

**CMP: INR 491**

**Rating: BUY**

**Target Price: INR 594**

**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)	4,565
52w H/L (INR)	356/658
Avg Daily Vol (in 000')	447

**Shareholding Pattern %**

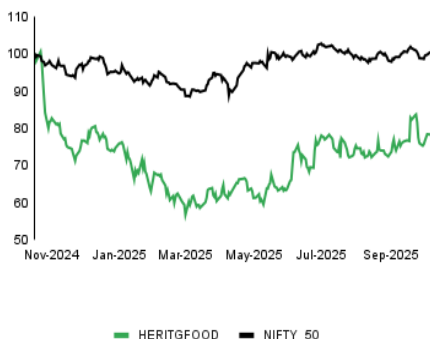
(As on Sept 2025)

Promoters	41.30
FII	4.60
DII	4.31
Public & Others	49.79

**Stock Performance (%)**

	1m	6m	12m
Heritage	0.07	17.5	(23.4)
Nifty 50	1.37	9.17	2.46

**Heritfood vs Nifty 50**



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Heritage Foods Ltd delivered a positive topline performance, with revenue growing 9.1% YoY to INR 11,125.17 Mn, though it came slightly below our estimate of INR 11,418.66 Mn. Gross margin contracted marginally by 20 bps YoY to 24.5% but improved sequentially by 74 bps, broadly in line with expectations. EBITDA declined 7.3% YoY to INR 771.88 Mn, up 4.5% QoQ, missing our estimate of INR 833.56 Mn, while EBITDA margin contracted 123 bps YoY to 6.9%, below our estimate of 7.3%. Despite margin pressure, PAT grew 4.9% YoY to INR 509.95 Mn, up 25.8% QoQ, beating our estimate of INR 478.5 Mn, supported by higher exceptional income. The growth was driven by strong consumer traction, retail expansion, and a strategic shift to higher-value products, with value-added products contributing 38% of sales and growing 18% YoY despite adverse weather conditions impacting volume growth.

**Margin Pressure Due to Inflation in Milk Procurement Costs:** EBITDA margin contracted by 122 bps YoY primarily due to a 6.3% increase in milk procurement costs against a 4.5% rise in realizations, with delayed price pass-through during the lean milk season. However, sequential margin improvement of 44 bps indicates early signs of normalization, supported by structural levers like product mix enhancement and procurement efficiency.

**Value-Added Product Portfolio Drives Growth:** Categories such as curd, paneer, drinkables, and ice cream delivered double-digit growth, supported by improved distribution and product launches. The ice cream segment grew volume by 16.5% and revenue by 20%. Expansion of retail outlets by around 6,000 points in Q2 and digital marketing campaigns significantly increased consumer awareness and trials.

**Positive H2 Outlook:** Q3 flush season anticipates easing milk prices and +1-2 LLPD procurement; VAP growth eyed at 20%+ in normalized weather. H2 margins to exceed 7% via premium mix, CapEx (ice cream plant end-FY26), and innovations like lactose-free products, targeting mid-teens earnings CAGR through FY28E.

**Outlook and Valuation:** Heritage Foods remains well placed for steady volume and value growth driven by premiumization and retail expansion. Margin pressures from elevated milk costs are expected to ease in H2 FY26 as supply normalizes. The company's focus on value-added products, brand building, and operating efficiencies underpins a positive medium-term earnings outlook. **We revise our target price to INR 594, valuing the stock at a PE of 25x 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)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>11125.17</b>	<b>11367.55</b>	<b>10195.23</b>	<b>-2.13%</b>	<b>9.12%</b>
Raw Material Costs	8394.56	8661.49	7672.15	-3.08%	9.42%
Gross Profit	2730.61	2706.06	2523.08	0.91%	8.23%
<i>Gross Margin</i>	<i>24.54%</i>	<i>23.81%</i>	<i>24.75%</i>	<i>74bps</i>	<i>-20bps</i>
Employee costs	889.55	841.67	781.47	5.69%	13.83%
Other Expenses	1069.18	1125.52	909.22	-5.01%	17.59%
<b>EBITDA</b>	<b>771.88</b>	<b>738.87</b>	<b>832.39</b>	<b>4.47%</b>	<b>-7.27%</b>
<i>EBITDA margin</i>	<i>6.94%</i>	<i>6.50%</i>	<i>8.16%</i>	<i>44bps</i>	<i>-123bps</i>
Other Non-Operating Income	51.66	52.72	74.51	-2.01%	-30.67%
Depreciation	201.09	186.94	173.49	7.57%	15.91%
<b>EBIT</b>	<b>622.45</b>	<b>604.65</b>	<b>733.41</b>	<b>2.94%</b>	<b>-15.13%</b>
Finance costs	38.41	42.06	38.66	-8.68%	-0.65%
Share of profit/ loss from associates		-13.12	-20.02	-100.00%	-100.00%
<b>PBT</b>	<b>677.60</b>	<b>549.47</b>	<b>674.73</b>	<b>23.32%</b>	<b>0.43%</b>
Tax Expense	167.65	144.01	188.44	16.42%	-11.03%
<i>Effective tax rate</i>	<i>24.74%</i>	<i>26.21%</i>	<i>27.93%</i>	<i>-147bps</i>	<i>-319bps</i>
<b>PAT</b>	<b>509.95</b>	<b>405.46</b>	<b>486.29</b>	<b>25.77%</b>	<b>4.87%</b>
<i>PAT margin</i>	<i>4.52%</i>	<i>3.55%</i>	<i>4.74%</i>	<i>97bps</i>	<i>-22bps</i>
<b>EPS (INR)</b>	<b>5.50</b>	<b>4.37</b>	<b>5.24</b>	<b>25.86%</b>	<b>4.96%</b>

**Operational Efficiencies and Procurement Optimization:** Milk procurement was slightly down 2% YoY at 16.1 lakh liters per day with higher procurement costs, but procurement efficiencies through route optimization, chilling infrastructure upgrades, and digital tracking helped contain logistics costs. The greenfield ice cream manufacturing facility is on track for commissioning by the end of FY26 to enhance margins and operational scale.

**Increased Investment in Brand and Capacity Expansion:** Marketing spend rose 60% YoY, supporting brand building through TV and digital campaigns with strong viewership and sponsorship of popular TV shows. Capex averaging INR 150 crores annually continues to increase manufacturing capacity for value-added products. Employee costs and other opex have grown, but are seen as investments to build long-term operating leverage.

**Outlook Supported by Improved Milk Supply and Market Expansion:** The flush season is expected to bring a normalized milk supply with easing prices, enhancing margin prospects in H2 FY26. Value-added product growth remains a key focus, with expected growth near 20% continuing. The company emphasizes long-term margin improvement through calibrated pricing, mix optimization, and cost discipline while expanding retail and digital distribution reach.

**Innovation and New Product Launches:** New products like Sampurna cow milk and high-protein yogurts are scaling successfully across metro markets. The company is exploring lactose-free dairy products to address growing lactose intolerance. The ice cream plant expansion aims to introduce new SKUs catering to evolving consumer preferences, leveraging the recent GST rate reduction to enhance competitiveness.

## Income Statement

INR Mn	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>37,939</b>	<b>41,346</b>	<b>46,859</b>	<b>53,300</b>
Growth (%)	17.1	9.0	13.3	13.7
Operating expenses	(35,837)	(38,030)	(43,691)	(49,616)
<b>Operating profit</b>	<b>2,102</b>	<b>3,316</b>	<b>3,168</b>	<b>3,683</b>
Other operating income				
<b>EBITDA</b>	<b>2,102</b>	<b>3,316</b>	<b>3,168</b>	<b>3,683</b>
Growth (%)	51.8	57.8	(4.5)	16.3
Depreciation	(615)	(702)	(806)	(959)
Other income	120	279	293	307
<b>EBIT</b>	<b>1,607</b>	<b>2,893</b>	<b>2,654</b>	<b>3,032</b>
Finance cost	(91)	(154)	(165)	(167)
Exceptional & extraordinary				
<b>Profit before tax</b>	<b>1,516</b>	<b>2,739</b>	<b>2,489</b>	<b>2,865</b>
Tax (current + deferred)	(385)	(700)	(572)	(659)
P / L form discontinuing operations				
<b>Profit / (Loss) for the period</b>	<b>1,131</b>	<b>2,039</b>	<b>1,916</b>	<b>2,206</b>
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
<b>Shareholders' funds</b>	<b>8,136</b>	<b>9,720</b>	<b>9,990</b>	<b>12,078</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>3,175</b>	<b>3,564</b>
ST borrowings, Curr maturity	226	254	266	280
Other current liabilities	2,844	3,512	2,908	3,284
<b>Total (Equity and Liabilities)</b>	<b>12,865</b>	<b>15,583</b>	<b>15,262</b>	<b>17,739</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>5,638</b>	<b>6,638</b>
Cash & current investment	2,060	2,559	2,143	2,454
Other current assets	3,190	4,293	3,495	4,184
<b>Total (Assets)</b>	<b>12,865</b>	<b>15,583</b>	<b>15,262</b>	<b>17,739</b>
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
<b>Profit before tax</b>	<b>1,516</b>	<b>2,739</b>	<b>2,489</b>	<b>2,865</b>
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
<b>Cash flow from oper. (a)</b>	<b>4,084</b>	<b>2,658</b>	<b>3,082</b>	<b>3,021</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>1,383</b>	<b>586</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>(415)</b>	<b>311</b>

Source: Arianth 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)
<b>Du Pont Analysis - ROE</b>				
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: Aриhant Research, Company Filings

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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