Arihant Capital
Generating Wealth

Q1FY27 - Result Update
20th July 2026

Heritage Foods Ltd

CMP: INR 332

Rating: BUY

Target Price: INR 546

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)	3,080
52w H/L (INR)	542/268
Avg Daily Vol (in 000')	373

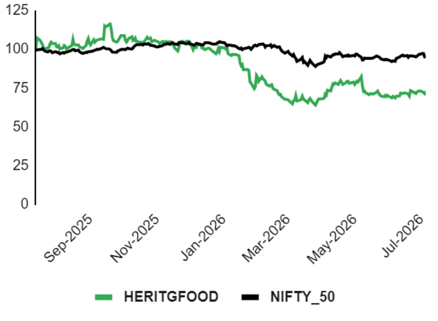
Shareholding Pattern %

(As on June 2026)

Promoters	41.30
FII	1.98
DII	6.38
Public & Others	50.34

Stock Performance (%)	1m	3m	12m
Heritage	1.10	(7.87)	(27.8)
Nifty 50	1.03	(0.08)	(3.09)

Heritgfood vs Nifty 50



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Heritage Foods reported a strong revenue performance in Q1FY27, with consolidated revenue rising 17.7% YoY to INR 13.38 Bn, ahead of our estimate of INR 12.73 Bn, driven by robust growth in value-added products (VAP). However, elevated milk procurement costs and tight milk availability impacted profitability, resulting in EBITDA declining 16.3% YoY to INR 619 Mn, with EBITDA margin contracting 188 bps to 4.6%, while PAT fell 38.4% YoY to INR 250 Mn. Milk procurement volumes increased 2% YoY to 1.81 MLPD, with procurement prices up 7% YoY to INR 46.61/L, while milk sales volumes remained stable at 1.16 MLPD and average selling prices improved 4% YoY to INR 58.68/L. The company continued to strengthen its product mix, with VAP revenue growing 40% YoY to INR 5.64 Bn, contributing 43.6% of total revenue versus 36.1% a year ago, while consumer packs of Ghee and Butter surged 39% YoY to INR 6.32 Bn, increasing their share of revenue to 49.0% from 40.6% in Q1FY26, highlighting continued momentum in high-margin categories despite margin pressure during the quarter.

Strategic Pivot to High-Margin Value-Added Products: A central pillar of the investment case is the rapid expansion of the VAP segment, which grew by 40% YoY. VAP now accounts for a record 44% of consolidated revenue, up from 36% in the previous year. When including consumer-packed ghee and butter, the broader VAP portfolio contributes 49% of total sales. This structural shift is critical for margin expansion, as VAP margins (8.06%) are significantly higher than liquid milk margins (3.03%).

Outlook and Valuation: The company maintains a robust long-term trajectory with guiding for sustained mid-to-high teen revenue growth (16–17%), underpinned by a target of 25% growth in VAP and 7–8% growth in liquid milk. A core pillar of the company's strategy is the "Vision FY30," which aims for VAP to reach a 50% revenue contribution, effectively premiumizing the portfolio to buffer against the cyclical volatility of raw milk procurement prices. While procurement costs remain firm and somewhat unpredictable due to weather conditions, the company is proactively implementing calibrated pricing actions to pass on costs to consumers while simultaneously expanding its distribution network to capture market share. Backed by a planned CAPEX of approximately INR 2,500 Mn for FY27 targeting new paneer and ghee projects, the company is positioned to achieve high single-digit EBITDA margins as it scales its operations and harvests operating leverage. **We revise our target price to INR 546 (from INR 510), valuing the stock at a PE of 18x and FY29E EPS of INR 30.3.**

Particulars (INR Mn)	FY25	FY26	FY27E	FY28E	FY29E
Net sales	41,346	45,260	51,196	58,238	66,767
Growth (%)	*8.98*	*9.47*	*13.12*	*13.75*	*14.64*
EBITDA	3,316	2,669	3,505	4,186	5,160
Growth (%)	*57.77*	*-19.53*	*31.31*	*19.45*	*23.27*
EBITDA margin	8.02	5.90	6.85	7.19	7.73
Adjusted net profit	2,039	1,413	1,852	2,239	2,825
Growth (%)	*80.29*	*-30.69*	*31.04*	*20.89*	*26.21*
Adjusted EPS (Rs)	21.2	15.1	19.8	24.0	30.3
RoCE	26.2	15.2	17.8	19.5	21.0
Total debt/Equity (x)	0.1	0.3	0.3	0.2	0.2
PE	16.5	23.3	17.7	14.6	11.6
Price/Book	1.7	1.5	1.4	1.2	1.0
EV/EBITDA	4.5	6.3	4.2	3.6	2.9

Source: Company, Arihant Research

INR Mn (Consolidated)	Q1FY27	Q4FY26	Q1FY26	Q-o-Q	Y-o-Y
Net Revenue	**13,381**	**11,576**	**11,368**	***15.6%***	***17.7%***
Raw Material Costs	**10,544**	**8,986**	8,661	*17.3%*	*21.7%*
Gross Profit	2,837	2,590	2,706	*9.6%*	*4.9%*
Gross Margin	*21.2%*	*22.4%*	*23.8%*	*-117bps*	*-260bps*
Employee costs	918	805	842	*14.0%*	*9.1%*
Other Expenses	1,301	1,262	1,126	*3.1%*	*15.6%*
EBITDA	**619**	**522**	**739**	***18.4%***	***-16.3%***
EBITDA margin	*4.6%*	*4.5%*	*6.5%*	*11bps*	*-188bps*
Other Non-Operating Income	64	60	53	*6.1%*	*21.6%*
Depreciation	265	218	187	*21.7%*	*41.7%*
EBIT	**418**	**365**	**605**	***14.5%***	***-30.9%***
Finance costs	82	53	42	*54.9%*	*95.8%*
Share of profit/ loss from associates			-13		
Exceptional Items		8	-		
PBT	**335**	**320**	**549**	***4.9%***	***-38.9%***
Tax Expense	86	80	144	*6.9%*	*-40.4%*
Effective tax rate	*25.6%*	*25.1%*	*26.2%*	*46bps*	*-64bps*
PAT	**250**	**239**	**405**	***4.3%***	***-38.4%***
PAT margin	*1.9%*	*2.1%*	*3.6%*	*-21bps*	*-171bps*
EPS (INR)	**2.7**	**2.6**	**4.4**	***4.6%***	***-37.8%***

Volume-Led Growth Across Core Dairy Categories: The growth in the VAP segment is fundamentally volume-driven rather than dependent on price hikes. In the VAP category, approximately 35% of growth was volume-led, with price increases contributing only about 5%. Notable volume surges were recorded in Lassi (+98%), Buttermilk (+60%), Paneer (+33%), and Curd (+26%). This suggests deep-rooted consumer demand and a successful product differentiation strategy.

Scalability in the Premium Ice Cream Vertical: The ice cream business has emerged as a high-growth engine, surpassing 500 million rupees in revenue with a 65% YoY growth rate. The new brand, Alpenvie, grew by 44%, while the Get-a-way brand saw a massive 196% revenue surge following capacity expansion. The company's newly commissioned facility is currently at only 40% capacity utilization, providing substantial "headroom" to scale further and improve operating leverage as production ramps up.

Market Share Capture via Distribution Expansion: The company is aggressively gaining market share by deepening its presence in existing geographies. Approximately 80% to 90% of current growth is attributed to distribution expansion, specifically through the addition of new distributors and "Heritage Happiness Points". This strategy has allowed Heritage to successfully capture share from both the unorganized sector and organized branded competitors in categories like curd and paneer.

Demonstrated Operating Leverage and Cost Efficiency: Despite a 2.54% increase in raw material costs, Heritage Foods is successfully harvesting operating leverage to protect the bottom line. Other expenses as a percentage of revenue declined from 9.64% to 9.01% YoY, and employee benefit expenses dropped from 7.21% to 6.74%. Collectively, these efficiencies contributed a 1.1% improvement to the bottom line, partially offsetting the pressure of firm milk procurement prices.

Procurement Strength and Supply Chain Resilience: In a challenging environment marked by a 7% YoY increase in milk procurement prices and general supply tightness, Heritage managed to increase its milk procurement volumes by 2% YoY to 18.10 lakh litres per day. The company is actively expanding its network, adding 5,000 new farmers in Q1 and targeting another 5,000 in Q2. This robust procurement infrastructure ensures uninterrupted supply for both liquid milk and the high-growth VAP portfolio.

Income Statement

INR Mn	FY24	FY25	FY26E	FY27E	FY27E	FY29E
Net sales	**37,939**	**41,346**	**45,260**	**51,196**	**58,238**	**66,767**
Growth (%)	*17.1*	*9.0*	*9.5*	*13.1*	*13.8*	*14.6*
Operating expenses	-35,837	-38,030	-42,591	-47,692	-54,052	-61,607
Operating profit	**2,102**	**3,316**	**2,669**	**3,505**	**4,186**	**5,160**
Other operating income						
EBITDA	**2,102**	**3,316**	**2,669**	**3,505**	**4,186**	**5,160**
Growth (%)	*51.8*	*57.8*	*(19.5)*	*31.3*	*19.4*	*23.3*
Depreciation	-615	-702	-816	-959	-1,144	-1,363
Other income	120	279	242	254	267	280
EBIT	**1,607**	**2,893**	**2,095**	**2,800**	**3,309**	**4,077**
Finance cost	-91	-154	-172	-395	-401	-408
Exceptional & extraordinary						
Profit before tax	**1,516**	**2,739**	**1,923**	**2,405**	**2,907**	**3,669**
Tax (current + deferred)	-385	-700	-510	-553	-669	-844
P / L form discontinuing operations						
Profit / (Loss) for the period	**1,131**	**2,039**	**1,413**	**1,852**	**2,239**	**2,825**
P/L of Associates, Min Int, Pref Div						
Reported Profit / (Loss)	1,131	2,039	1,413	1,852	2,239	2,825
Adjusted net profit	1,131	2,039	1,413	1,852	2,239	2,825
Growth (%)	*70*	*80*	*-31*	*31*	*21*	*26*

Balance Sheet

INR Mn	FY24	FY25	FY26E	FY27E	FY27E	FY29E
Share capital	464	464	464	464	464	464
Reserves & surplus	7,672	9,256	10,569	10,858	12,977	15,683
Shareholders' funds	**8,136**	**9,720**	**11,033**	**11,322**	**13,441**	**16,147**
Minority Intersts and others			48			
Non-current liablities	**1,659**	**2,098**	**3,479**	**3,479**	**3,479**	**3,479**
Long-term borrowings	751	1,110	2,230	2,230	2,230	2,230
Other non-current liabilities	907	988	1,248	1,248	1,248	1,248
Current liabilities	**3,071**	**3,766**	**4,938**	**5,000**	**5,258**	**5,534**
ST borrowings, Curr maturity	226	254	1,011	1,062	1,115	1,170
Other current liabilities	2,844	3,512	3,927	3,938	4,143	4,364
Total (Equity and Liabilities)	**12,865**	**15,583**	**19,498**	**19,800**	**22,178**	**25,159**
Non-current assets	**7,615**	**8,732**	**12,562**	**10,707**	**12,507**	**14,596**
Fixed assets (Net block)	7,203	8,114	12,125	10,269	12,069	14,159
Non-current Investments	177	96				
Other non-current assets	121	521	438	438	438	438
Current assets	**5,250**	**6,852**	**6,936**	**9,093**	**9,672**	**10,563**
Cash & current investment	2,060	2,559	2,557	4,977	4,799	4,757
Other current assets	3,190	4,293	4,378	4,116	4,872	5,806
Total (Assets)	**12,865**	**15,583**	**19,498**	**19,800**	**22,178**	**25,159**
Total debt	978	1,364	3,241	3,292	3,345	3,401
Capital employed	10,021	12,071	15,571	15,862	18,035	20,796

Source: Arihant Research, Company Filings

Cash Flow Statement

INR Mn	FY24	FY25	FY26E	FY27E	FY27E	FY29E
Profit before tax	**1,516**	**2,739**	**1,923**	**2,405**	**2,907**	**3,669**
Depreciation	615	702	816	959	1,144	1,363
Change in working capital	2,234	-266	381	273	-551	-714
Total tax paid	-371	-674	-380	-553	-669	-844
Others	91	156	176	401	409	418
Cash flow from oper. (a)	**4,084**	**2,658**	**2,916**	**3,485**	**3,242**	**3,892**
Capital expenditure	-1,402	-1,613	-4,826	897	-2,944	-3,453
Change in investments	-1,254	-560	104			
Others	-71	-400	86	3	4	5
Cash flow from inv. (b)	**-2,727**	**-2,573**	**-4,637**	**900**	**-2,940**	**-3,448**
Free cash flow (a+b)	**1,358**	**85**	**-1,721**	**4,384**	**302**	**444**
Equity raised/(repaid)						
Debt raised/(repaid)	-415	386	1,877	51	53	56
Dividend (incl. tax)	-116	-116	-116	-116	-116	-116
Others	-180	-497	-198	-698	-656	-663
Cash flow from fin. (c)	**-711**	**-226**	**1,563**	**-763**	**-719**	**-723**
Net chg in cash (a+b+c)	**647**	**-142**	**-158**	**3,621**	**-417**	**-279**

Key ratios

Key ratios (%)	FY24	FY25	FY26E	FY27E	FY27E	FY29E
Adjusted EPS (Rs)	11.5	21.2	15.1	19.8	24.0	30.3
	70.1	*80.3*	*(30.7)*	*31.0*	*20.9*	*26.2*
Growth	11.5	21.2	15.1	19.8	24.0	30.3
Book NAV/share (Rs)	87.7	104.7	118.9	122.0	144.8	174.0
Dividend/share (Rs)	1.3	1.3	1.3	1.3	1.3	1.3
Dividend payout ratio	10.3	5.7	8.2	6.3	5.2	4.1
EBITDA margin	5.5	8.0	5.9	6.8	7.2	7.7
EBIT margin	4.2	7.0	4.6	5.5	5.7	6.1
Tax rate	25.4	25.5	26.5	23.0	23.0	23.0
RoCE	16.5	26.2	15.2	17.8	19.5	21.0
Total debt/Equity (x)	0.1	0.1	0.3	0.3	0.2	0.2
Net debt/Equity (x)	(0.1)	(0.1)	0.1	(0.1)	(0.1)	(0.1)
Du Pont Analysis - ROE						
Net margin	3.0	4.9	3.1	3.6	3.8	4.2
Asset turnover (x)	3.1	2.9	2.6	2.6	2.8	2.8
Leverage factor (x)	1.6	1.6	1.7	1.8	1.7	1.6
Return on equity	14.7	22.8	13.6	16.6	18.1	19.1

Source: Arihant 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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