

**CMP: INR 410**

**Rating: BUY**

**Target Price: INR 531**

**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)	3,807
52w H/L (INR)	727/ 352
Avg Daily Vol (in 000')	929

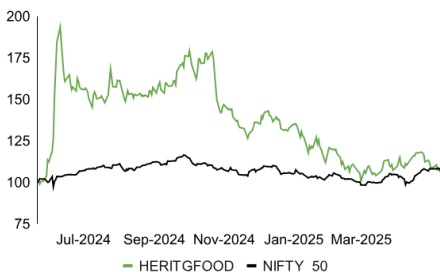
**Shareholding Pattern %**

(As on March 2025)

Promoters	41.30
FII	6.42
DII	4.05
Public & Others	48.23

Stock Performance (%)	1m	3m	12m
Heritage	(2.8)	4.9	12.6
Nifty 50	4.6	8.8	10.9

**Heritage vs Nifty 50**



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Heritage Foods enters FY26 with strong momentum, supported by record-high revenues, increasing value-added product (VAP) contribution, and robust subsidiary performance. Revenue stood at INR 10,485 Mn (+10.3% YoY, +1.41% QoQ), slightly below our estimate of INR 10,646 Mn. Gross Profit came in at INR 2,668 Mn (+16.88% YoY, +6.39% QoQ), ahead of our estimate of INR 2,523 Mn. Gross Margin expanded to 25.45% (vs 24.26% in Q3FY25 and 24.02% in Q4FY24), beating our forecast of 23.7%. EBITDA was INR 799 Mn (+12.71% YoY, +7.86% QoQ), exceeding our estimate of INR 767 Mn. EBITDA Margin improved to 7.62% (vs 7.16% in Q3FY25 and 7.46% in Q4FY24), above our projection of 7.2%. PAT stood at INR 382 Mn (-7.2% YoY, -11.35% QoQ), missing our estimate of INR 464 Mn due to exceptional items of INR 235 Mn on account of impairment loss from Novandie.

**Operational Highlights:** Milk procurement rose 10.4% YoY to 1.72 MLPD in FY25. In Q4FY25, the company handled 1.76 MLPD on average. Average milk procurement price in Q4FY25 was INR 42.9/litre, up 3.1% YoY. However, for FY25, average procurement cost declined 3.7% YoY to INR 41.7/litre. The average selling price increased to INR 55.6/litre from INR 54.8/litre in the prior year. VAP sales rose significantly, contributing 40.6% of Q4FY25 revenue, up from 37.7% YoY.

**Strategic Outlook:** Heritage is progressing in its transformation from a dairy-focused company to a nutrition-first food enterprise. Key strategic initiatives include Scaling milk, curd, and VAP categories. Repurposing the Mumbai yogurt facility to produce a diversified range of value-added dairy products. Setting an ambitious revenue target of INR 6,000 crore by FY27, with the VAP share expected to remain above 40%. Acquiring a majority stake in Novandie to broaden its product portfolio.

**Outlook and Valuation:** We revise our target price to INR 531 (from INR 804), valuing the stock at 20x FY26E EPS of INR 26.5. Despite the near-term earnings miss, we remain constructive on the medium-term growth story, supported by: VAP-led premiumization, Distribution expansion, Digital process efficiencies, Favorable tailwinds from industry formalization (organized sector share to rise from 35% in FY22 to 44% in FY27E). Heritage Foods is well-positioned to deliver a mid-teens earnings CAGR over FY25–28E. Its improving margin profile, high ROCE, and strong brand equity in South India reinforce our positive view. With stable procurement costs and pricing power, the near-term outlook is also encouraging.

Particulars (INR Mn)	FY25	FY26E	FY27E
Net sales	41,346	48,101	55,442
Growth (%)	0.60	26.03	6.39
EBITDA	3,316	4,134	5,023
Growth (%)	45.63	35.03	12.18
EBITDA margin	8.02	8.59	9.06
Adjusted net profit	2,039	2,660	3,238
Growth (%)	66.42	41.33	12.35
Adjusted EPS (Rs)	20.3	28.7	32.2
RoCE	24.2	28.8	27.5
Total debt/Equity (x)	0.1	0.1	0.1
PER	8.6	10.2	9.1
Price/Book	1.7	2.5	2.0
EV/EBITDA	4.5	6.2	4.8

Source: Company, Arihant Research

**Value-Added Products (VAP):** VAP contribution rose to 40.6% of Q4FY25 revenues, supported by strong demand for curd, ghee, butter, and ice cream. Management aims to scale the VAP mix to over 45% by FY27, positioning it as a key driver of margin accretion.

**Digital & Operational Efficiency:** Heritage continues to enhance efficiency through digital tools such as DMS (Distributor Management System), VET+ (veterinary care platform), and the Live App. Initiatives like lean procurement practices and zero milk holidays have strengthened cost controls and improved supplier reliability.

**Challenges:** Input cost inflation—particularly in fuel and fodder—has necessitated price adjustments. Employee expenses rose 14.5% YoY, outpacing the company's 10% revenue growth. To address this, the company is actively managing pricing to protect farmer relationships and maintain high product quality.

**Marketing & Quality Focus:** Marketing efforts were bolstered through regional campaigns, digital outreach, seasonal SKUs, and customer loyalty programs. The company maintains a strong emphasis on product quality, traceability, and freshness standards across its portfolio.

**Industry Tailwinds:** With the organized dairy sector share projected to rise from 35% in 2022 to 44% by 2027, Heritage stands to benefit from this formalization trend, supported by its trusted brand presence in South India and a growing value-added portfolio.

**Distribution Expansion:** The company now reaches 180,000 retail outlets through 7,300+ distributors across 17 states. Expanded rural penetration and omni-channel capabilities—including WhatsApp commerce and e-commerce partnerships—are expected to support sustained volume growth.

#### **Balance Sheet & Returns:**

- **Net Debt-to-Equity:** Improved to 0.18x, reflecting prudent capital management.
- **Working Capital Efficiency:** WC days reduced from 28 to 16, indicating robust operational discipline.
- **ROCE:** Strengthened to 24.3% in FY25, up from 15.8% in FY24, underscoring improved profitability and asset efficiency.

## Income Statement

INR Mn	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>37,939</b>	<b>41,346</b>	<b>48,101</b>	<b>55,442</b>
Growth (%)	17.1	0.6	26.0	6.4
Operating expenses	(35,837)	(38,030)	(43,968)	(50,419)
<b>Operating profit</b>	<b>2,102</b>	<b>3,316</b>	<b>4,134</b>	<b>5,023</b>
Other operating income				
<b>EBITDA</b>	<b>2,102</b>	<b>3,316</b>	<b>4,134</b>	<b>5,023</b>
Growth (%)	51.8	45.6	35.0	12.2
Depreciation	(615)	(702)	(806)	(959)
Other income	120	279	293	307
<b>EBIT</b>	<b>1,607</b>	<b>2,893</b>	<b>3,620</b>	<b>4,372</b>
Finance cost	(91)	(154)	(165)	(167)
Exceptional & extraordinary				
<b>Profit before tax</b>	<b>1,516</b>	<b>2,739</b>	<b>3,455</b>	<b>4,205</b>
Tax (current + deferred)	(385)	(700)	(795)	(967)
P / L form discontinuing operations				
<b>Profit / (Loss) for the period</b>	<b>1,131</b>	<b>2,039</b>	<b>2,660</b>	<b>3,238</b>
P/L of Associates, Min Int, Pref Div				
Reported Profit / (Loss)	1,131	2,039	2,660	3,238
Adjusted net profit	1,131	2,039	2,660	3,238
Growth (%)	70	66	41	12

## Balance Sheet

INR Mn	FY24	FY25	FY26E	FY27E
Share capital	464	464	464	464
Reserves & surplus	7,672	9,256	10,269	13,389
<b>Shareholders' funds</b>	<b>8,136</b>	<b>9,720</b>	<b>10,733</b>	<b>13,853</b>
Minority Interests and others				
<b>Non-current liabilities</b>	<b>1,659</b>	<b>2,098</b>	<b>2,098</b>	<b>2,098</b>
Long-term borrowings	751	1,110	1,110	1,110
Other non-current liabilities	907	988	988	988
<b>Current liabilities</b>	<b>3,071</b>	<b>3,766</b>	<b>3,202</b>	<b>3,617</b>
ST borrowings, Curr maturity	226	254	266	280
Other current liabilities	2,844	3,512	2,936	3,337
<b>Total (Equity and Liabilities)</b>	<b>12,865</b>	<b>15,583</b>	<b>16,033</b>	<b>19,568</b>
<b>Non-current assets</b>	<b>7,615</b>	<b>8,732</b>	<b>9,624</b>	<b>11,101</b>
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
<b>Current assets</b>	<b>5,250</b>	<b>6,852</b>	<b>6,409</b>	<b>8,467</b>
Cash & current investment	2,060	2,559	2,897	4,221
Other current assets	3,190	4,293	3,512	4,246
<b>Total (Assets)</b>	<b>12,865</b>	<b>15,583</b>	<b>16,033</b>	<b>19,568</b>
Total debt	978	1,364	1,377	1,390
Capital employed	10,021	12,071	13,098	16,231

## Cash Flow Statement

INR Mn	FY24	FY25	FY26E	FY27E
<b>Profit before tax</b>	<b>1,516</b>	<b>2,739</b>	<b>3,455</b>	<b>4,205</b>
Depreciation	615	702	806	959
Change in working capital	2,234	(266)	204	(332)
Total tax paid	(371)	(674)	(795)	(967)
Others	91	156	165	169
<b>Cash flow from oper. (a)</b>	<b>4,084</b>	<b>2,658</b>	<b>3,836</b>	<b>4,034</b>
Capital expenditure	(1,402)	(1,613)	(1,699)	(2,436)
Change in investments	(1,254)	(560)		
Others	(71)	(400)		1
<b>Cash flow from inv. (b)</b>	<b>(2,727)</b>	<b>(2,573)</b>	<b>(1,699)</b>	<b>(2,435)</b>
<b>Free cash flow (a+b)</b>	<b>1,358</b>	<b>85</b>	<b>2,137</b>	<b>1,599</b>
Equity raised/(repaid)				
Debt raised/(repaid)	(415)	386	13	13
Dividend (incl. tax)	(116)	(116)	(116)	(116)
Others	(180)	(497)	(1,695)	(172)
<b>Cash flow from fin. (c)</b>	<b>(711)</b>	<b>(226)</b>	<b>(1,799)</b>	<b>(274)</b>
<b>Net chg in cash (a+b+c)</b>	<b>647</b>	<b>(142)</b>	<b>338</b>	<b>1,324</b>

Source: Arian Research, Company Filings

Key ratios (%)	FY24	FY25	FY26E	FY27E
Adjusted EPS (Rs)	12.2	20.3	28.7	32.2
Growth	70.1	66.4	41.3	12.4
CEPS (Rs)	18.8	27.3	37.4	41.7
Book NAV/share (Rs)	87.7	104.7	115.7	149.3
Dividend/share (Rs)	1.3	1.2	1.3	1.2
Dividend payout ratio	10.3	5.7	4.4	3.6
EBITDA margin	5.5	8.0	8.6	9.1
EBIT margin	4.2	7.0	7.5	7.9
Tax rate	25.4	25.5	23.0	23.0
RoCE	16.5	24.2	28.8	27.5
Total debt/Equity (x)	0.1	0.1	0.1	0.1
Net debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
<b>Du Pont Analysis - ROE</b>				
Net margin	3.0	4.9	5.5	5.8
Asset turnover (x)	3.1	2.7	3.0	2.9
Leverage factor (x)	1.6	1.5	1.5	1.3
Return on equity	14.7	19.5	26.0	22.4
Valuations (x)	FY24	FY25E	FY26E	FY26E
PER	14.2	8.6	10.2	9.1
PCE	9.2	6.4	7.8	7.0
Price/Book	2.0	1.7	2.5	2.0
Yield (%)	0.7	0.7	0.4	0.4
EV/EBITDA	7.1	4.5	6.2	4.8

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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