

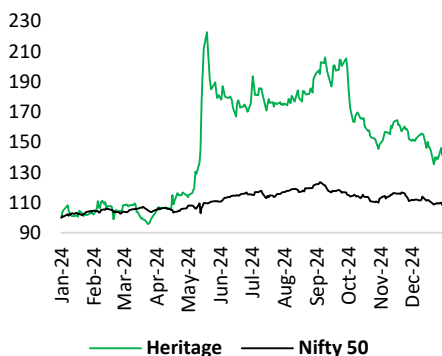
CMP: INR 451
Rating: BUY
Target Price: INR 804
Stock Info

BSE	519552
NSE	HERITGFOOD
Bloomberg	HTFL:IN
Reuters	HEFI. NS
Sector	Dairy Products
Face Value (INR)	5
Equity Capital (INR Cr)	46
Mkt Cap (INR Cr)	4,098
52w H/L (INR)	727/ 296
Avg Daily Vol (in 000')	75

Shareholding Pattern %
(As on December 2024)

Promoters	41.30
FII	6.65
DII	3.89
Public & Others	48.08

Stock Performance (%)	1m	3m	12m
Heritage	(5.5)	(25.2)	42.6
Nifty 50	(2.7)	(5.4)	8.8

Heritage vs Nifty 50

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Heritage delivered a spectacular performance with beats across the board. Q3FY25 Revenue was up 9.86% YoY to INR 10,339 Mn (+1.41% QoQ), beating our estimate of INR 10,070 Mn by 2.67%. Gross Margin expanded 336bps YoY 24.26% (-49bps QoQ). EBITDA grew 42.51% YoY to INR 741 Mn (-11.04% QoQ), beating our estimate of INR 554 Mn by 33.66%. EBITDA Margin expanded 164bps YoY to 7.16% (-100bps QoQ), beating our estimate of 5.5% by 166bps. PAT grew 60.05% YoY to INR 431 Mn (-11.46% QoQ), beating our estimate of INR 294 Mn by 46.44%. **VAP sales this quarter stood at 28%, propelled by a high share of fat due to Q3 festivities.**

Milk price trajectory shifts: Milk prices had peaked in Q1FY24, and have been falling since. However, there now a visible stiffness in them, as they have bottomed out and have started inching upward. We expect them to increase by INR 1-2 per liter this year which will dampen gross margins a bit in Q4FY25 and FY26.

Flush mechanics and procurement prices: The Q3 buffalo flush led to buffalo milk prices falling by INR 2.75 per liter, however, the consequent increase in cow milk prices post the Q2 cow flush led to consolidated procurement prices being slightly higher this quarter. The Q3 milk cost for the company is INR 42 per liter and corresponding realization was INR 54.64

Ongoing capex in VAP: The current ice cream facility has already peaked at an INR 100-110 Cr annual revenue, hence, they are considering setting up more lines which could lead to a 20% increase in ice cream sales.

Management targets: The company maintains an aspirational steady state 7-8% EBITDA Margin with a VAP share of 40% by FY28. They aim to increase milk procurement to 2MLPD by FY26.

Outlook and Valuation: We upgrade our TP from INR 637 to INR 804, valued at a P/E multiple of 30x the FY26E EPS of INR 26.8. To factor in the increasing share of VAP with margin improvement, we increase our FY25E/ FY26E EPS from 16.3/21.2 to 23.1/26.8. Heritage Nutrivet has drastically improved its performance owing to changes in operational processes and management. HTFL is now navigating a high cost environment with improved distribution in existing markets and strategic expansions into newer ones, alongside securing its procurement which buffers them from facing deficiencies.

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E
Net sales	32,407	37,939	42,215	48,101
Growth (%)	20.86	17.07	11.27	13.94
EBITDA	1,385	2,102	3,342	3,884
Growth (%)	(27.59)	51.81	59.00	16.21
EBITDA margin	4.27	5.54	7.92	8.07
Adjusted net profit	665	1,131	2,142	2,486
Growth (%)	(40.44)	70.07	89.41	16.07
Adjusted EPS (Rs)	7.2	12.2	23.1	26.8
RoCE	12.7	16.5	28.5	29.0
Total debt/Equity (x)	0.2	0.1	0.1	0.1
PER	24.1	14.2	7.5	10.9
Price/Book	2.2	2.0	1.9	2.5
EV/EBITDA	12.5	7.1	4.6	6.5

Source: Company, Arihant Research

INR Mn (Consolidated)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Net Revenue	10,339	10,195	9,411	1.41%	9.86%
Raw Material Costs	7,831	7,672	7,445	2.07%	5.19%
Gross Profit	2,508	2,523	1,966	-0.59%	27.54%
<i>Gross Margin</i>	<i>24.26%</i>	<i>24.75%</i>	<i>20.90%</i>	<i>-49bps</i>	<i>336bps</i>
Employee costs	790	781	664	1.15%	19.05%
Other Expenses	977	909	783	7.47%	24.81%
EBITDA	741	832	520	-11.04%	42.51%
<i>EBITDA margin</i>	<i>7.16%</i>	<i>8.16%</i>	<i>5.52%</i>	<i>-100bps</i>	<i>164bps</i>
Other Non Operating Income	83	75	30	11.82%	177.46%
Depreciation	178	173	155	2.37%	14.42%
EBIT	646	733	394	-11.89%	63.84%
Finance costs	40	39	18	2.87%	122.68%
Share of profit/ loss from associates	(18)	(20)	(16)	-8.59%	14.09%
PBT	588	675	361	-12.83%	63.14%
Tax Expense	158	188	92	-16.37%	72.24%
<i>Effective tax rate</i>	<i>26.80%</i>	<i>27.93%</i>	<i>25.38%</i>	<i>-113bps</i>	<i>142bps</i>
PAT	431	486	269	-11.46%	60.05%

Source: Company, Arihant Research

Product wise volume growth: The company hasn't taken any price increase for the 18 months, so all growth was volume led: Milk 6.37%, Curd 12.37%, VAPs (total) 14%, Drinkables 23%, Cheese 60%, Sweets 38%, Ice cream 21%, paneer 71%.

Revenue from **ghee and fat sales via ecommerce and quick commerce** which have much higher realizations compared to physical store sales are significantly higher compared to LY.

Bulk fat sales generally come in Q2 and Q3, coming in at INR 54.66 Cr in Q3FY25 vs INR 52.17 Cr in Q3FY24.

Marketing spends will be maintained at 1% of sales.

Other income is much higher due to excess cash being placed into liquid mutual funds.

Cooperatives have recently taken an INR 2 price increase in major metropolitan areas, the company is open to following suit in the near future.

Operational metrics: Milk procurement jumped 12.6% to 1.84 MLPD. Procurement prices stood at INR 42/liter, reflecting a 2.7% YoY decline but an INR 1.66 rise sequentially. Milk sales are up 6.08% to 1.17 MLPD, with a slight dip in selling price to INR 54.64/liter due to a change in product mix.

Export Growth: Exports to the US, Singapore, and the Middle East grow rapidly at 50-60%, though their present contribution remains minimal.

Geographic Expansion: They are progressing into new markets via e-commerce and retail channels, currently spread across 17 states. Recent expansions include West Bengal, Bihar, Jharkhand, Mysore, Kozhikode, and Faridabad. The focus remains on deepening penetration rather than expanding into new states.

Income Statement

INR Mn	FY23	FY24	FY25E	FY26E
Net sales	32,407	37,939	42,215	48,101
<i>Growth (%)</i>	20.9	17.1	11.3	13.9
Operating expenses	(31,022)	(35,837)	(38,872)	(44,217)
Operating profit	1,385	2,102	3,342	3,884
Other operating income				
EBITDA	1,385	2,102	3,342	3,884
<i>Growth (%)</i>	(27.6)	51.8	59.0	16.2
Depreciation	(564)	(615)	(687)	(806)
Other income	121	120	239	251
EBIT	942	1,607	2,895	3,329
Finance cost	(39)	(91)	(148)	(100)
Exceptional & extraordinary				
Profit before tax	903	1,516	2,746	3,229
Tax (current + deferred)	(238)	(385)	(604)	(743)
P / L form discontinuing operations				
Profit / (Loss) for the period	665	1,131	2,142	2,486
P/L of Associates, Min Int, Pref Div				
Reported Profit / (Loss)	665	1,131	2,142	2,486
Adjusted net profit	665	1,131	2,142	2,486
<i>Growth (%)</i>	(40)	70	89	16

Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E
Share capital	464	464	464	464
Reserves & surplus	6,795	7,672	7,916	10,286
Shareholders' funds	7,259	8,136	8,380	10,750
Minority Interests and others				
Non-current liabilities	846	1,659	1,659	1,659
Long-term borrowings	45	751	751	751
Other non-current liabilities	801	907	907	907
Current liabilities	3,146	3,071	2,507	2,832
ST borrowings, Curr maturity	1,348	226	238	249
Other current liabilities	1,798	2,844	2,270	2,583
Total (Equity and Liabilities)	11,250	12,865	12,546	15,241
Non-current assets	6,717	7,615	7,820	8,940
Fixed assets (Net block)	6,417	7,203	7,408	8,528
Non-current Investments	144	177	177	177
Other non-current assets	50	121	121	121
Current assets	4,533	5,250	4,726	6,301
Cash & current investment	192	2,060	1,651	2,844
Other current assets	4,341	3,190	3,075	3,457
Total (Assets)	11,250	12,865	12,546	15,241
Total debt	1,393	978	989	1,001
Capital employed	9,452	10,021	10,277	12,658

Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E
Profit before tax	903	1,516	2,746	3,229
Depreciation	564	615	687	806
Change in working capital	(1,775)	2,234	(460)	(69)
Total tax paid	(229)	(371)	(604)	(743)
Others	39	91	148	100
Cash flow from oper. (a)	(499)	4,084	2,517	3,324
Capital expenditure	(1,151)	(1,402)	(892)	(1,926)
Change in investments	30	(1,254)		
Others	(46)	(71)		
Cash flow from inv. (b)	(1,167)	(2,727)	(892)	(1,926)
Free cash flow (a+b)	(1,667)	1,358	1,625	1,398
Equity raised/(repaid)	222			
Debt raised/(repaid)	1,247	(415)	11	12
Dividend (incl. tax)	(116)	(116)	(116)	(116)
Others	149	(180)	(1,929)	(101)
Cash flow from fin. (c)	1,502	(711)	(2,034)	(205)
Net chg in cash (a+b+c)	(165)	647	(409)	1,193

Source: Arianth Research, Company Filings

Key ratios (%)	FY23	FY24	FY25E	FY26E
Adjusted EPS (Rs)	7.2	12.2	23.1	26.8
Growth	(70.2)	70.1	89.4	16.1
CEPS (Rs)	13.2	18.8	30.5	35.5
Book NAV/share (Rs)	78.2	87.7	90.3	115.8
Dividend/share (Rs)	1.3	1.3	1.3	1.3
Dividend payout ratio	17.4	10.3	5.4	4.7
EBITDA margin	4.3	5.5	7.9	8.1
EBIT margin	2.9	4.2	6.9	6.9
Tax rate	26.3	25.4	22.0	23.0
RoCE	12.7	16.5	28.5	29.0
Total debt/Equity (x)	0.2	0.1	0.1	0.1
Net debt/Equity (x)	0.2	(0.1)	(0.1)	(0.2)
Du Pont Analysis - ROE				
Net margin	2.1	3.0	5.1	5.2
Asset turnover (x)	3.2	3.1	3.3	3.5
Leverage factor (x)	1.7	1.6	1.5	1.5
Return on equity	11.2	14.7	25.9	26.0
Valuations (x)	FY23	FY24	FY25E	FY26E
PER	24.1	14.2	7.5	10.9
PCE	13.1	9.2	5.7	8.2
Price/Book	2.2	2.0	1.9	2.5
Yield (%)	0.7	0.7	0.7	0.4
EV/EBITDA	12.5	7.1	4.6	6.5

Source: Arian 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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