

Parag Milk Foods Ltd. (PARAGMILK) – Investment BUY Call Thesis

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 22 Sept 2026

CMP -> 272

Buying Range -> up to 278

Upside Potential-> 15%

Investment Horizon -> 6 to 9 Months

Target price -> 313

1. Business Overview, Key Business Segments & Integrated Supply Chain Moat

Three-Engine Brand Architecture & Segment Portfolio: Parag Milk Foods Limited operates an integrated dairy FMCG business model structured around three core product engines that progressively climb the consumer value ladder. The flagship everyday dairy segment—comprising Gowardhan and Go—contributes 60% of total company revenues. Gowardhan commands a leading 22% market share in branded cow ghee, while Go Cheese holds a dominant 35% market share in processed cheese. The Pride of Cows segment represents a premium farm-to-home subscription model selling single-origin milk at INR 120–135 per litre and single-origin ghee at INR 1,500 per litre directly to over 100,000 households across 8 major cities. The Avvatar sports nutrition division is India's first 100% vegetarian whey protein brand, utilizing liquid whey by-products from in-house cheese manufacturing, backed by a 10 lakh litres per day (LPD) whey processing capacity and a 40 MT per day lactose plant targeting an import-dependent domestic lactose market of 40,000–45,000 MT.

Vertically Integrated Procurement & Sourcing Infrastructure: The company's primary competitive moat rests on direct procurement from over 500,000 farmers across five states (Maharashtra, Andhra Pradesh, Telangana, Tamil Nadu and Karnataka) via 2,400+ village collection points and 300+ bulk milk coolers (BMCs), maintaining an average daily procurement volume of 15 lakh LPD. Sourcing security is anchored by the captive 35+ acre Bhagyalaxmi Dairy Farm, housing 5,000+ Holstein Friesian cows delivering an average yield of ~54 litres per cow per day—roughly four times the Indian national average of 12–13 litres. Total processing capacity stands at 3.4 million LPD across core facilities in Manchar (Maharashtra) and Palamaner (Andhra Pradesh), following the strategic monetization and sale of the Sonipat plant in May 2025.

Multi-Channel Distribution Matrix & End-User Reach: Parag Milk Foods services consumer, institutional and B2B channels through a pan-India distribution network covering 460,000 retail touchpoints, 4,500+ distributors, 500+ super stockists and 29 regional depots across General Trade (GT), Modern Trade (MT), Quick Commerce, E-Commerce and HoReCa channels. Key application industries include Quick Service Restaurants (QSRs) and institutional pizzerias—where Go Cheese powers one out of every three pizzerias in India. In the active nutrition category, Avvatar generates over 65% of its revenues through digital channels, maintaining a 14–15% market share across Quick Commerce and online marketplaces.

2. Financial Performance Analysis: Latest Q1FY27, Q4FY26 & FY26 Trajectory

Topline Acceleration & Volume Read-Through: In Q1FY27, Parag Milk Foods delivered its highest-ever Q1 revenue of INR 945 crore, representing an 11% YoY value growth and a 3% YoY volume expansion. This follows a strong FY26 performance where consolidated revenues crossed INR 3,800 crore, driven by double-digit revenue expansion and 5% overall volume growth (with core categories growing 8% YoY). Core portfolio volumes experienced a transient 2% YoY dip in Q1FY27 due to deliberate rationalization of low-margin institutional B2B contracts, whereas B2C flagship volumes expanded at close to high single-digit rates.

Gross Profitability Pass-Through & Input Cost Navigation: Consolidated Q1FY27 Gross Profit rose 11% YoY to INR 258 crore with stable gross margins (gm) at 27.3%, demonstrating management's ability to pass on elevated raw milk procurement costs (+13% YoY to INR 42 per litre) through calibrated price adjustments and promotional optimization. In Q4FY26, GM expanded sequentially to 28% (compared to 25.9% in Q3FY26), supported by targeted price increases across Gowardhan Ghee, liquid milk, Pride of Cows (increased from INR 120 to INR 135 per litre) and Avvatar portfolios.

Segmental Mix Realization & Tax-Adjusted Bottom Line: Q1FY27 EBITDA reached INR 70 crore, representing a 6% YoY increase with an EBITDA margin of 7.4%. While Profit Before Tax (PBT) remained flat YoY at INR 32.4 crore, Profit After Tax (PAT) declined 20% YoY to INR 22.1 crore, driven strictly by normalized current tax impacts rather than operational weakness. The high-margin New Age Business (Avvatar and Pride of Cows) surged 59% YoY in Q1FY27 to reach INR 118 crore in quarterly sales, increasing its contribution to total revenue to ~13% (up from 9% in Q1FY26).

3. Balance Sheet Strength, Cash Flow Conversion & Financial Flexibility

Industry-Leading Operating Cash Flow Conversion Ratios: Parag Milk Foods demonstrates top-tier earnings quality and operational execution through exceptional cash conversion statistics. Over the last three financial years, Cash Flow from Operations (CFO) to PAT ratios reached 113%, 179% and 111% respectively. Furthermore, CFO to Operating Profits ratios were recorded at 56%, 88% and 64% over the same three-year period. This continuous cash conversion highlights disciplined working capital control and cash-accretive operations across fluctuating input cost cycles.

Debt Position, Leverage Control & Liquidity Profile: The company maintains a well-capitalized balance sheet with prudent debt management. In FY26, Net Debt was reduced to INR 484 crore, resulting in a Net Debt-to-Equity ratio of 0.4x. This low financial leverage provides liquidity cushion and financial flexibility, enabling the company to fund substantial internal capital expenditures without over-leveraging its capital structure.

Working Capital Discipline & Inventory Quality: Total inventory at the close of FY26 stood at INR 730 crore. Management confirmed that the ~INR 150 crore YoY increase in inventory value was driven entirely by raw milk purchase price variance (+13% YoY) rather than physical stock accumulation or channel stuffing. Moreover, low-margin milk powder inventories are being systematically drawn down as processing capacity is prioritized toward value-added, higher-margin consumer goods.

4. Capital Expenditure Programs, Capacity Expansion & Milestones

Quadrupling Paneer Capacity to 80 MT/day: On September 21, 2026, company announced a major capital investment of approx. INR 100 crore to quadrupling its paneer manufacturing capacity from 20 MT per day to 80 MT per day across its facilities in Manchar (Maharashtra) and Palamaner (Andhra Pradesh), targeted for commissioning by June 2027. Paneer represents one of Parag's fastest-growing flagship categories, recording 28% growth over the past two years. This expansion leverages Parag's advanced packaging technology—offering a 75-day shelf life without preservatives—to capture market share in an organized paneer sector that currently accounts for only 5–6% of the overall market.

Doubling Go Cheese Capacity to 120 MT/day: The Board of Directors approved a brownfield expansion to double cheese manufacturing capacity from 60 MT per day to 120 MT per day at an estimated capex of INR 105 crore, scheduled for completion by March 2028. Go Cheese commands a 35% market share in an Indian cheese sector projected to grow from INR 12,900 crore to INR 62,000 crore by 2034. Crucially, expanding cheese production doubles internal liquid whey output, providing captive raw materials for the fast-growing Avvatar sports nutrition business.

Milk Procurement Scaling & Greenfield Bota Project: To support expanded processing assets, management plans to scale daily milk procurement from 15 lakh LPD to 40 lakh LPD by expanding decentralized Bulk Milk Coolers at stable pricing (~INR 42 per litre). Long-term raw milk security will be anchored by a 500-acre greenfield project at Bota near Nashik, designed to house ~20,000 cows. Total capex reached ~INR 100 crore in FY26, with FY27 capex guided at INR 60–70 crore to fund dairy expansions, lactose-to-whey plant optimizations and facility upgrades.

5. Near-Term Growth Catalysts, Product Innovations & New Age Business Scaling

New Age Business Hyper-Growth & Margin Accretion: The New Age Business segment (Avvatar and Pride of Cows) serves as the primary near-term growth catalyst, generating INR 118 crore in Q1FY27 quarterly revenue (+59% YoY) and contributing ~13% to consolidated turnover. Operating at approximately double the company's overall average EBITDA margin, every percentage point shift in product mix toward this segment directly enhances corporate blended profitability. Management targets expanding New Age revenue contribution to 20–25% within 3 to 5 years.

Snacking Portfolio Entry via Avvatar Popped Chips & RTD Coffee: On September 9, 2026, Parag Milk Foods expanded into functional snacking with the launch of **Avvatar Popped Protein Chips** (available in Magic Masala and Pudina, non-fried, providing 10g protein per 30g pack at INR 60, with no palm oil, added sugar or preservatives). Distributed via e-commerce, quick commerce, vending machines, GT and MT, this launch follows the Q1FY27 introduction of Avvatar Ready-To-Drink (RTD) Protein Cold Coffee in Tetra Pak (15g protein per 250ml at INR 120) and the Avvatar Protein Wafer Bar (which contributes 8% of brand sales, targeting placement in 150,000 outlets within 3 years).

Deep Geographic Expansion into North and South India: Parag Milk Foods is actively expanding distribution across Uttar Pradesh (~21 crore population) and four South Indian states (~28 crore population)—regions representing ~30% of India's population where company penetration was historically low. Supported by cold chain infrastructure and regional warehouses, general trade expansion is adding ~30,000 retail outlets per quarter, progressing toward a 3-year target of exceeding 1.5 million outlets. Concurrently, Pride of Cows expanded into 8 major cities (adding Bengaluru, NCR, Ahmedabad, Vadodara and Chandigarh) and introduced value-added extensions like Greek yogurt and high-protein paneer, driving 36% value growth.

6. Long-Term Structural Growth Opportunities, Sector Tailwinds & Leadership

Consumer Shift to Organized Brands & Analogue Ban Regulations: The Indian dairy sector is benefiting from an accelerating consumer transition from unorganized options to branded, packaged products due to quality and safety considerations. Regulatory crackdowns, such as the Maharashtra FDA's actions against vegetable-fat-based analogue paneer, directly favor compliant organized players like Parag Milk Foods, which uses 100% cow milk fat across its Gowardhan fresh paneer portfolio. Furthermore, the domestic sports nutrition whey market (valued at INR 1,600 crore) is compounding at a 30% CAGR, positioning Avvatar to capture rising active nutrition demand.

Appointment of Chief R&D, Quality Control & Food Safety Officer: On September 18, 2026, Parag Milk Foods appointed Phalgun Trivedi as Chief – R&D, Quality Control and Food Safety Officer. Bringing over 30 years of global food, beverage and dairy experience across major multinational organizations (including Unilever, Coca-Cola, General Mills, Parle Agro, Heinz, Yum! Brands, Danone and Lactalis), Trivedi will lead product R&D, quality control and food safety standards across all manufacturing operations as the company expands its value-added dairy and nutrition portfolios.

Global Export Platform via Parag Foods Middle East FZE (Dubai): The company incorporated a direct Middle Eastern subsidiary—Parag Foods Middle East FZE in Dubai—and completed bank account setup in Q4FY26 to scale direct export channels. Exports currently account for 2.68% of total revenue across 16 countries. Establishing a company-owned depot and expanding regional distribution networks in the Middle East provides a long-term international platform to scale branded dairy and nutrition sales as regional trade channels normalize.

7. Operating Leverage, Margin Expansion Potential & Cost Efficiency

Scale-Driven Fixed-Cost Absorption via Capacity Utilization: Operating leverage is projected to materialize over the coming quarters as throughput across processing plants scales. Expanding cheese capacity from 60 to 120 MT per day and paneer capacity from 20 to 80 MT per day maximizes utilization at the Manchar and Palamaner plants, reducing per-unit utility, processing and administrative overhead costs. Fixed cost absorption, coupled with seasonal volume surges during Q2/Q3 festive periods, provides strong structural support for operating margin expansion.

Structural Margin Accretion from Double-Margin Product Mix: Blended corporate EBITDA margins benefit from an accelerating mix shift toward high-margin consumer products. The rapid compounding of Avvatar sports nutrition products, Pride of Cows subscription services and premium packaged Gowardhan Ghee (which commands a 20–25% price premium over its nearest competitor) dilutes the share of lower-margin liquid milk and institutional B2B sales. Management maintains a clear strategic objective to expand corporate EBITDA margins into double-digit territory.

Calibrated Pass-Through Pricing & Operational Efficiencies: Management has demonstrated consistent pricing power by passing on raw milk inflation through calibrated retail price revisions across ghee, liquid milk, Pride of Cows and Avvatar products. Operational efficiency is further enhanced by cost optimization across supply chain routes, promotional spending optimization and cross-selling synergies between traditional dairy distribution channels and quick-commerce platforms.

8. Short-Term Operational Challenges, Cost Volatility & Domestic Headwinds

Raw Milk Procurement Price Volatility: Earnings over the next 1–2 quarters remain susceptible to raw material price fluctuations, with raw milk procurement costs elevated at INR 42 per litre (+13% YoY). While the company has successfully implemented calibrated price pass-throughs to protect gross margins, sudden upward shifts in regional milk prices or unseasonal flush delays could create temporary margin compression before retail price adjustments are fully realized.

Structural Reduction in State GST Incentive Realizations: Following the September 2025 GST rate reduction on ghee and cheese from 12% to 5%, government incentive realizations under the Maharashtra State Promotion Scheme for Incentive (PSI) have structurally decreased. Because PSI benefits are linked directly to SGST collections, incentive income fell to INR 46 crore in FY26 (compared to INR 88 crore in FY25), with minor further reductions expected in future quarters.

B2B Institutional Contract Discipline & Margin Defense: In response to raw milk inflation, management has adopted a strict profitability-over-volume stance in its institutional B2B segment, walking away from low-margin, hard-bargaining institutional accounts. While this discipline protects corporate gross margins, it resulted in a transient 2% YoY volume dip in core flagship categories in Q1FY27. Re-negotiating episodic B2B supply contracts represents an ongoing short-term operational balancing act between volume growth and margin protection.

9. Geopolitical Risks, Macroeconomic Uncertainties & Medium-Term Investment Verdict

Geopolitical Uncertainties & Middle East Depot Staging Pause: In an uncertain global macroeconomic and geopolitical environment, international expansion timelines have experienced minor operational adjustments. The commercial launch of the company-owned depot under Parag Foods Middle East FZE in Dubai remains temporarily paused pending regional stabilization, maintaining direct distributor exports in the interim. Unexpected geopolitical disruptions or trade route delays could temporarily affect international sales momentum.

Global Whey Commodity Volatility & Regulatory Compliance: Global whey protein benchmark prices exhibit inherent cyclicity. While Avvatar benefits from captive in-house whey production derived from cheese manufacturing, extreme swings in international whey powder prices or sudden changes in domestic food safety packaging regulations present external operational variables requiring continuous management oversight and agile pricing strategy adjustments.

Investment Conclusion & BUY Recommendation (6 to 9 Month Horizon): Parag Milk Foods presents a compelling medium-term BUY thesis supported by a strong value-added product mix, robust cash conversion (CFO to PAT of 111% in FY26), a healthy balance sheet (Net Debt/Equity of 0.4x) and transformative capacity expansion programs in high-margin cheese (INR 105 crore capex) and paneer (INR 100 crore capex). With the New Age business scaling at 59% YoY and operating margins poised to benefit from scale-driven operating leverage and distribution depth in North and South India, the company is well-positioned for earnings acceleration over a 6 to 9-month investment horizon.



FY26

BUSINESS COMPOSITION



10%
New age
business



60%
Core categories



13%
Ingredients
& SMP



9%
Liquid milk



8%
Others



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FY22 to FY26 CAGR



51% CAGR
New Age Business



18% CAGR
Core Categories



1% CAGR
Ingredients



16% CAGR
Liquid Milk



22% CAGR
Others



Overall Revenue 17% CAGR

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Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team