

Heritage Foods Ltd — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss on Margins / Inline on Revenue / Weak on Procurement **One-line:** The Q4 results confirm that the "failed flush" has morphed into a structural margin floor test, with EBITDA margins collapsing to 4.5% (down from 5.6% in Q3) as procurement inflation (+8%) completely overran pricing actions (+4%).

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	EBITDA Margin 4.5% vs 5.6% in Q3 and 7-9% long-term target.	□
Earnings Quality	Moderate	PAT impacted by 8% surge in procurement costs; Receivables spike (₹64.8 Cr vs ₹37.5 Cr YoY) flagged as transitory.	□
Guidance Confidence	Weakening	Mgmt pivots to "median EBITDA" of 7% over long cycles, admitting current levels are "bad year" lows.	□
Management Credibility	Strong	Transparent about competitive pressures in milk volumes and the failure of the flush to soften prices.	□
Business Quality Signal	Stable	VAP contribution reached 35.5% in Q4 (vs 32.5% YoY); brand pull remains resilient despite pricing.	□
Key Q&A Exchange	Q#7 (Median EBITDA)	Mgmt defines 7% as the "median" across 20 years; currently at a 2-decade low relative to inflation.	□
The Street's Primary Anxiety	Margin Trough	Analysts pressed on why procurement discrepancy exists vs WPI; Mgmt cited local supply/demand at village level.	□
Capital Cycle Stage	Investment	₹380 Cr FY26 Capex (Ice Cream/Flavored Milk) commissioned; moving to utilization phase.	□
Margin / Return Ratio Trajectory	Deteriorating	EBITDA margin compressed 110 bps sequentially (4.5% vs 5.6% in Q3).	□
Pricing Power	Resilient	Raised milk prices 4% and ice cream 13%; consumer demand held despite "aggressive" hikes.	□
FCF Conversion & Quality	Under Pressure	Negative WC impact from receivables (₹26 Cr increase from Modern Trade) and ₹380 Cr Capex outflow.	□
Competitive Moat Signals	Widening in VAP	Curd/Paneer growing 20-30%; leveraging new-age channels (Quick-com) to offset slow milk growth.	□
Balance Sheet Strength	Adequate	Net Debt/Equity at 0.3x despite peak capex cycle; ROCE depressed at 13.95% due to new capacity.	□
Working Capital Efficiency	Deteriorating	Receivables days increased; Inventory levels slightly down but Fat shortages persist.	□
Mgmt Guidance Track Record	Mixed	Successfully met VAP mix growth (+2.5%) but missed margin normalization timelines twice.	□
Key Vulnerability / Red Flag	Supply Concentration	80% Cow milk mix makes them highly sensitive to Southern India "climatic vagaries."	□
Management Tone	Cautiously Optimistic	Defensive on current procurement costs but bullish on "Cow Flush" (May start) and VAP traction.	□

Key Takeaways (Positives & Negatives): * **Positives:** The premiumization engine is firing; Value-Added Products (VAP) grew 18% YoY in Q4, with the mix hitting 35.5% of sales. Paneer volume growth (>30%) and Ghee revenue growth (+48% for consumer segment) demonstrate strong brand equity. The Greenfield Hyderabad ice cream facility and Tirupati flavored milk plant are now operational, setting the stage for FY27 volume leverage. * **Negatives:** Procurement is the primary antagonist; Q4 volumes fell 7% YoY (16.38 LLPD) while costs rose 8% YoY to ₹46.67/L. This supply-side shock is significantly more persistent than management's Q2/Q3 commentary suggested. Milk volume growth remains stagnant at 1-2%, as management prioritizes pricing/VAP over commoditized market share. * **Street Concern:** Analysts are focused on the "Procurement vs. WPI gap" and the persistent 4-5% EBITDA floor. Management's response is that village-level supply/demand is the only true benchmark, and they are unwilling to sacrifice branded supply for short-term margin. * **Forward Watchpoint:** The "Cow Flush" in May 2026. Management has staked FY27 recovery on this seasonal supply surge; any climatic disruption here would break the EBITDA "median" thesis.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source for FY26; Concall used for Q4 specific metrics.

Metric	Current Qtr (Q4 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	₹1,157.6	↑ 10%	↑ 3.4%	□	Full year crossed ₹4,526 Cr milestone; driven by price (+4%) and VAP (+18%).
Gross Margin (%)	23.4% (FY26)	↓	↓	□	Procurement inflation (+8% YoY in Q4) outpaced selling price hikes.
EBITDA (₹Cr)	₹52.2	Not stated	↓ 17.0%	□	Q3 was ₹62.9 Cr (prior context). Hit by milk inflation.
EBITDA Margin %	4.5%	↓ 110 bps	↓ 110 bps	□	Compression due to "exceptionally tight milk supply" and procurement price spike to ₹46.67/L.
PAT (₹Cr)	₹23.0	Not stated	↓ 33.5%	□	FY26 PAT ₹129.9 Cr. Q4 hit by high input costs.
ROCE (%)	13.95%	↓	↓	□	FY25 was 23.6% (PPT). Drop due to Greenfield CAPEX yet to yield revenue.
Cash Flow (OCF)	Not in doc	-	-	□	PPT shows ₹19.49 Cr Cash & Bank balance at year-end.
Net Debt / Equity (x)	0.33	↑	↑	□	FY25 was 0.2 (PPT). Increase due to ₹380 Cr Capex cycle.
Volume (Milk - LLPD)	11.73	↑ 1%	↓ 1.8%	□	Sequential decline; Vol growth muted by "repeated price increases."
VAP Rev Mix (%)	35.5%	↑ 300 bps	↓ 250 bps*	□	YoY increase (vs 32.5%) but seasonal dip vs Q3 (38% context).

*Note: Q3 context was 38% VAP Mix. Slide 4 reports FY26 VAP at 29% and FY23 at 33% - likely a product classification difference (incl/excl Fats).

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Liquid Milk	~₹678	4% (Rev)	Low	↓	Below	Volume growth stagnant (+1.2% FY26) as households pivot to curd.
VAP (Core)	~₹410	18%	High	↑	Above	Curd, Paneer, and Ice Cream are the primary growth drivers.
Consumer Fats	~₹300 (FY)	48%	Stressed	↓	Below	Ghee realizations strong, but high input butter costs hurt profitability.
Bulk Fat	₹37.56 (FY)	↓ 70%	Negative	↓	Below	Strategy to exit bulk fats and prioritize branded ghee during shortages.
Ice Cream	Not in doc	~20-25%	High	↑	Above	New Hyderabad plant trial phase over; seeking 35-40% utilization in Yr 1.

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 target (median cycle).	Needs substantial drop in RM (milk) to <₹42/L to hit FY avg.	Missed (4.5% in Q4).	High
Guidance	VAP Growth	Increase VAP mix by 2-2.5% annually.	Currently at 35.5% in Q4; on track to hit 40% target by FY28.	Delivered.	Low
Guidance	Ice Cream Rev	₹500 Cr Revenue by FY30.	Requires 25% CAGR; currently utilizes new Hyderabad plant at ~35%.	Investment phase.	Medium
Strategy	Distribution	Salience in Organize Trade (20% of Rev).	Receivables rising; implies higher WC need to fund this channel.	Ongoing.	Medium
Strategy	Product Mix	Focus on nutritious SKUs (A2/Bufalo).	High-protein curd (100 tons sold in Q4) gaining traction.	Delivered.	Low
Macro	Milk Prices	"Cow Flush" to ease prices in May.	Dependent on Southern India climatic conditions (heatwave impact).	Unpredictable.	High
Balance	Capex	FY27 regular Capex ~₹200 Cr.	Follows massive ₹380 Cr spend in FY26; debt levels manageable (0.3 D/E).	On track.	Low

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	"Are we seeing any signs of moderation [in milk prices]... does below-normal rainfall change the outlook?"	Management confirmed that while the "cow flush" has started and volumes are increasing, they have yet to reach a surplus level that would soften procurement prices. This confirms that RM cost pressure will bleed into Q1 FY27, delaying margin recovery despite volume availability.	Specific RM price guidance.	4.0	Cautious signal
2	4.0	Sameer Gupta, IIFL	Capex	Capex and Allocation	"Can you give a rough split of where the ₹380 crores CAPEX has gone?"	Management clarified that ₹300 Cr went to plant expansion (Greenfield Ice Cream in Hyderabad and Flavored Milk in Tirupati), with ₹20 Cr in chilling centers. This massive investment anchors the VAP strategy but will depress ROCE in the near term due to 35-40% Year 1 utilization.	None	5.0	Clear and quantified
3	4.5		Pricing	Financials	"Was growth held back	Management admitted		3.5	Deflected

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		Abhishek Mathur, Systematix			due to milk shortages... what was the quantum of pricing taken?"	volume growth (1.2% in milk) was muted by aggressive pricing (+4% in Q4) to manage RM inflation, rather than supply constraints. This highlights that Heritage is currently trading volume for margin protection, a difficult balance in a fragmented market.	Current Q1 price hikes.		
4	4.5	Nirmam, Unique PMS	Competition	Business Overview	"What are the challenges that we are facing for growing our milk sales, especially volumes?"	Management noted a structural shift where households buy curd directly instead of making it from milk, plus increased competition from national brands in South India. This structural volume cap on liquid milk necessitates the aggressive VAP pivot to maintain top-line growth.	None	4.0	Strategic clarity
5	3.5	Resham Jain, VVD	Competition	Business Overview	"How are cooperatives behaving... are they also taking price hike?"	Management noted that while AP/ Telangana cooperatives increased prices, Karnataka (Nandini) and	Competitor volume data.	3.0	Directional

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						Tamil Nadu (Aavin) were delayed by elections. This creates a temporary "price gap" disadvantage for Heritage in core markets until post-election adjustments occur.			
6	4.5	Rehan Saiyyed, Trinetra	Receivables	Financials	"Receivables has increased significantly... is it higher dependence on modern trade?"	Management admitted receivables rose to ₹64.8 Cr (peaking at year-end) due to a higher mix of Organized Trade/E-commerce, though ₹13 Cr was cleared in April. This confirms a structural deterioration in working capital cycles as the business moves away from cash-and-carry general trade.	None	4.5	Direct admission
7	5.0	Keshav Garg, Counter Cyclical	Margins	Financials	"What is the steady state EBITDA margin... and how will it move with VAP mix?"	Management defined a 7% "median EBITDA" across 20 years, with 8-9% in good years and 5% in bad ones; they aim to push this median to high single digits via VAP	Exact 5% mix to margin delta.	3.5	Tactical dodge

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						leverage. This is a critical pivot—Heritage is admitting they are currently at a cyclical trough, making FY27 a "recovery" bet.			
8	4.0	Rajat Setiya, iThought	Bulk Fats	Financials	"What is the reason for the lower fat sales in this year?"	Management explained they prioritized branded consumer ghee (+48% growth) over opportunistic bulk butter sales during the milk shortage. This confirms a strategic "consumer-first" allocation, sacrificing low-margin commodity revenue to protect brand franchise.	None	5.0	Strategic clarity
9	4.0	Shazad Shroff, Demeter	Procurement	Financials	"Milk WPI is up 3%... versus our procurement prices have gone up by 8%. Why the difference?"	Management dismissed national WPI as non-representative, citing regional price discovery at the village level where competition for milk is intense. This highlights the localized nature of dairy RM, where national inflation data is a poor	None	4.0	Reality check

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						predictor of company margins.			
10	3.5	Dr. Brij Mohan, Nutrivet	Input Costs	Financials	"What is the trend on fodder cost for the farmers?"	Management noted that while energy (maize) is in surplus, protein-side fodder costs remain high since Nov 2025, though easing is expected by next month. This suggests the farmer-side pressure is peaking, which could help stabilize procurement prices in Q1.	None	4.5	Domain expertise

PATTERN FLAGS & SENTIMENT

- **The "Median EBITDA" Anchor:** Analysts were notably focused on the margin floor, which hit 4.5% this quarter. Management's defense shifted from "normalization is coming" to a historical "median cycle" argument (7%). This suggests they have less visibility on short-term milk costs than in previous quarters and are asking investors to look at multi-year averages.
- **The VAP Cannibalization:** A key pattern emerged regarding milk volume stagnation. Management explicitly linked low milk growth (+1.2%) to high Curd growth, indicating that the consumer is "outsourcing" curd-making. This is a positive business quality signal (higher margins) but a negative for those modeling liquid milk volume recovery.
- **WC Stress:** For the first time, "Modern Trade receivables" emerged as a friction point. As Heritage chases growth through Quick-commerce and National Retailers, the traditional "zero working capital" dairy model is under pressure.

Analyst Sentiment Verdict: Skeptical on Timing (3.5/5). Analysts appreciated the VAP traction and the completion of the Capex cycle but remained frustrated by the persistent procurement inflation that overshoot management's prior-quarter predictions. The credibility on the 7-9% margin target is currently "on probation" until the May flush delivers.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Milk Price Easing	Easing expected by May cow flush.	Volumes are up but prices have not yet softened.	Delay in procurement cost relief; Q1 margins will remain stressed.	High (Short-term)
EBITDA Target	7-9% target range.	4.5% current; target is now a "median" over long cycles.	Re-defining target as a long-term average rather than near-term guidance.	Medium
Working Capital	Historical low receivables.	Spike to ₹64.8 Cr due to Organized Trade mix.	Structural change in channel mix is elongating the cash cycle.	Medium

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY26)	This Quarter (Q4 FY26)	Direction
EBITDA Margin	5.6%	4.5%	↓ Deteriorating
Procurement Vol	16.73 LLPD (-9% YoY)	16.38 LLPD (-7% YoY)	↓ Continued supply stress
Procurement Price	₹45.57/L	₹46.67/L	↓ Higher cost floor
VAP Mix	38.0% (Seasonal peak)	35.5%	□ Post-winter normalization
Receivables	~₹51 Cr (April)	₹64.8 Cr (Year-end)	↓ WC pressure from Modern Trade
Capex Status	Investment phase	Production phase (Hyderabad/Tirupati)	↑ Moving to utilization
Bulk Fat Sales	Nominal	₹2.55 Cr (Q4) / ₹37.5 Cr (FY)	→ Stable at low levels
Thesis Status	Stress-tested	Cyclical Trough	□ Neutral

Trajectory Signal: Q4 FY26 represents the operational trough of the current cycle. While the VAP strategy is delivering (35.5% mix), the commodity core (milk) is being crushed by 8% cost inflation. The thesis is now entirely dependent on (1) successful ramp-up of the ₹300 Cr new capacity and (2) the May "Cow Flush" softening procurement prices. Until margins cross the 6% threshold again, the stock remains a "show me" story on operational leverage.

STOP HERE.