

MILKY MIST

Rating

BUY

Price: 189

Conviction Rating



Surge Capital Focuses on Six Key Attributes of Long-Term Earnings Growth



Strong Business Model ✓



Innovation & Pivot



Change & External Trend



Optionalities



Leadership & Edge



Stellar Management Execution

Investment Bucket: Resilient

Industry:	Dairy
Market Cap:	Rs 14,700 Crores
Revenues:	Rs 3138 Crores
Net Profits:	Rs 127 Crores
Net Debt:	Rs 1660 Crores

✓ Indicates attributes present in the stock

Brief Thesis

Milky Mist is a 100% value added products focused dairy company.

Most of the listed dairy companies have majority of their business still coming from liquid milk which is not a proper FMCG business and thus their overall growth and profitability are low; whereas Milky Mist has been growing at much higher rates due to its value-added focus.

The company is now focusing on high value-added products like ice-cream, yogurt, whey etc which will further improve company's profitability. On top of this the company has large leverage on operating and financial level which along with sustained strong headline growth should result in non-linear growth in profits.

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DAIRY BUSINESS- Not a True FMCG Business

FMCG is one of the most desirable & strongest business. This is because these are businesses that are driven by brands, they have pricing power, end demand is resilient & sticky and profitability & return ratios are strong.

THE TRUE FMCG TEST

What Makes a Business a True FMCG?

To qualify as a true FMCG, a business must test true on both checkboxes below



CHECKBOX A

Buy **Commodities** and Sell **Brands**



Commodities



Brands



CHECKBOX B

Buy in **Quantities** (kg, ltr) and Sell in **Units**



Kg / Litre



Units

Both boxes must be checked ✓ to qualify as a true FMCG

The reason why these two checks are important is because;

- If you are selling a commodity derived from a commodity (without much value addition or differentiation), then there is surely going to be a lot of unbranded products in that category, simply because it is easier to produce the product.
- If the end consumer is buying something in terms of quantities (kgs, liters), they are informed & conscious about the price per kg or liter that they are paying and with easy availability of unbranded products, it becomes very difficult to charge a premium for the product, over & above the underlying cost of commodity itself.

This is primarily the reason why some of the biggest consumer staple categories like spices, pulses etc still lack national level players with strong market dominance. These categories are still driven by regional players and/or unorganized players.

Dairy as a business also cannot be construed as a true FMCG business because liquid milk, which is the core of any dairy business does not qualify the above mentioned two checks.

Milk has an even bigger challenge than most of the other staple categories because of its low shelf life which results in dairy being mostly a regional business with Amul being the only exception.

VALUE ADDED DAIRY BUSINESS

The challenges associated with liquid milk can be overcome by moving towards value added products in the dairy business like cheese, panner, ice-cream etc. In fact, Amul's journey of becoming a national level brand has been on the back of these value-added products wherein Amul has massive market dominance in segments like cheese and butter.

Value added products have relatively higher shelf life, offers higher profitability and thus the potential to invest & build a national level presence. Further, most of these value-added segments are either still heavily dominated by unorganized players and/or are growing at much higher pace in terms of consumption vs liquid milk wherein the consumption is sort of saturated.

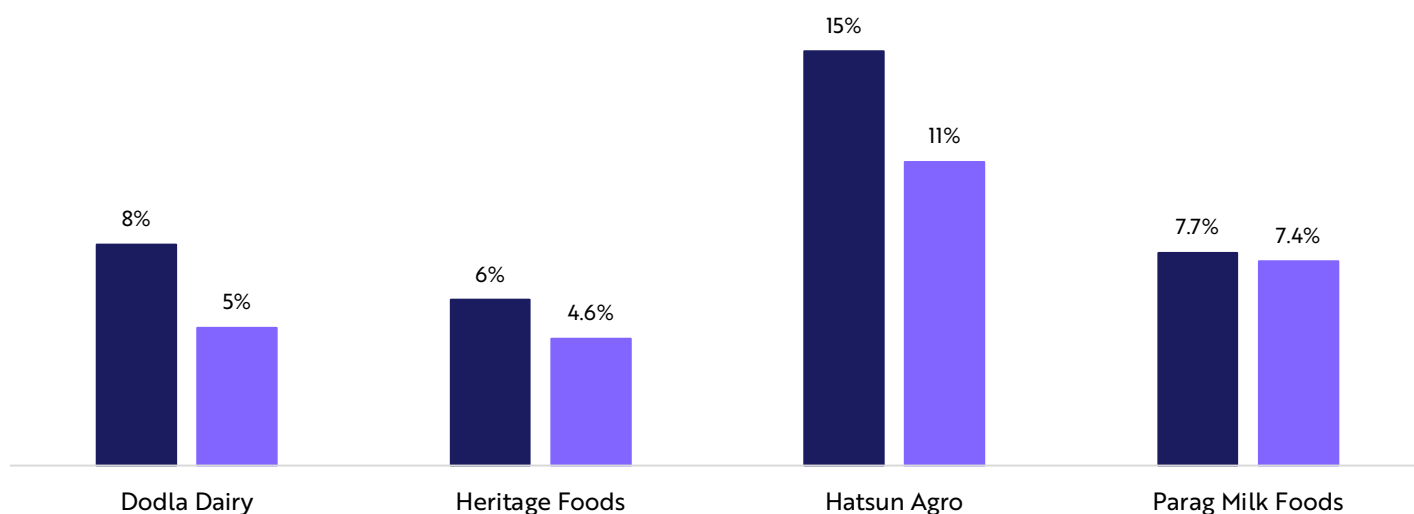
Most of the dairy companies do have & continue to strive to build these value-added categories, however the share of value-added portfolio is still <50% of overall business mix for most and thus dynamics of liquid milk business still drives their overall business.

	Dodla Dairy	Hatsun Agro	Heritage Foods	Parag Milk Foods
Value Added Mix % FY26	28%	~35%	35%	78%
Revenue CAGR 5-Year	16%	12%	13%	16%
EBITDA % FY26	8%	12%	6%	7%

A good example of how this liquid milk dynamics plays out was the period of H2 FY23 wherein raw milk procurement prices rose by ~17-19% however dairy companies were not able to pass on this entire increase and thus saw sharp correction in margins in H2 FY23. We have seen same thing play out in Q1FY27 wherein raw milk prices have increased by ~10% and all dairy companies (with liquid milk business) have seen sharp correction in margins;

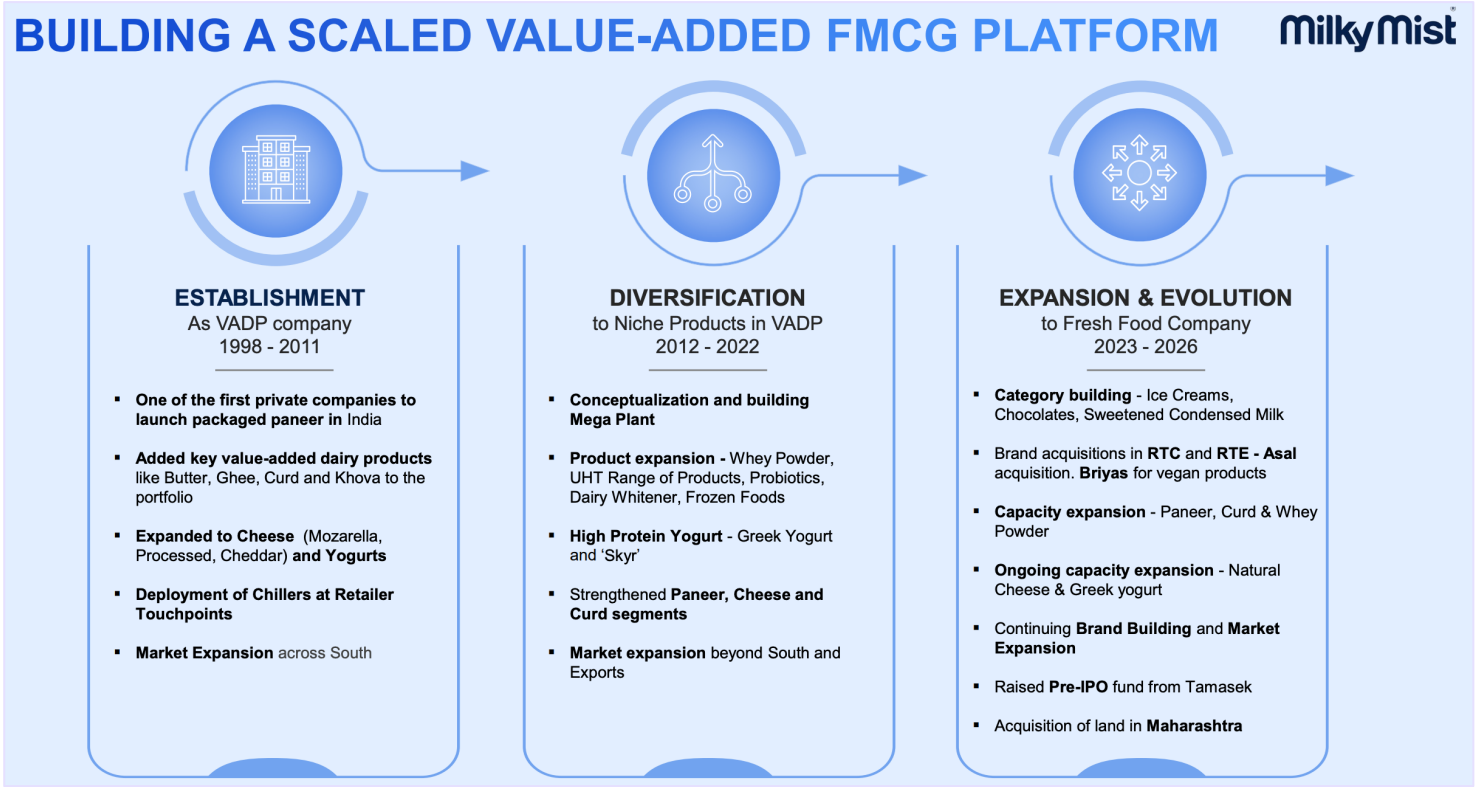
Operating Margins

■ Q1FY26 ■ Q1FY27

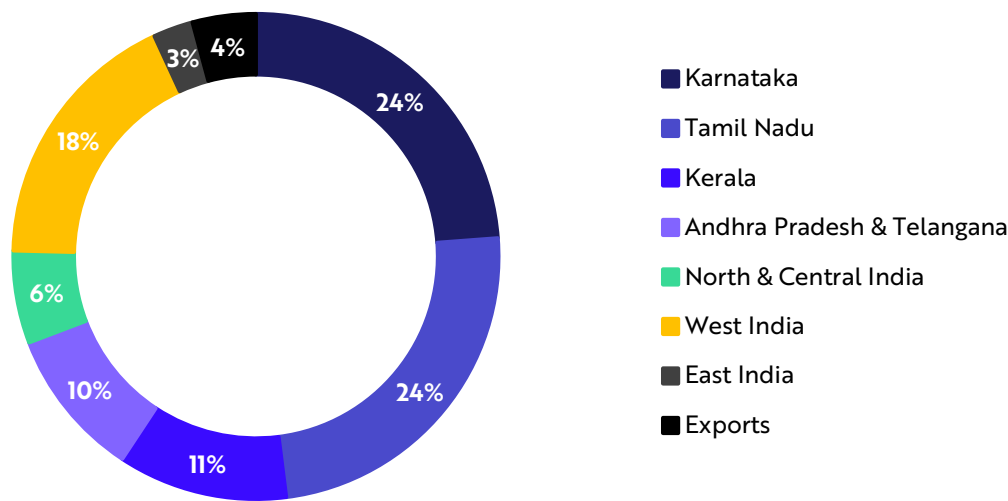


MILKY MIST- The True Value Added Player

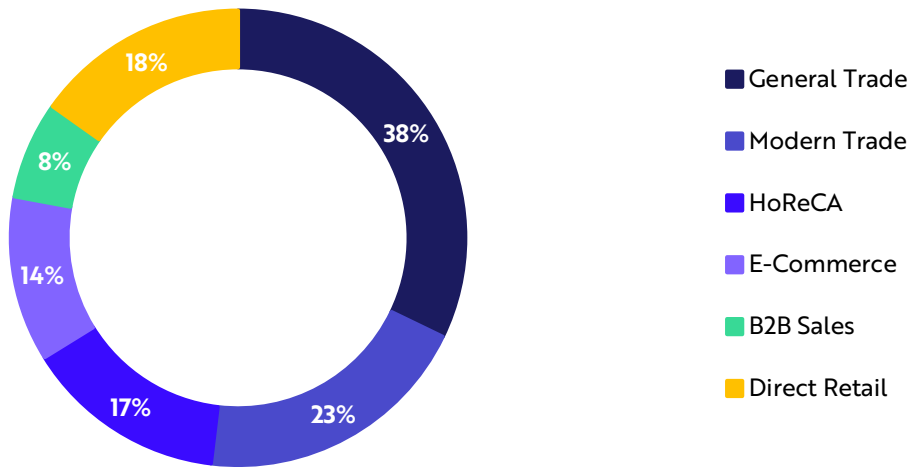
Milky Mist was founded in 1998 in Perundurai, Tamil Nadu with panner as its primary product and over the years the company has diversified into other product segments like cheese, curd, ghee etc.



Regional Sales Mix FY26



Channel Sales Mix FY26



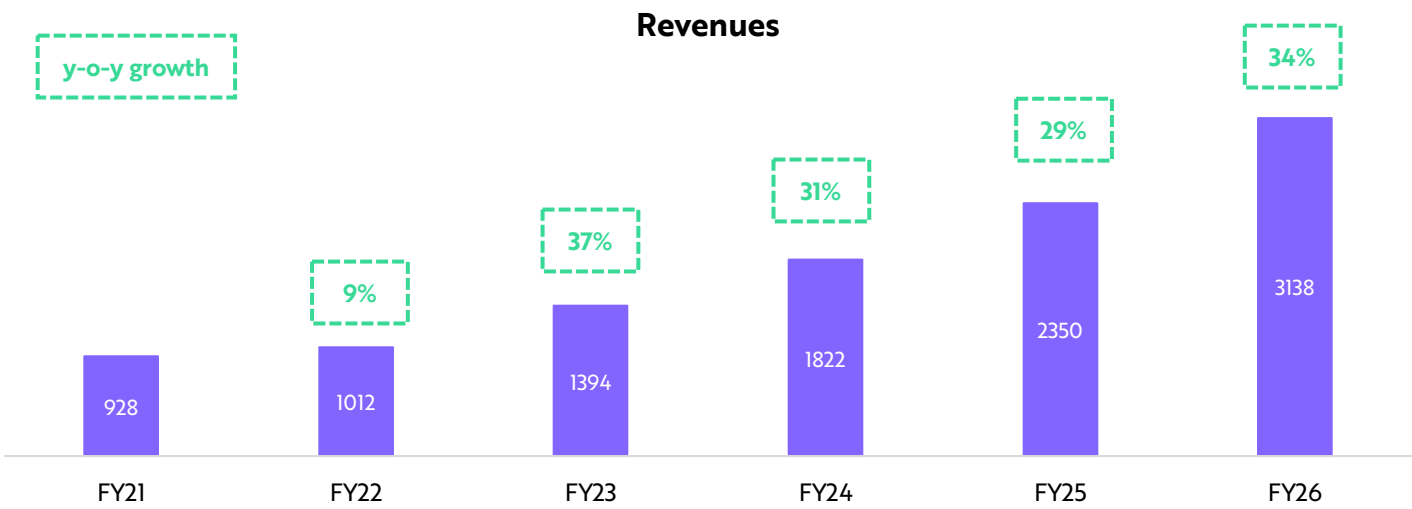
Over the years the company has stayed true to its focus on value added products and has avoided liquid milk;

Our Portfolio Across 5 Consumption Occasions

BASIC NEEDS	INDULGENCE PRODUCTS	ON THE GO PRODUCTS	AFTER MEAL PRODUCTS	HEALTHY CHOICES
Paneer, Butter, Curd, Ghee, UHT Milk	Cheese, Khova, Sweetened Condensed Milk, Cream	Yogurt, Milkshakes, Lassi, Buttermilk, Chocolates	Ice Cream, Gulab Jamun, Mishti Doi, Shrikhand	High-Protein Cheese & Paneer, Greek Yogurt, Skyr

640+ products across 22 categories, spanning breakfast to dinner and meeting evolving consumer expectations

This 100% focus on value added products has allowed Milky Mist to grow at strong rates and also command much higher profitability than other dairy companies;

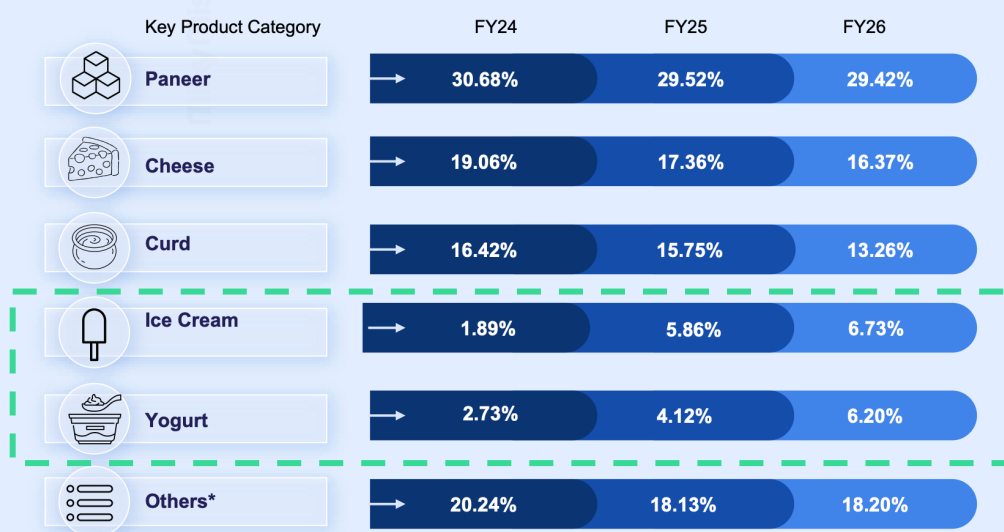


	Dodla Dairy	Hatsun Agro	Heritage Foods	Parag Milk Foods	Milky Mist
Value Added Mix % FY26	28%	~35%	35%	78%	100%
Revenue CAGR 5-Year	16%	12%	13%	16%	28%
EBITDA % FY26	8%	12%	6%	7%	14%

Panner, Cheese and Curd are the key product segments which have historically contributed ~2/3rd of company's revenues. And in the recent years, company has entered into high value-added product segments of Ice-cream, yogurt, chocolates & deserts. All of which have been scaling rapidly for the company.

ANNUAL REVENUE SPLIT – KEY PRODUCT CATEGORY

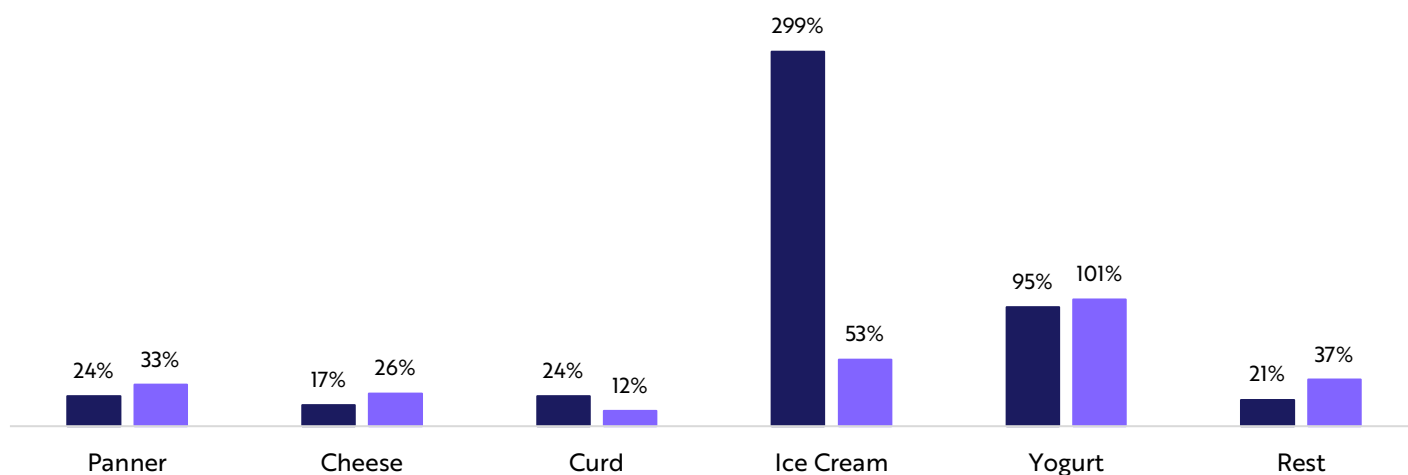
Milky Mist



*Other product categories include ghee, butter, UHT products,, powder, khova, chocolate, condensed milk, butter milk and desserts

Revenue Growth is Broad Based Across All Product Segments

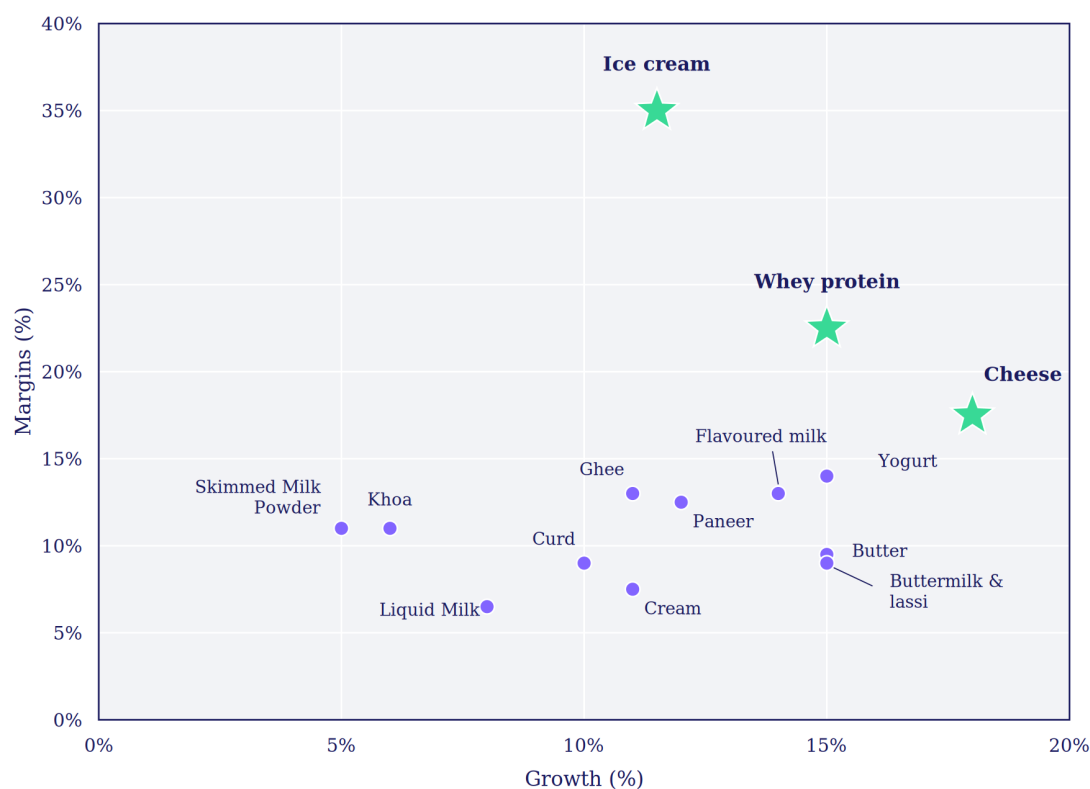
■ FY25 ■ FY26



These high value-added product segments have much higher margins vs company's current product portfolio and provide for further improvement in company's margin profile as share of these products increases;

Margins & growth outlook

(%, FY26)



★ represents high growth and high margins products

Source(s): 1Lattice analysis

Whey is another segment that the company is looking to enter shortly;

- Company produces a lot of whey powder as a by-product of its cheese & panner production.
- Currently it sells this bulk whey to B2B customers- contributing ~7% of its revenues.
- The company is in the process of setting up a facility to process this bulk whey into whey concentrate and enter into B2C whey protein segment.
- The plant is expected to become operational in next 15-18 months.

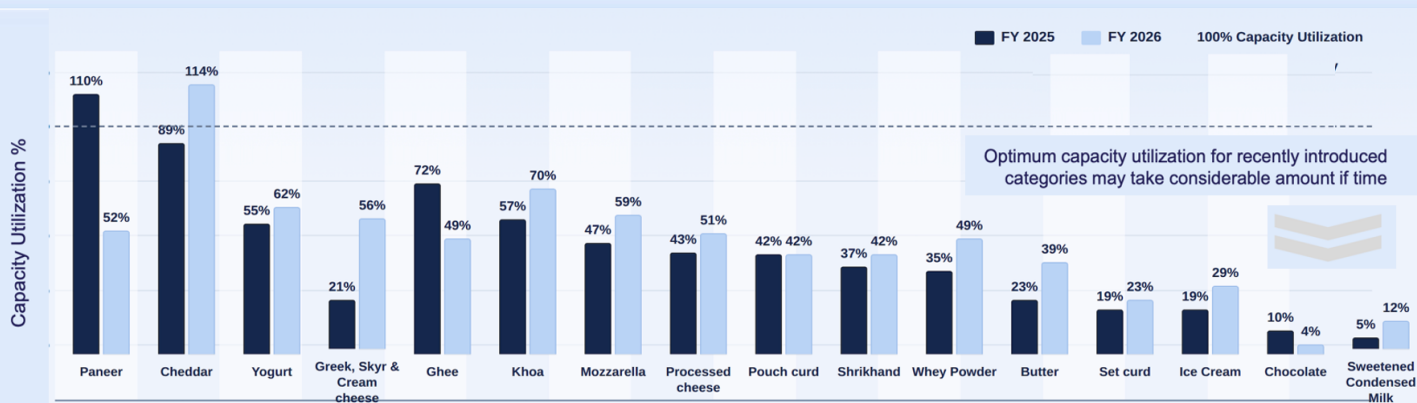
On top of improvement in profitability at gross margin level due to improved product mix, Milky Mist also has upside to profitability on the back of operating and financial leverage.

The company has undertaken large capacity expansions over last few years to support future growth and new product segments. And thus, its capacity utilization in many of the product segments is still low and overtime as the capacity utilization improves, the company should benefit from operating leverage.

ANNUAL CAPACITY UTILISATION

milkyMist[®]

Category Level Capacity Utilization (FY26) for Perundurai Manufacturing Facility



Capacity Enhancement Initiatives



Paneer capacity increased in June 2025 from 72 MT per day to 192 MT per day



Further capacity expansion in process for Cheddar Cheese from 15.6 MT per day to 120 MT per day



Capacity already increased for Ghee, Set Curd & Whey Powder

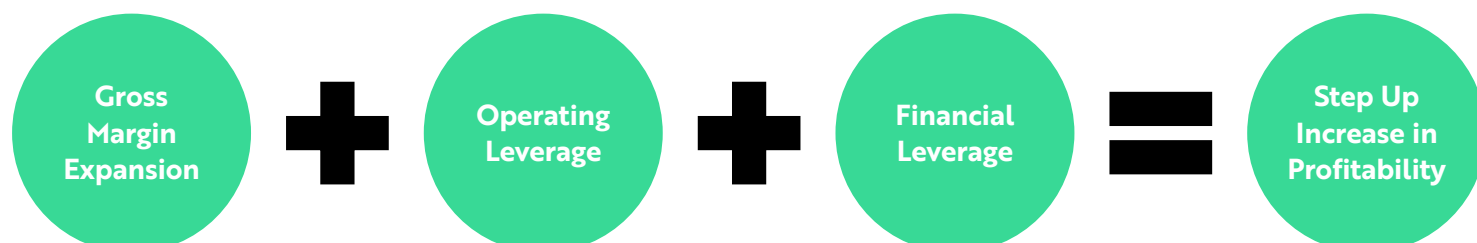
Company can do ~3-3.5x its FY26 revenues from current capacities & infrastructure.

These large capacity expansions has required company to invest significant amounts in capex; as a result, the company has seen its debt levels & associated interest expense increase over the last few years;

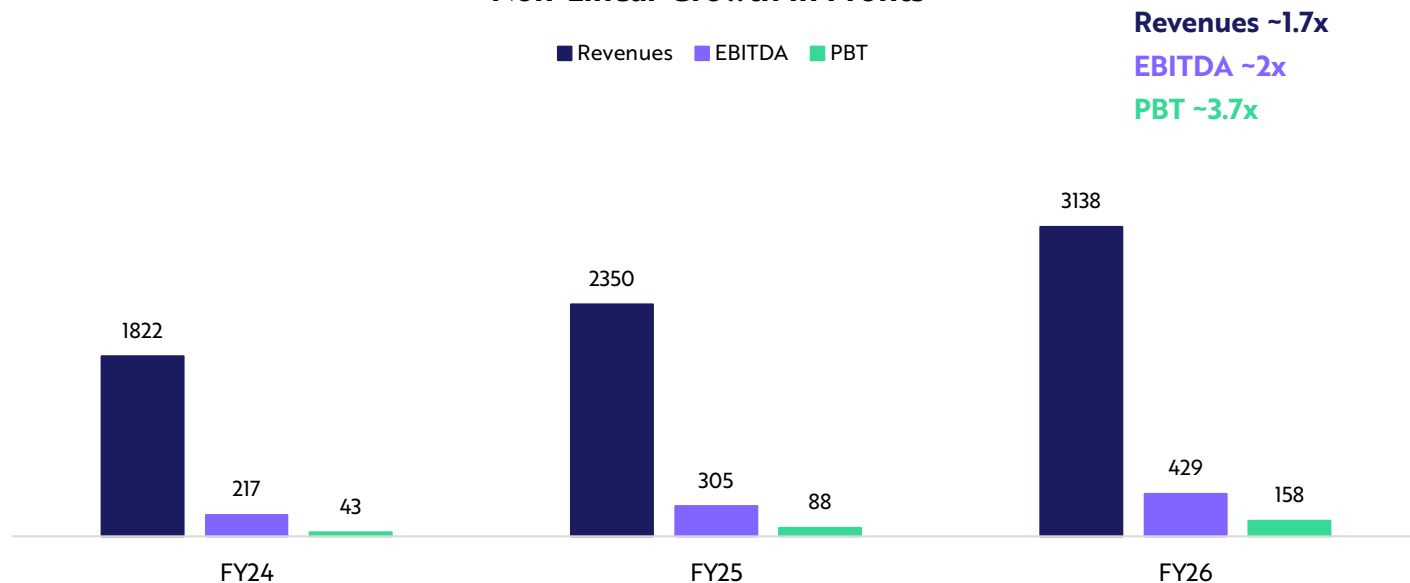
	FY23	FY24	FY25	FY26
CFO	175	140	315	302
Capex	392	292	595	470
Debt	804	1042	1384	1677
Interest Cost	57	85	104	129

In IPO, the company has raised a good ~Rs1430 crores of fresh funds which it intends to use for repaying debt and support ongoing capex. This will allow the company to continue to grow & expand capacities without increase in debt levels. As a result, interest costs will grow at much lower pace than the overall revenues and operating profits, resulting in large financial leverage.

On a PBT base of ~Rs160 crores in FY26, the company had ~Rs110 crores of finance costs



Non-Linear Growth In Profits



EXPECATATIONS GOING AHEAD

We believe that Milky Mist's pure focus on value added segments will allow it to continue to grow revenues at high rates of ~30%. This strong headline growth coupled with strong improvement in profitability on all three levels- gross, operating and financial should result in non-linear growth in company's profits over the coming years.

We are buying the stock at a market cap of ~Rs14,700 crores and based on our expectation of future profits, we believe there is good upside here over the medium term.

We have initiated here with 2 conviction rating and would look to increase our conviction rating based on company's Q1FY27 numbers.

RISKS

The primary risk in Mikly Mist is around its concentration of entire manufacturing at a single location. The company has a massive facility at Perundurai, Erode- Tamil Nadu; spread across ~73 acres.

Any incidents/accidents here could materially impact company's operations.

The company however has acquired a land (~48 acres) in Maharashtra in early 2026 and is looking to establish a manufacturing setup in the state to support diversification.

Ratings Explanation:

Buy: Expected total return (price appreciation plus dividend yield) of more than 10% over next 12 months.

Hold: Expected total return (price appreciation plus dividend yield) of +/- 10% over next 12 months.

Exit: No Further Coverage/Update on the stock.

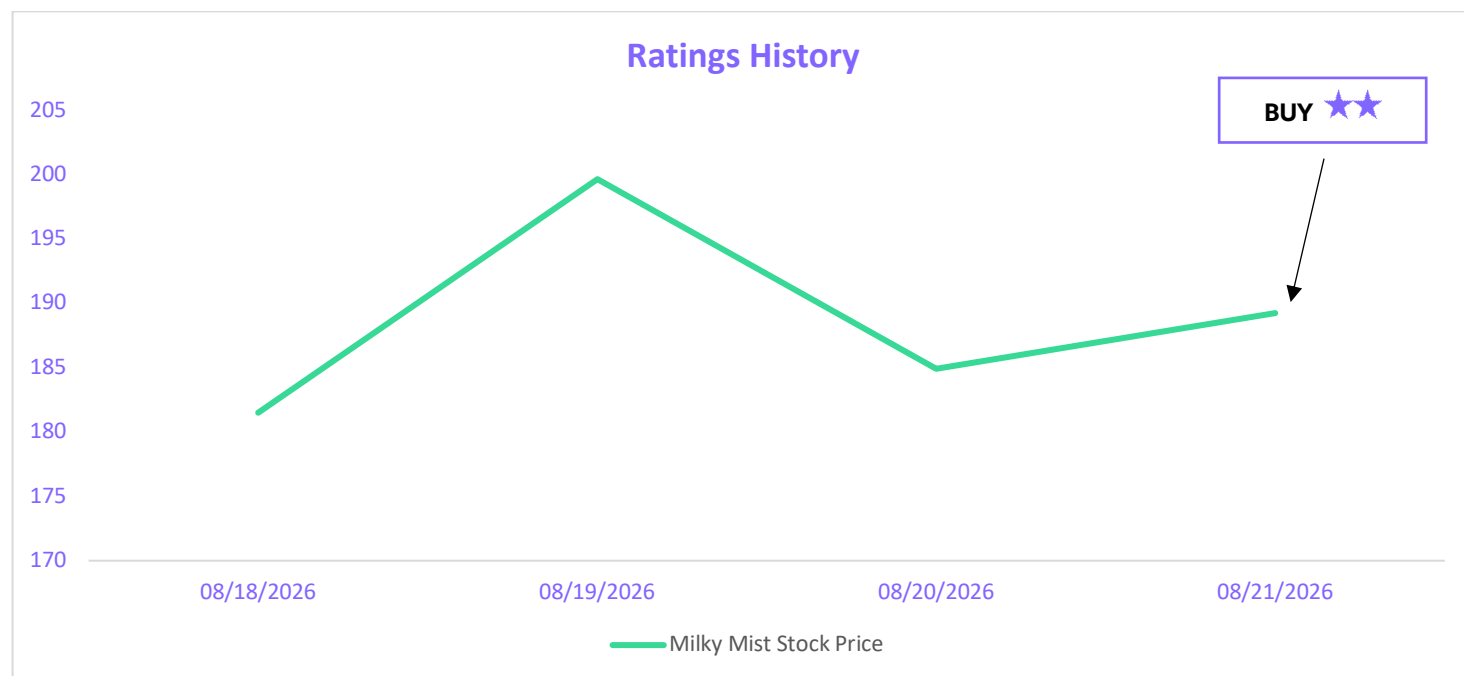
Conviction Rating:

Conviction rating reflects our understanding of return:risk ratio of the underlying stock for next 12 months. The rating is given within a range of 1-5 stars, wherein each higher star reflects a higher return:risk ratio; so, 1 star indicates a low return:risk ratio and 5 star indicates a high return:risk ratio.

The rating is based on our qualitative understanding of how the four factors of- Price Action, Earnings Growth, Valuations & Perception will play out over next 12 months for the stock.

Conviction ratings are to be read along with Buy & Hold ratings and no conviction rating is assigned for stocks with Exit rating.

Note: Ratings are valid till changed.



Note: Above chart indicates ratings assigned (including changes) over the period of coverage of stock.

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Analyst Certification**Analyst: Ankush Agrawal****Email: ankush@surgecapital.in****Analyst Ownership of Stock: Yes**

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