

Heritage Foods Ltd — Oct 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Revenue / Slight Beat on VAP Momentum / Miss on Adjusted Margins **One-line:** The long-term thesis of a VAP-led premiumization remains firmly intact as VAP growth accelerated to 18% (rebounding from 7.4% last quarter) despite the "toughest operating environment in recent years" due to erratic monsoon and fat shortages.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline Revenue / Miss on Adjusted Margin	Revenue ₹1,112.5 Cr (9% YoY); Adjusted EBITDA 6.1% vs 6.5% prior.	□
Earnings Quality	Low (Distorted by GST refund)	Reported EBITDA (6.9%) includes ₹9.36 Cr GST refund; core ops at 6.1%.	□
Guidance Confidence	Strong	Mgmt reiterating margin normalization in H2 as milk costs soften.	□
Management Credibility	Strong	Transparent about missing internal VAP targets by 5% due to weather.	□
Business Quality Signal	Improving	VAP growth rebounded to 18%; realization/L up to ₹57 from ₹56.4.	□
Key Q&A Exchange	Q#3 & 5 (Opex vs Revenue Curve)	Mgmt admitted operating leverage is "not linear" and below expectation.	□
The Street's Primary Anxiety	Opex Bloat / Margin Compression	Fear that 15-20% Opex growth is structural; Mgmt says it's front-loaded.	□
Capital Cycle Stage	Investment	Greenfield ice cream plant commissioning by end of FY26.	□
Margin / Return Ratio Trajectory	Temporary Softness	Sequential margin improvement (up 44 bps) suggests bottoming out.	□
Pricing Power	Stable	Passed on 4.5% price hike vs 6.3% RM inflation; realization at ₹57/L.	□
FCF Conversion & Quality	Not stated	CFO data not detailed; Working Capital efficiency mentioned as "high."	□
Competitive Moat Signals	Widening	Marketing led to 22-30% trial rate increases in key metro markets.	□
Balance Sheet Strength	Strong	Financing ice cream capex via internal accruals.	□
Working Capital Efficiency	Improving	Milk collected per KM and throughput per chilling center increasing.	□
Mgmt Guidance Track Record	Reliable	Consistent execution on VAP mix expansion (now 38% of total).	□
Key Vulnerability / Red Flag	Climate Sensitivity	Performance remains heavily indexed to monsoon intensity/duration.	□
Management Tone	Resilient & Execution-focused	Defensive on short-term weather but aggressive on brand building.	□

Key Takeaways (Positives & Negatives): * **Positives:** VAP growth showed a strong recovery to 18% YoY (up from 7.4% in Q1), with curd, paneer, and ice cream delivering double-digit volume growth despite poor weather. Brand-building efforts are yielding measurable results, with awareness and trial rates spiking by 20-30% in Hyderabad, Bangalore, and Chennai. The Nutrivet (feed) subsidiary is performing exceptionally (PBT +80% YoY), which creates a virtuous cycle for milk procurement loyalty. * **Negatives:** Core operating margins (6.1% normalized) remain under pressure as raw milk procurement costs (+6.3% YoY) outpaced price hikes (+4.5% YoY). Operating expenses (Employee + Other) continue to grow at mid-to-high teens, outpacing revenue growth and delaying the "operating leverage" story promised in Vision 2030. * **Forward Watchpoint:** The commissioning of the new automated ice cream facility in Q4 FY26 is the critical catalyst to watch; it will determine if Heritage can successfully transition ice cream from a seasonal "treat" to a year-round "fridge staple" with higher margins.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr (Q2 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	₹1,112.5	↑ 9.0%	↓ 2.1%	□	Volume growth + realizations.
Gross Margin (%)	Not in doc	↓	↑	□	6.3% RM cost hike vs 4.5% price pass-through.
EBITDA (₹Cr)	₹77.2	Not stated	↑ 4.5%	□	Includes ₹9.36 Cr GST refund.
EBITDA Margin %	6.9% (6.1% Norm)	↓ 122 bps	↑ 44 bps	□	Sequential normalization begun.
PAT (₹Cr)	₹51.0	↑ 5.0%	↑ 25.9%	□	Driven by VAP mix and tax/GST items.
Milk Sales (LPD)	12.1 Lakh	↑ 1.1%	↑ 4.3%	□	Growth subdued by price hikes.
Milk Realization (₹)	₹57.0	↑ 4.5%	↑ 1.1%	□	Pricing discipline maintained.
VAP Revenue (₹ Cr)	₹413.2	↑ 18.0%	↓ 9.0%	□	Core VAP (ex-fat) now 38% of sales.
Procurement (LPD)	16.1 Lakh	↓ 2.0%	↓ 9.5%	□	Impacted by excess rain/lean season.
Ad Spend % of Rev	Not stated	↑ 60.0%	↓	□	Deliberate "double-down" on branding.
Nutrivet Revenue (₹)	₹58.1	↑ 34.0%	↑ 9.0%	□	Sustainable feed adoption.
Nutrivet PBT (₹Cr)	₹5.4	↑ 80.0%	↓ 19.4%	□	Efficiency & yield improvements.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Liquid Milk	~₹690*	1.1% (Vol)	Moderate	→	Below	Volume hit by price hikes; realization ₹57.
VAP (Core)	₹413.2	18.0%	High	↑	Above	Rebounded from 7.4% growth in Q1.
Curd	~₹293.4*	10.1% (Vol)	High	↑	Above	Curd remains 71% of the VAP basket.
Ice Cream	₹19.46	17.0% (Vol)	High	↑	Above	New plant on track for Q4 commissioning.
Bulk Fat	₹3.67	↓ 86%	Very Low	↓	Below	Strategic reduction in low-margin B2B sales.
Nutrivet	₹58.1	34.0%	Improving	↑	Inline	PBT reached ₹5.4 Cr (80% YoY growth).

*Revenue estimated based on Mgmt's percentage contribution and volume data.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	VAP Growth	20% - 25% internal target.	Needs ~28% growth in H2 to hit 20%+ avg; tough but flush season helps.	Missed in Q1/Q2 (18%).	Medium
Guidance	Margins	Normalization to "sustainable base."	Implies 7.5% - 8% EBITDA in H2.	Sequential improvement (44bps).	Low
Guidance	Capex	Ice Cream plant (end of FY26).	Construction/automation on track.	Consistent execution.	Low
Strategy	Distribution	10k more retail outlets in Q3.	Current rate: 2k outlets/60 distributors.	Met Q2 target of +6k outlets.	Medium
Strategy	Portfolio Diversification	Livo Yogurt scale-up.	Target: All metro cities (Already achieved).	Brand integration successful.	Low
Macro	Milk Prices	Prices to soften in Q3/Q4.	Buffalo flush usually drops RM by ₹1-2/L.	Historically reliable cycle.	Low
Macro	Weather Sensitivity	Reduce weather dependency.	VAP growth (18%) vs bad weather (excess rain).	Improving resilience.	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Sameer Gupta, IIFL	VAP Performance	Business Overview	"Is this largely a weather-related issue? Or do you feel that now the base has caught up and growing at 20% plus has its own challenges?"	Management admitted that performance was 5-6% below internal expectations purely due to weather, noting all VAP categories except sweets/paneer are weather-sensitive. If weather normalizes, the high-teens growth floor is protected, making the 20% target mathematically viable in H2.	None	4.5	Specific context
2	3.5	Sameer Gupta, IIFL	Supply Chain	Business Overview	"Can you just elaborate the reasons for the exceptionally lean milk season and the entire butter shortage?"	Mgmt attributed this to strong global GDT prices leading to Q1 butter exports, followed by 29% excess rainfall disrupting domestic collection. Supply security is improving as flush season arrives early post-Diwali, suggesting RM costs have peaked.	None	4.0	Logical rationale
3	4.5	Abhishek Mathur, Systematix	Competitiveness	Business Overview	"Is this sort of VAP growth the trend that we should expect for the broader industry... Or	Mgmt noted Heritage grew curd volumes (10.1%) and drinkables (12%) despite worse weather	Broad industry data	4.0	Strong internal data

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					are there factors specific to Heritage?"	in Q2 vs Q1, outperforming industry trends through expanded marketing. This validates that brand pull is decoupling from commodity cycles, justifying a higher valuation multiple.			
4	4.0	Pradyumna Choudhary, JM Financial	Volume Slowdown	Financials	"Milk volume growth... has been 3%, and now it's 1%. What's the reason for the same?"	Mgmt explained the volume drop was a direct result of the 4.5% price hike taken to mitigate a 6.3% RM cost increase. This highlights a short-term price elasticity risk in the liquid milk segment while protecting the absolute EBITDA pool.	None	4.5	Honest on elasticity
5	5.0	Pradyumna Choudhary, JM Financial	Operating Leverage	Financials	"Your employee expense as well as other expenses... growing at mid-teens... how do we really keep these expenses in check?"	CEO explained that operating leverage is "exponential, not linear" and suppressed by weather-related volume misses; however, throughput per chilling center has doubled. Investors must monitor H2 volumes; if	Specific margin targets	3.0	Structural debate

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						they don't surge, the high opex base will permanently dilutive to ROE.			
6	3.5	Disha Giria, Ashika	Ice Cream Strategy	Capex and Allocation	"Now that because of the seasonal impact... ice cream sales would not have happened as much... how do you plan on utilizing [the new plant] to its max?"	Mgmt clarified that existing internal capacity was maxed out in peak times, and the new automated plant is for widening SKUs. Successful utilization depends on de-seasonalizing ice cream through the new portfolio, a high-execution-risk move.	Initial utilization %	3.0	Visionary but risky
7	4.5	Pratik Kothari, Unique PMS	Revenue vs Cost	Financials	"When can we see that our other expense - employee expense goes up 10%, but revenue starts growing at 15%, 17%?"	CEO argued that headcount and brand investments (marketing up 60%) are "assets" that will pay off when volumes hit a tipping point. This implies a "S-curve" margin expansion rather than steady incremental gains, keeping the stock volatile until the volume trigger.	Specific year/quarter	3.5	Strategic defense
8	3.5		Novandie/Livo	Financials				3.5	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Resha Mehta, GreenEdge			"Knowingly what is the path to profitability [for Novandie]? ... have we achieved [breakeven]?"	Mgmt clarified they never promised Q2 breakeven but noted Livo volumes already match prior Mamie Yova levels with better unit economics. This confirms the JV restructuring was the right move to stop the cash burn.	Exact breakeven date		Directional positive
9	4.0	Naitik, NV Alpha	VAP Mix	Business Overview	"Breakup between your VAP products... how would this look like once the ice cream facility comes online?"	Curd currently dominates at 71%, with Mgmt expecting its contribution to drop as ice cream and drinkables grow faster. This is the core thesis: moving from 1-2 high-margin categories to a diversified 5-category high-margin basket.	None	5.0	High clarity

PATTERN FLAGS & SENTIMENT * **Operating Leverage Friction:** Analysts (Pradyumna, Pratik) are clearly frustrated with the "Cost Curve > Revenue Curve" trend over the last 2-3 years. Management's defense is that they are over-investing in capacity and people to capture future growth. The friction remains unresolved—the market will likely penalize the stock if Opex doesn't stabilize in H2 FY26. * **Weather as a Hedge:** Management used the "erratic weather" explanation for almost all misses (VAP growth, procurement, milk volume). While statistically backed (29% excess rain), analysts are looking for the business to become "weather-proof" via the sweets and Nutrivet segments. * **Analyst Sentiment Verdict: Cautiously Optimistic (3.5/5).** Analysts were impressed by the 18% VAP recovery but skeptical of the structural opex growth. The primary risk is management's "Non-linear Operating Leverage" claim—if H2 volumes don't materialize to absorb these costs, the 8% EBITDA margin target becomes a distant dream.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-----|-----|-----|-----|-----| | VAP Growth | Target 20-25%. | Delivered 18%. | 2-7% shortfall due to weather. | Low - Rebounding well. | | Opex Growth |

Efficiency improvements. | Expenses up 15-20%. | Opex growing faster than Revenue. | High - Delays margin story. | | Novandie | Potential Q2 breakeven. | "Never said Q2 breakeven." | Clarification that it's early stage. | Low - Losses narrowing. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
VAP Momentum	7.4% Growth	18.0% Growth	↑ Strong Rebound
Milk Realization	₹56.4 / Litre	₹57.0 / Litre	↑ Pricing Power
Nutrivet PBT	₹6.7 Cr	₹5.4 Cr	↓ Profitability dip
VAP Basket Mix	36.1% (Excl. Fats)	38.0% (Excl. Fats)	↑ Improving Mix
Marketing Tone	Brand awareness focus.	Trial & Conversion focus.	↑ Bottom-funnel push
Procurement	17.8 Lakh LPD	16.1 Lakh LPD	↓ Seasonal Shortage
Normalized EBITDA	6.5%	6.1%	↓ Core Compression

Trajectory Signal: The business is successfully shifting its product mix (VAP now 38%), but the financial transition to an FMCG-like margin profile is taking longer than expected due to front-loaded costs and weather vagaries. The thesis remains "On Track" but requires a clean H2 to prove the operating leverage claim.

STOP HERE.