

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat (on Margins) / Miss (on Revenue Guidance) **One-line:** Heritage continues to benefit from a cyclical tailwind in procurement costs (down ₹2.94/L YoY) and a structural shift toward Value-Added Products (VAP), though headline revenue growth (4.2%) is optically depressed by the strategic cleanup of low-margin commodity bulk fat sales.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Mixed	EBITDA margins (8.16%) beat long-term 7-8% guidance; Revenue growth (8% H1) is well below the 15-18% annual target.	□
Earnings Quality	High (Core driven)	PAT growth (+117%) is driven by procurement savings and VAP mix, not one-offs; Bulk fat losses reduced significantly.	□
Guidance Confidence	Neutral	Management maintains a conservative 7-8% margin corridor despite over-delivering; ₹6,000 Cr revenue target looks increasingly aggressive.	□
Management Credibility	Strong	High transparency on "bulk fat" revenue drag and clear explanation of the weather-related slowdown in curd/ice cream.	□
Business Quality Signal	Improving	VAP mix reached 30% (vs 27% YoY); Milk volume growth (+5.1%) is double the industry average (~2.5%).	□
Key Q&A Exchange	Q#2 Revenue Stagnation	Management successfully pivoted the narrative from "flat revenue" to "core growth" by stripping out commodity bulk fat volatility.	□
The Street's Primary Anxiety	Margin Sustainability	Analysts questioned if 8-9% margins are the new base; Management refused to raise long-term guidance from 7-8%.	□
Capital Cycle Stage	Investment	Significant Capex announced for a new ice cream facility (₹200 Cr+) to capitalize on the nascent premium segment.	□
Margin / Return Ratio Trajectory	Improving (YoY)	EBITDA margins expanded 336 bps YoY as procurement prices fell 6.8% while consumer prices remained stable.	□
Pricing Power	Stable	Held consumer prices flat for 15 months despite lower RM costs, effectively pocketing the spread while competitors discounted.	□
FCF Conversion & Quality	Not in document	Cash flow data not provided in concall; PAT growth indicates healthy accruals.	□
Competitive Moat Signals	Stable	Procurement volume grew 11% YoY, indicating strong farmer retention despite lower milk prices.	□
Balance Sheet Strength	Strong	CFO noted interest cost reduction; Nutrivet subsidiary is now a meaningful PAT contributor (₹4 Cr in H1).	□
Working Capital Efficiency	Stable	Strategic inventory management mentioned for fat/SMP ahead of the flush season.	□
Mgmt Guidance Track Record	Mixed	Consistent on VAP mix and margin protection; lagging on ambitious topline growth targets.	□
Key Vulnerability / Red Flag	Revenue Run-rate	H1 growth at 8% vs 17-18% FY25 target; requires H2 growth of ~26% to meet the lower end of guidance.	□
Management Tone	Prudent	Management was careful to avoid "margin euphoria," emphasizing that current RM benefits may be partially passed on or reinvested.	□

Key Takeaways (Positives & Negatives): * **Positives:** Core business health is stronger than the 4% headline revenue growth suggests; excluding the commodity bulk fat drag, core Milk and VAP grew at double-digit rates. EBITDA margins at 8.16% represent a significant YoY step-up, driven by a ₹2.94/liter reduction in procurement costs. The sweets segment is a dark horse, growing 40% YoY, while the Nutrivet (feed) business saw a 117% surge in PAT. * **Negatives:** Heavy monsoons (60% increase in rainfall) stunted the growth of high-margin curd, drinkables, and ice cream by 3-4%. The 17-18% revenue growth guidance for FY25 now requires a nearly impossible H2 acceleration. Employee costs remain high at 8% of revenue, a point of friction vs. peers, which management defends as "investment in feet-on-street." * **Forward Watchpoint:** Monitor the "flush season" (Q3)

procurement prices and the progress of the ₹200 Cr+ ice cream facility. Any further decline in RM costs in Q3 without consumer price cuts will provide a significant earnings tailwind.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

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

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consolidated)	₹1,020 Cr	↑ 4.2%	↓ 1.3%	→	Flat QoQ due to lower bulk fat sales and seasonal weather impact on VAP.
Revenue (Standalone)	₹1,007 Cr	↑ 4.7%	↓ 1.3%	→	Core milk/VAP growth offset by ₹46 Cr drop in bulk fat revenue.
Gross Profit Margin (%)	Not in document	↑	Not in document	↑	Expanded as procurement price fell ₹2.94/L while ASP was flat.
EBITDA (Consolidated)	₹83 Cr	↑ 77%	↓ 11.7%	↑	YoY growth driven by RM tailwinds; QoQ dip due to Q1 being peak summer.
EBITDA Margin %	8.16%	↑ 336 bps	↓ 92 bps	↑	7-8% remains the long-term sustainable target.
PAT (Consolidated)	₹48 Cr	↑ 117%	↓ 17.2%	↑	Strong YoY surge; H1 PAT at ₹107 Cr is already 173% higher YoY.
ROCE (%)	Not in document	Not in document	Not in document	—	Not stated in transcript.
Milk Sales Vol (Mn LPD)	1.19	↑ 5.11%	↑ 5.3%	↑	Volume growth is nearly double the industry average of ~2.5%.
Avg Milk Selling Price (₹/L)	₹54.59	↓ 0.31%	→	→	Prices held flat for 5 quarters despite falling RM costs.
Procurement Vol (Mn LPD)	1.64	↑ 11%	↑ 1.2%	↑	Strong milk availability entering the flush season.
Procurement Price (₹/L)	Not stated	↓ ₹2.94	Not in document	↓	Significant YoY tailwind; currently stable.
VAP Revenue (₹Cr)	₹298 Cr	↑ 16%	↓ 29.5%	↑	19% growth if consumer ghee included; weather hurt curd/ice cream.
VAP % of Revenue	30%	↑ 300 bps	↓ 1,150 bps	↑	Q2 mix is seasonally lower than Q1 (summer peak).
Nutrivet Revenue (H1)	₹86 Cr	↑ 18%	N/A	↑	Growth driven by high-protein feed adoption.
Nutrivet PAT (H1)	₹4 Cr	↑ 117%	N/A	↑	Margin improvement via strategic RM purchasing (maize/molasses).

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Liquid Milk	~₹650 Cr	~5%	Lower	→	Below	Volume-led growth; ASP is flat.
Value Added (VAP)	₹298 Cr	16-19%	High	↑	Above	Sweets grew 40%; Curd/Ice cream hit by rains.
Bulk Fat (B2B)	₹26 Cr	↓ 64%	Loss	↓	Below	Strategic reduction of commodity sales (last yr Q2: ₹72 Cr).
Cattle Feed (Nutrivet)	₹43 Cr*	~18%	7-8% EBIT	↑	Inline	PAT doubled in H1; focus on high-fat feed.

*Estimated based on H1 86 Cr reported.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	15-18% YoY for FY25.	Needs ~26% growth in H2 to hit 17% avg; current H1 is only 8%.	Miss (H1)	High
Guidance	Margins	7-8% long-term EBITDA.	Currently at 8.6% for H1; management expects normalization.	Beat	Low
Guidance	VAP Mix	35-40% share (excl. fat).	Current Q2 is 30%; requires significant seasonal boost in H2.	Improving	Medium
Strategy	Capex	₹200 Cr+ for Ice Cream.	New greenfield plant by end of 2025; targeting indulgent categories.	New	Low
Strategy	Geography	Expansion into Bengal/Odisha.	Launched Kolkata in Aug; distribution still in early "appointment" phase.	In-progress	Medium
Macro	RM Costs	Stable procurement prices.	Entering flush season; expect surplus milk to keep prices in check.	Delivered	Low
Balance	Leverage	Net Debt Reduction.	CFO noted lower interest costs; 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	Sandy Mehta, Evaluate	Margins	Financials	What is your expectation of normal margins going forward?	Management maintained a long-term EBITDA guidance of 7-8% and denied rumors of a 9-9.5% target. Investors should expect margin normalization as milk prices eventually bottom and marketing spends increase.	None	4.0	Prudent guidance
2	5.0	Digant Haria, GreenEdge	Revenue	Financials	Why is the stagnation in revenue (₹1,000 Cr) for the last 5 quarters?	CEO explained that revenue is optically flat because high-value core growth (Milk/VAP) is being offset by the deliberate reduction of low-margin bulk fat sales (₹72 Cr to ₹26 Cr). This clarifies that "stagnation" is actually a healthy cleanup of the revenue mix.	None	5.0	High clarity
3	4.0	Digant Haria, GreenEdge	Costs	Financials	Why are employee costs at 8% when competitors are at 4.5%?	Management argued that Heritage captures all direct/indirect costs in this line item whereas peers may misclassify them, while also citing	Benchmarking	3.0	Defensive

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						investments in "feet on street" for growth. This remains a monitoring point to see if operating leverage eventually kicks in.			
4	4.0	Sameer Gupta, IIFL	RM Prices	Outlook	Do you expect procurement prices to soften further in the flush season?	Management expects prices to remain stable with minor fluctuations, noting that rural robustness may offset food inflation trends. Stability in RM costs supports the 8% margin floor for H2 FY25.	None	4.0	Directional
5	4.5	Sameer Gupta, IIFL	Ice Cream	Strategy	Will Heritage capitalize on Unilever's potential exit/restructuring in ice cream?	CEO emphasized the massive headroom in the Indian ice cream market regardless of Unilever's moves, justifying the ₹200 Cr+ greenfield investment. This confirms ice cream as the next major structural growth pillar for the VAP portfolio.	Strategy specifics	4.0	Confident
6	3.5	Sameer Gupta, IIFL	Bulk Fat	Financials	Can you quantify	Bulk fat revenue was	None	5.0	Specific

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					bulk fat sales in this quarter versus the base?	₹26 Cr in Q2FY25 vs ₹72 Cr in Q2FY24. This 64% drop explains nearly the entire delta in headline revenue growth.			
7	4.0	Ankit Gupta, Bamboo	Milk Growth	Business Overview	How do you see Milk sales growth over the next 1-2 years?	Management targets 5-6% volume growth (industry is 2.5%) and hopes for price-led growth to return in a few quarters to reach double-digit revenue growth. Volume growth confirms Heritage is taking market share from the unorganized sector.	Timing of price hikes	3.5	Ambitious
8	4.5	Resha Mehta, GreenEdge	Fat Loss	Financials	What are the fat losses for the current quarter?	Total fat loss was ₹7.5 Cr - ₹8 Cr, significantly lower than prior high-inventory periods as cow milk procurement (lower fat) increased to 83-85%. Reducing "fat drag" is essential for reaching the 9% EBITDA	None	4.0	Quantified

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						margin ceiling.			
9	3.0	Kiran Kumar, Investwise	Curd Growth	Business Overview	How much is our curd growth?	Curd grew at 11% in volume/ revenue. This is a slowdown from typical 20%+ levels, confirming the negative impact of the heavy monsoon.	None	5.0	Specific
10	4.0	Pratik Kothari, Unique	Fat Loss	Financials	Why are we making losses in consumer fat (ghee/ butter) also?	Management noted that overhead/ marketing allocations make consumer fat look loss-making at a PBT level, but the strategic goal is to move all fat from bulk to consumer packs. High growth (50%+) in consumer fat will eventually dilute these losses.	Allocation logic	3.0	Vague
11	3.0	Neha Jain, SKS Capital	Bengal	Strategy	Why is there branding in Bengal but no retail presence?	CEO acknowledged the brand is ahead of distribution in the newly launched Kolkata market (started August) and promised product availability would catch	None	3.0	Acknowledged

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						up. This indicates a "brand-first" entry strategy which can be high-cost in the short term.			
12	3.0	Parikshit Gupta	Sweets	Business Overview	How was the performance of the sweets segment?	Sweets grew 40% in H1, driven by festive demand and innovative consumer promotions. Sweets are a high-margin VAP that diversify the portfolio beyond curd.	None	4.0	Quantified
13	4.5	Govind Lal	Guidance	Outlook	Will you meet the 15-18% revenue growth target given H1 is only 8%?	Management "will work hard" but offered no concrete bridge for the 20%+ growth needed in H2. This signals a high probability of a topline guidance miss for the full year.	Bridge to 18%	2.0	Hedged

PATTERN FLAGS & SENTIMENT * **The "Bulk Fat" Pivot:** Analysts were initially concerned about the low 4% revenue growth. Management successfully socialized the idea that this is "good" degrowth (exiting low-margin commodities) while core milk and VAP remain robust. This posture was confident and data-backed. * **Margin Defensiveness:** Despite hitting 8-9% margins in recent quarters, management is extremely cautious about raising the bar. They are bracing the Street for a 7-8% "normal" environment, likely to allow for reinvestment in marketing and the Bengal/Odisha expansion. * **Analyst Sentiment Verdict:** Analysts were largely convinced of the earnings quality and margin story but remained skeptical of the 15-18% revenue guidance. The friction over employee costs (8% vs. 4.5% peers) suggests Heritage is perceived as a less efficient operator than its closest neighbor (Dodla), a gap management has yet to bridge with data. The greatest risk is a valuation de-rating if the topline fails to accelerate in H2.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Revenue Growth | FY25 Guidance: 15-18%. | H1 Growth: 8%. | **Needs ~26% growth in H2**; CEO's response "We'll work hard" lacks a quantified bridge. | High - Topline miss likely. | | VAP Growth | Expecting high-teens/20%+. | Current Q2: 16%. | Weather (monsoon) hit seasonal categories; pricing stability removed the "inflation" component of growth. | Medium - Mix still improving. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY25)	This Quarter (Q2FY25)	Direction
EBITDA Margin	9.08%	8.16%	↓ (YoY ↑)
VAP Revenue Share	41.5%	30%	↓ (Seasonal)
Bulk Fat Sales	Not specified	₹26 Cr (Significant reduction)	↑ (Mix Quality)
Procurement Prices	₹41.31/L	Down ₹2.94 YoY (~₹38-39/L)	↓ (Margin Tailwind)
Geographic Focus	Entry into Odisha	Entry into Bengal (Kolkata)	↑ (Expansion)
Subsidiary PAT (H1)	Not available	₹4 Cr (Nutrivet)	↑ (Core contributor)
Employee Cost Ratio	Not specified	8% of revenue (Point of analyst friction)	□(High base)
Revenue Growth Confidence	High (17-18% target)	Neutral (Needs 26% H2 run-rate)	↓ (Guidance Risk)

STOP HERE.