

CMP: INR 493

Rating: BUY

Target Price: INR 571

Stock Info

BSE	519552
NSE	HERITGFOOD
Bloomberg	HTFL:IN
Reuters	HEFI. NS
Sector	Dairy Products
Face Value (INR)	5
Equity Capital (INR Cr)	46.4
Mkt Cap (INR Cr)	4,572
52w H/L (INR)	356/658
Avg Daily Vol (in 000')	473

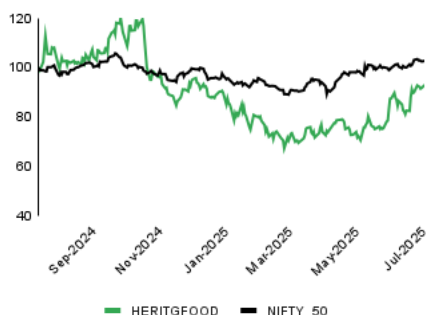
Shareholding Pattern %

(As on Jun 2025)

Promoters	41.30
FII	6.16
DII	4.14
Public & Others	48.40

Stock Performance (%)	1m	6m	12m
Heritage	11.5	7.8	(8.3)
Nifty 50	0.63	6.96	0.68

Heritfood vs Nifty 50



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Heritage Foods begins Q1FY26 with robust topline growth, driven by record-high revenues, though margin pressures impacted profitability. Consolidated revenue reached INR 11,367.5 Mn (+10.08% YoY, +8.42% QoQ), surpassing our estimate of INR 10,873.05 Mn. Gross Profit stood at INR 2,705.06 Mn (+2.8% YoY, +1.42% QoQ), slightly below our expectation due to higher input costs. Gross Margin contracted to 23.81% (vs 25.49% in Q1FY25 and 25.45% in Q4FY25), missing our forecast of 24.5%. EBITDA was INR 738.87 Mn (-21.23% YoY, -7.50% QoQ), below our estimate of INR 789.38 Mn. EBITDA Margin declined to 6.5% (vs 9.08% in Q1FY25 and 7.62% in Q4FY25), against our projection of 7.28%. PAT was INR 405.46 Mn (-30.61% YoY, +6.24% QoQ), missing our estimate of INR 476.28 Mn due to increased employee costs and lower other income. However, in the early part of Q1, demand for VAP dropped due to irregular monsoons and a cooler-than-usual summer, but strong sales in June, especially for curd and flavored milk, balanced out the early slowdown.

Operational Highlights: Milk procurement grew 10% YoY to 17.8 LLPD, driven by a well-established sourcing network comprising 300,000 farmers across 9,000+ villages. Liquid milk sales rose 2.8% YoY to 11.6 LLPD, with average realizations improving to INR 56.4/litre, underscoring sustained pricing power. Raw milk prices were up 4.7% YoY during the lean season (May–June), but price hikes were deferred due to lower VAP sales and deliberate volume-driven pricing strategies in April–May. Bulk fat sales totaled 620 tons, generating INR 360 Mn revenue, with fat losses narrowing by 6% YoY to INR 85 Mn. SMP inventory stood at 6,197 MT (compared to 4,586 MT last year) due to lower VAP consumption and is expected to normalize by mid-Q3.

Cost Structure & Working Capital Efficiency: The working capital cycle for Q1 was 19 days, a slight improvement from 20 days on March 31st. The company aims to maintain it under 20 days. Other expenses were higher due to an INR 7 Cr increase in marketing expenses (deliberate for brand building, including a curd campaign and the first-ever milk brand purity campaign) and an INR 4 Cr increase in freight costs.

Outlook and Valuation: Despite near-term weather-led softness, we remain positive on Heritage Foods' growth trajectory, driven by VAP-led premiumization, new product launches, digital initiatives, and distribution expansion. The company is positioned to deliver a mid-teens earnings CAGR over FY25–28E, supported by margin recovery, high ROCE, and strong brand equity in South India. Stable procurement dynamics and pricing power further enhance the near-term outlook. **We revise our target price to INR 571 (from INR 531), valuing the stock at PE of 24x and FY27E EPS of INR 23.8**

Particulars (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
Net sales	32,407	37,939	41,346	46,859	53,300
Growth (%)	20.86	17.07	8.98	13.33	13.75
EBITDA margin	4.27	5.54	8.02	6.76	6.91
Adjusted net profit	665	1,131	2,039	1,916	2,206
Adjusted EPS (Rs)	7.2	12.2	22.0	20.7	23.8
RoCE	12.7	16.5	26.2	21.7	22.6
PER	24.1	14.2	7.9	14.1	12.3
Price/Book	2.2	2.0	1.7	2.7	2.2
EV/EBITDA	12.5	7.1	4.5	8.3	7.1

Source: Company, Arihant Research

INR Mn (Consolidated)	Q1FY26	Q4FY25	Q1FY25	Q-o-Q	Y-o-Y
Net Revenue	11368	10485	10327	8.42%	10.08%
Raw Material Costs	8661	7816	7694	10.81%	12.57%
Gross Profit	2706	2668	2632	1.42%	2.80%
<i>Gross Margin</i>	<i>23.81%</i>	<i>25.45%</i>	<i>25.49%</i>	<i>-164bps</i>	<i>-168bps</i>
Employee costs	842	807	753	4.28%	11.80%
Other Expenses	1126	1062	941	5.94%	19.56%
EBITDA	739	799	938	-7.50%	-21.23%
<i>EBITDA margin</i>	<i>6.50%</i>	<i>7.62%</i>	<i>9.08%</i>	<i>-112bps</i>	<i>-258bps</i>
Other Non-Operating Income	53	65	56	-19.25%	-5.20%
Depreciation	187	178	166	4.92%	12.42%
EBIT	605	686	827	-11.84%	-26.92%
Finance costs	42	42	34	0.53%	23.52%
Share of profit/ loss from associates	-13	-15	-16	-13.91%	-15.52%
Exceptional Items	-	-87	-	-	-
Tax Expense	144	160	193	-10.02%	-25.57%
<i>Effective tax rate</i>	<i>26.21%</i>	<i>29.55%</i>	<i>24.88%</i>	<i>-334bps</i>	<i>133bps</i>
PAT	405	382	584	6.24%	-30.61%
<i>PAT margin</i>	<i>3.55%</i>	<i>3.65%</i>	<i>5.64%</i>	<i>-10bps</i>	<i>-208bps</i>

Heritage Novandie Foods (HNFPL) Integration: The company has increased its stake in Heritage Novandie Foods to 94.4%, repurposing it to co-pack yogurts under the Livo brand. Initial launches through modern retail and e-commerce have been encouraging. The business aims to build 2 tons/day of yogurt volumes within a year, scaling to 10 tons/day in 3 years. HNFPL reported an operational loss of INR 13.1 Mn in Q1.

CapEx & New Product Categories: The company is executing an INR 220+ crore CapEx on a greenfield ice cream facility, set to be operational by end-CY25, to capture emerging demand in premium frozen desserts. Heritage also continues to innovate with millet-based sweets (Truly Good), whey drinks (Gluco Shakti), and fortified milk offerings.

Brand Building Initiatives: The company rolled out 360-degree brand campaigns across Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka to deepen consumer engagement and brand visibility. These initiatives supported a sharp recovery in June, with overall revenue growth at 15.1% and VAP growth at 11%, signaling normalization from July.

Innovation & R&D: The roadmap involves deeper direct farmer engagement, regional sourcing diversification, investments in R&D (lactose-free and fortified products), and increased focus on traceability and sustainability.

Value Added Products: VAP contributed over 40% to the topline. Revenues from VAP (including ghee and butter consumer packs) stood at INR 4,540 mn, growing 7.4% YoY.

Curd sales crossed 510 tons per day for the first time quarterly, up from 494 tons per day in the same period last year. Q1 FY26 curd revenue was approximately INR 2,800 Mn.

Income Statement

INR Mn	FY24	FY25	FY26E	FY27E
Net sales	37,939	41,346	46,859	53,300
Growth (%)	17.1	9.0	13.3	13.7
Operating expenses	(35,837)	(38,030)	(43,691)	(49,616)
Operating profit	2,102	3,316	3,168	3,683
Other operating income				
EBITDA	2,102	3,316	3,168	3,683
Growth (%)	51.8	57.8	(4.5)	16.3
Depreciation	(615)	(702)	(806)	(959)
Other income	120	279	293	307
EBIT	1,607	2,893	2,654	3,032
Finance cost	(91)	(154)	(165)	(167)
Exceptional & extraordinary				
Profit before tax	1,516	2,739	2,489	2,865
Tax (current + deferred)	(385)	(700)	(572)	(659)
P / L form discontinuing operations				
Profit / (Loss) for the period	1,131	2,039	1,916	2,206
P/L of Associates, Min Int, Pref Div				
Reported Profit / (Loss)	1,131	2,039	1,916	2,206
Adjusted net profit	1,131	2,039	1,916	2,206
Growth (%)	70	80	(6)	15

Balance Sheet

INR Mn	FY24	FY25	FY26E	FY27E
Share capital	464	464	464	464
Reserves & surplus	7,672	9,256	9,526	11,614
Shareholders' funds	8,136	9,720	9,990	12,078
Minority Interests and others				
Non-current liabilities	1,659	2,098	2,098	2,098
Long-term borrowings	751	1,110	1,110	1,110
Other non-current liabilities	907	988	988	988
Current liabilities	3,071	3,766	3,175	3,564
ST borrowings, Curr maturity	226	254	266	280
Other current liabilities	2,844	3,512	2,908	3,284
Total (Equity and Liabilities)	12,865	15,583	15,262	17,739
Non-current assets	7,615	8,732	9,624	11,101
Fixed assets (Net block)	7,203	8,114	9,007	10,484
Non-current Investments	177	96	96	96
Other non-current assets	121	521	521	521
Current assets	5,250	6,852	5,638	6,638
Cash & current investment	2,060	2,559	2,143	2,454
Other current assets	3,190	4,293	3,495	4,184
Total (Assets)	12,865	15,583	15,262	17,739
Total debt	978	1,364	1,377	1,390
Capital employed	10,021	12,071	12,354	14,455

Cash Flow Statement

INR Mn	FY24	FY25	FY26E	FY27E
Profit before tax	1,516	2,739	2,489	2,865
Depreciation	615	702	806	959
Change in working capital	2,234	(266)	194	(313)
Total tax paid	(371)	(674)	(572)	(659)
Others	91	156	165	169
Cash flow from oper. (a)	4,084	2,658	3,082	3,021
Capital expenditure	(1,402)	(1,613)	(1,699)	(2,436)
Change in investments	(1,254)	(560)		
Others	(71)	(400)		1
Cash flow from inv. (b)	(2,727)	(2,573)	(1,699)	(2,435)
Free cash flow (a+b)	1,358	85	1,383	586
Equity raised/(repaid)				
Debt raised/(repaid)	(415)	386	13	13
Dividend (incl. tax)	(116)	(116)	(116)	(116)
Others	(180)	(497)	(1,695)	(172)
Cash flow from fin. (c)	(711)	(226)	(1,799)	(274)
Net chg in cash (a+b+c)	647	(142)	(415)	311

Source: Arihant Research, Company Filings

Key ratios (%)	FY24	FY25	FY26E	FY27E
Adjusted EPS (Rs)	12.2	22.0	20.7	23.8
Growth	70.1	80.3	(6.0)	15.1
CEPS (Rs)	18.8	29.5	29.3	34.1
Book NAV/share (Rs)	87.7	104.7	107.7	130.2
Dividend/share (Rs)	1.3	1.3	1.3	1.3
Dividend payout ratio	10.3	5.7	6.1	5.3
EBITDA margin	5.5	8.0	6.8	6.9
EBIT margin	4.2	7.0	5.7	5.7
Tax rate	25.4	25.5	23.0	23.0
RoCE	16.5	26.2	21.7	22.6
Total debt/Equity (x)	0.1	0.1	0.1	0.1
Net debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Du Pont Analysis - ROE				
Net margin	3.0	4.9	4.1	4.1
Asset turnover (x)	3.1	2.9	3.0	3.2
Leverage factor (x)	1.6	1.6	1.6	1.5
Return on equity	14.7	22.8	19.4	20.0
Valuations (x)	FY24	FY25E	FY26E	FY26E
PER	14.2	7.9	14.1	12.3
PCE	9.2	5.9	10.0	8.6
Price/Book	2.0	1.7	2.7	2.2
Yield (%)	0.7	0.7	0.4	0.4
EV/EBITDA	7.1	4.5	8.3	7.1

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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