐
Business Quality Signal	Improving	Consolidation of Novandie facility in Maharashtra provides a strategic hub for western expansion.	☐
Key Q&A Exchange	Q#15 Novandie Turnaround	Mgmt expects to turn around the loss-making Novandie plant in 1-2 quarters via co-packing and VAP consolidation.	☐
The Street's Primary Anxiety	Novandie P&L Drag	Fear that the subsidiary's ₹25 Cr loss will dilate margins; mgmt clarified half is a one-time impairment cost.	☐
Capital Cycle Stage	Investment	Repurposing Novandie plant for curd/VAP and ongoing ice cream capex (commissioning Q3 FY26).	☐
Margin / Return Ratio Trajectory	Improving	Structural shift to VAP + Fats (37.8% of rev in Q4) is offsetting milk price volatility.	☐
Pricing Power	Expanding	Heritage took hikes in Q4 and is selectively evaluating more after cooperatives (Amul/Mother Dairy) hiked in May.	☐
FCF Conversion & Quality	Not stated	CFO details absent in transcript; liquidity is high enough to fund Novandie buyout and capex.	☐
Competitive Moat Signals	Widening	Procurement volumes remains robust at 1.72 Mn LPD; distribution reached 180,000 outlets.	☐
Balance Sheet Strength	Strong	"Future-fit balance sheet" cited with renewable energy investments (12.14 MW) reducing opex.	☐
Working Capital Efficiency	Stable	Maintained principle of "timely payments" and "no milk holidays" for 300,000 farmers.	☐
Mgmt Guidance Track Record	Reliable	Consistent delivery on the 7-8% EBITDA corridor despite the end of the deflationary milk cycle.	☐
Key Vulnerability / Red Flag	Seasonal Volatility	"Erratic summer" (unseasonal rains) noted as a risk for high-margin drinkables/ice cream in Q1 FY26.	☐
Management Tone	Ambitious & Disciplined	Focused on "purposeful transformation" and "nutrition-first" branding over commodity volumes.	☐

Key Takeaways (Positives & Negatives): * **Positives:** Heritage has successfully transitioned to a higher margin floor, with VAP + Consumer Fats now contributing nearly 38% of revenue. The acquisition of Novandie's stake is a masterstroke for Western India, providing a ready-made yogurt/curd facility in the same premises as their mother plant, allowing for immediate overhead absorption. Procurement costs, which rose 3% in Q4, were neutralized by timely price hikes, validating Heritage's pricing power. * **Negatives:** The Novandie subsidiary brings a short-term P&L drag (₹25 Cr PBT loss in FY25, though 50% is a one-time impairment). Unseasonal rains in the South pose a threat to the "flush season" benefits and high-margin seasonal sales in Q1 FY26. * **Forward Watchpoint:** The turnaround of the Novandie plant and the ramp-up of the new ice cream capacity (Q3 FY26) will be the primary drivers for moving margins toward the double-digit mark in FY27.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

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

Metric	Current Qtr (Q4 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	₹1,048.5	↑ 10.0%	↑ 1.4%	↑	4th consecutive quarter >₹1,000 Cr; volume-led gains.
Gross Margin (%)	Not stated	↑	→	→	Benefited from VAP mix; Q4 price hikes neutralized 3% RM inflation.
EBITDA (₹Cr)	~₹83.9*	↑ 43%	↑ 13.2%	↑	Calculated from FY EBITDA (331) minus 9M actuals (247.1).
EBITDA Margin %	8.0% (FY Avg)	↑ 248 bps	↑ 80 bps	↑	Strong performance in Q4 helped annual margins hit upper end of guidance.
PAT (₹Cr)	~₹45.0*	↑ 77%	↑ 4.4%	↑	Driven by operating leverage and VAP premiumization.
VAP % of Revenue	32% (excl. Fats)	↑ 230 bps	↑ 400 bps	↑	If Fats included, Q4 mix reached 37.8% vs 34.1% YoY.
Milk Sales (Mn LPD)	1.16	↑ 4.5%	↓ 0.7%	→	Slower than VAP; target is to bring this to 7-8% growth.
Procurement (Mn LPD)	1.72	↑ 6.0%	→	↑	Consistent supply; no milk holidays despite rising fuel/fodder costs.
Milk Price Hike (₹ L)	₹1.60	N/A	N/A	↑	Taken in Q4 to offset the 3% rise in raw milk costs.
Marketing Spend (%)	Not stated	↑	→	↑	Strategy shifting toward "above-the-line" for Ghee and flavored milk (Livo).
Employee Costs (%)	14.5% (Growth)	↑	↓	↓	Growing faster than revenue (10%) due to VAP expansion; trend expected to reverse.

*Derived figures

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Liquid Milk	~₹650 Cr	4.5% (Vol)	Moderate	→	Below	Launching "Sarvaguna" (NCR) and "Sampurna" (MH) to drive local taste premiums.
VAP (Core)	~₹335 Cr	20% (Rev)	High	↑	Above	Paneer growing at 50% Vol; Curd/Lassi scaling in urban markets.
Consumer Fats	~₹60 Cr	35% (Rev)	Improving	↑	Above	Aggressive focus on Ghee and Butter to reduce commodity fat losses.
Novandie (Sub)	₹6-7 Cr	Low	Negative	↓	Well Below	Acquired 100% stake; repurposing for curd/VAP; turnaround expected in 1-2 qtrs.
Heritage Nutrivet	Not stated	15% (Rev)	Improving	↑	Inline	CEO Upendra Pandey focusing on feed efficiency and farmer source quality.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹6,000 Cr by FY27 ("Ambition").	Needs ~20% CAGR over next 2 years; current 10% indicates need for acceleration.	Delivering consistent ₹1,000 Cr+ quarters.	Medium
Guidance	Margins	Structural expansion through VAP mix.	On track as VAP mix (+ Fats) reached 37.8% this quarter.	Delivered (FY25 margin at 8% vs 5.5% FY24).	Low
Guidance	Volume / Capacity	Novandie plant utilization to >50% immediately.	Requires onboarding new co-packing partners (advanced stages of closing).	N/A - New Acquisition.	Medium
Guidance	Capex Plan	New Ice Cream plant commissioning by end of CY2025.	Targeted for Summer FY26 sales cycle.	On-track.	Low
Strategy	Portfolio	Pivot to "Nutrition-First" Food Enterprise.	Scaling protein-heavy SKUs (Paneer/Probiotic Curd) and fortified milk.	Evident in 50%+ Paneer growth.	Low
Strategy	Geographic Focus	Deepen presence in MH and NCR through regional SKUs.	Requires successful ramp-up of "Sarvaguna" and "Sampurna" milk variants.	Early success in NCR with new variants.	Medium
Macro	Input Cost	Milk prices stable "at this point in time."	Hikes by Amul/Mother Dairy provide umbrella for Heritage to take selective hikes.	Accurate call on the Q4 "U-Turn" in prices last quarter.	Low
Balance	Sustainability	Renewables to be a key enabler of resilience.	12.14 MW installed; helps offset rising power tariffs in core states.	Consistently expanding green footprint.	Low

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)	Verdict
1	4.5	Sameer Gupta, IIFL	Pricing	Financials	Have we taken further price hikes after Amul/Mother Dairy announced Q2/L hikes on May 1st?	Management stated they took hikes in Q4 and are now selectively evaluating further regional or variant-level hikes to maintain comfort. This confirms Heritage is no longer just a price-follower and has significant regional pricing power.	None	4.0	Clear and proactive
2	3.5	Sameer Gupta, IIFL	Op-Ex	Financials	Why are employee and other expenses growing faster (14.5%) than revenue (10%)?	Management admitted this is not desirable but noted the growth rate has slowed from previous quarters and revenue is expected to overtake soon. High marketing and VAP distribution costs are being front-loaded, which may cap near-term margin spikes.	None	3.5	Honest on trade-offs
3	4.0	Sameer Gupta, IIFL	RM Outlook	Outlook	Is the gross margin tailwind over now that milk prices	Management argued that growth opportunities in VAP and consumption	None	4.0	Logical shift

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					have anniversarized?	"bounce backs" (cited Unilever/ Nestle) will offset the lack of RM deflation. They are pivoting from RM-led margin expansion to mix-led expansion.			
4	3.0	Disha Giria, Ashika	Strategy	Management Outlook	Why evolve into a "nutrition-first" company instead of just geographic expansion?	The focus is on increasing the dairy share of the consumer wallet (from 8% to 12%) via protein- centric (Paneer) and fortified products. This signals a focus on value-density over pure geographic footprint.	None	3.5	Visionary focus
7	4.5	Sandy Mehta, Evaluate	Novandie	Financials	Was the ₹8.7 Cr Novandie charge a one- off and what are the revenue expectations now?	Management confirmed it was a one- time impairment and they expect a turnaround in 1-2 quarters via co- packing and VAP consolidation. Removing this drag will provide a clean operational lift to FY26 PBT.	Revenue specific numbers	4.5	Specific on one-off

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
8	4.0	Sandy Mehta, Evaluate	Margins	Financials	Can we expect EBITDA margins to reach 9-10% in the next 2 years?	CEO refused to give a specific number but stated he is "very ambitious" and margin expansion is "inevitable" due to VAP mix. Maintains the 7-8% guidance floor while hinting at upside.	Specific 10% target	3.0	Ambitiously vague
9	4.0	Sunil Kothari, Unique	Milk Growth	Business Overview	Milk sales are growing slower than VAP; what is the strategy to fix this?	Strategy involves distribution expansion into Tier 2/3 cities and launching taste-profiled variants like "Sarvaguna" and "Sampurna." Targeted milk growth is 7-8% vs current 4.5%.	None	4.0	Regional strategy
10	3.5	Sunil Kothari, Unique	Risk Factors	Outlook	Other than milk prices, what are the key risks to margin expansion?	Management identified "fat losses" as a key drag and stated that growing consumer-packed fat sales (Ghee) by 35% is the primary mitigation. This reduces reliance on low-value bulk fat markets.	None	4.5	Identified fat-drag

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
11	3.0	Raghav, Quadrun	Revenue	Outlook	How will you achieve the ₹6,000 Cr FY27 target?	Management clarified this is an "ambition," not guidance, and will be achieved in two steps across FY26 and FY27. High bar set; requires heavy execution in new categories like Ice Cream.	Specific roadmap	2.5	Ambition vs Guidance
13	4.5	Resha Mehta, GreenEdge	Risk/ Politics	Business Overview	Did political boycotts or unseasonal rains impact Q4 growth?	Management dismissed boycott rumors as "miniscule voices" with no business impact, citing their history of growth even when in political opposition. Proves brand resilience transcends regional political cycles.	None	5.0	High conviction
15	4.5	Resha Mehta, GreenEdge	Novandie	Business Overview	How will you prevent the ₹25 Cr Novandie loss from hitting consolidated margins?	The plant is on the same premises as the MH mother plant, allowing immediate overhead absorption and co- packing for players like Nestle. Turnaround expected	None	4.5	Clear synergy logic

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						within a quarter, mitigating a major investor worry.			
17	3.5	Rishi Kothari, Pi Sq	Geography	Business Overview	What is the revenue split between Hyderabad and other markets?	Management noted Telugu states are biggest, but newer markets (NCR/MH) are the fastest growing. Specific numbers were deferred to one-on-one meetings, signaling high competitive sensitivity.	Specific split	2.5	Protective of data
18	3.5	Ankur Gulati, Genuity	Strategy	Capex/ Allocation	Any thoughts on using the distribution network for non-dairy products?	Management gave a firm "No," stating they value the "opportunity loss" of focus and there is still massive untapped potential in dairy. Signals disciplined capital allocation.	None	5.0	Strong focus
20	4.0	Ankit Minocha, Adezi	Margins	Outlook	What is the impact of Amul's ₹2/L hike on our Q1/ Q2 margins?	Heritage corrected prices by 1.4% in Q4 (average impact); the full benefit of hikes and potential further hikes	None	4.0	Sequential upside

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
						will show in Q1/Q2. This suggests Q1 margins might beat Q4 if RM remains stable.			
21	4.0	Rohit, Samatva	VAP Strategy	Strategy	What are the next big VAP categories after Curd and Paneer?	Focus is shifting to Drinkables (Livo brand), Ice Creams (new capacity), and Ghee. These are higher-margin but require "judicious" marketing spend (0.8-1.0% of rev).	None	4.0	Tiered VAP approach

PATTERN FLAGS & SENTIMENT * **The Novandie Pivot:** Analysts were hyper-focused on the Novandie acquisition, fearing it would become a "value trap" given its prior losses. Management was extremely prepared, explaining the "mother plant" synergy and co-packing strategy. This transitioned from a risk to a perceived strategic asset by the end of the call. * **Pricing Power vs. Cooperatives:** The sentiment shifted from "will RM costs hurt you" (in Q3) to "how much more can you hike" (in Q4). Management's ability to take hikes *ahead* of Amul in some segments has significantly boosted analyst confidence in their brand equity. * **Analyst Sentiment Verdict:** Convincingly positive. The skepticism around political boycotts and subsidiary losses was systematically dismantled with operational logic. Analysts were particularly impressed by the 50% growth in Paneer and 35% growth in Ghee, which are seen as the "heavy lifters" for future ROE.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis |

|-----|-----|-----|-----| | Revenue Target | "₹6,000 Cr FY27 Guidance" | "It is an ambition, not guidance." | Subtle semantic shift to lower legal liability for targets. | Low - Market already treats it as an aspiration. | | Employee Costs | Efficient scaling | Costs growing at 14.5% vs 10% Revenue. | Admitted growth is currently ahead of revenue. | Medium - Execution lag in operating leverage. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY25)	This Quarter (Q4 FY25)	Direction
Novandie Status	Loss-making JV with Andros.	100% Owned Subsidiary; Repurposing hub.	↑ (Strategic Control)
EBITDA Margin	7.2%	8.0% (FY Avg)	↑ (Expansion)
VAP + Fats Mix	34.1%	37.8%	↑ (Premiumization)
RM Cycle	"Beginning of a U-turn"	3% Inflation experienced and passed on.	→ (Managed risk)
One-offs	None.	₹8.7 Cr Impairment (Non-cash).	↓ (One-time drag)
Drinkables Strategy	Legacy flavored milk.	New "Livo" brand relaunch.	↑ (Brand Focus)
Geographic Logic	General expansion.	Regional SKUs (NCR/MH variants) launched.	↑ (Hyper-local execution)

STOP HERE.