

CMP: INR 362

Rating: BUY

Target Price: INR 544

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)	3,357
52w H/L (INR)	542/356
Avg Daily Vol (in 000')	379

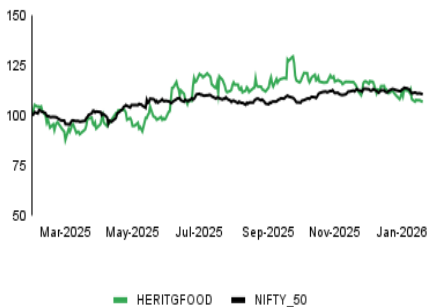
Shareholding Pattern %

(As on Dec 2025)

Promoters	41.30
FII	3.95
DII	4.88
Public & Others	49.87

Stock Performance (%)	1m	6m	12m
Heritage	(19.0)	(22.4)	(12.5)
Nifty 50	(2.03)	2.40	9.73

Heritfood vs Nifty 50



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Heritage Foods delivered a steady revenue performance in Q3FY26, with consolidated revenue rising 8.24% YoY to INR 11,191.6 mn (up 0.6% QoQ), slightly ahead of expectations. The company continues to see strong traction in VAP, driven by premiumization, innovation, and wider market reach, which remain central to both growth and margin strategy. However, profitability was under pressure, as EBITDA declined 15.05% YoY to INR 629.1 mn, with margins contracting 154 bps YoY to 5.62%, both below estimates. Despite weaker operating performance, PAT increased 7.74% YoY to INR 463.9 mn.

Strategic Pivot to Value-Added Products: The VAP segment continues to be the central growth pillar, with VAP revenue increasing by 22.6% YoY. VAP now contributes 38% of total revenue, a notable rise from 33.9% in the previous year. While weather-dependent categories like curd saw slightly muted growth, other key categories performed strongly, with paneer growing by 30% and ice cream by 21% during the quarter.

Supply Chain Disruptions and Inventory Tightness: Unusually high rainfall (20–25% above normal) disrupted the typical flush season, resulting in a 9% YoY decline in Q3 procurement volumes to 16.73 lakh litres per day. For the first time in two years, the company was forced to make bulk butter purchases at elevated market prices in November to meet demand, as domestic butter supplies were tightened by high global export demand. Consequently, inventory levels for fats are currently minimal, with butter stocks at approximately 390 tons.

Outlook and Valuation: Heritage Foods maintains a targeted EBITDA margin range of 7% to 9%, viewing recent performance as a "bottoming out" point caused by transient procurement cost spikes and climate-related supply disruptions. The valuation outlook is supported by a significant infrastructure roadmap, including a new ice cream plant with a INR 500–600 Cr revenue potential and a flavoured milk plant expected to contribute 120 Cr over the long term. The company anticipates progressive margin normalisation as the "mini flush" in May eases input costs and the high-margin VAP segment, which currently contributes 38% of revenue, continues to scale. Future profitability is expected to be driven by operating leverage from targeted double-digit volume growth and strategic investments in "season-proofing" functional dairy products. **We revise our target price to INR 544 (from INR 594), valuing the stock at PE of 22x and FY28E EPS of INR 24.7**

Particulars (INR Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net sales	26,813	32,407	37,939	41,346	45,154	49,885	55,769
Growth (%)	8.42	20.86	17.07	8.98	9.21	10.48	11.80
EBITDA	1,912	1,385	2,102	3,316	2,932	3,393	3,971
EBITDA margin	7.13	4.27	5.54	8.02	6.49	6.80	7.12
Adjusted net profit	1,117	665	1,131	2,039	1,758	1,982	2,295
Adjusted EPS (Rs)	24.1	7.2	12.2	22.0	18.9	21.4	24.7
PER	13.7	24.1	14.2	7.9	15.4	13.7	11.8
Price/Book	3.3	2.2	2.0	1.7	2.8	2.3	2.0
EV/EBITDA	7.9	12.5	7.1	4.5	9.0	7.7	6.6

Source: Company, Arihant Research

INR Mn (Consolidated)	Q3FY26	Q2FY26	Q3FY25	Q-o-Q	Y-o-Y
Net Revenue	11,191.6	11,125.2	10,339.4	0.60%	8.24%
Raw Material Costs	8,611.6	8,394.6	7,831.2	2.59%	9.96%
Gross Profit	2,580.0	2,730.6	2,508.1	-5.52%	2.87%
<i>Gross Margin</i>	23.05%	24.54%	24.26%	-149bps	-120bps
Employee costs	774.1	889.6	790.5	-12.98%	-2.07%
Other Expenses	1,176.8	1,069.2	977.1	10.07%	20.43%
EBITDA	629.1	771.9	740.5	-18.50%	-15.05%
<i>EBITDA margin</i>	5.62%	6.94%	7.16%	-132bps	-154bps
Other Non-Operating Income	77.5	51.7	83.3	50.08%	-6.95%
Depreciation	204.2	201.1	177.6	1.53%	14.95%
EBIT	502.5	622.4	646.2	-19.28%	-22.25%
Finance costs	38.6	38.4	39.8	0.47%	-2.97%
Share of profit/ loss from associates	-	-	-18.3	-	-
Exceptional Items	-	93.6	-	-	-
PBT	463.9	677.6	588.1	-31.54%	-21.13%
Tax Expense	-	167.7	157.6	-100.00%	-100.00%
<i>Effective tax rate</i>	0.00%	24.74%	26.80%	-2474bps	-2680bps
PAT	463.9	509.9	430.5	-9.04%	7.74%
<i>PAT margin</i>	4.12%	4.52%	4.14%	-41bps	-2bps
EPS (INR)	3.73	5.50	4.64	-32.18%	-19.61%

Capital Allocation and Infrastructure Roadmap: The company is on the verge of commissioning two major projects in the current quarter: a greenfield ice cream plant in Hyderabad and a flavoured milk plant. The ice cream facility has the potential to deliver INR 500–600 crores in revenue over the next 6–7 years, while the flavoured milk plant has a long-term potential of 120 crores. Initial capacity utilization for the ice cream plant is projected at 40–45% in its first year of operation.

Opex Trajectory and Marketing Investment: Other expenses stood at 10.5% of revenue, driven by increased logistics costs (rising to 2.9% of revenue) and a strategic uptick in marketing spend to 1.8% of revenue. The company views this as a necessary investment to build brand stickiness and consumer loyalty ahead of the peak summer season. Significant operating leverage is expected to kick in once volume growth returns to the 10–11% range.

Forward Guidance and "De-seasonalisation" Strategy: While near-term procurement prices may harden for another 30–45 days, The company anticipates a "mini flush" in South India starting in May to soften costs. Strategically, Heritage is focusing on functional dairy such as probiotics and the high-protein "Nourish Plus" range to season-proof the business and improve the quality of the sales mix. Despite current headwinds, the company maintains its targeted EBITDA range of 7% to 9%.

Margin Compression and Input Cost Escalation: The quarter was defined by significant margin pressure, Profitability was primarily constrained by a 9% surge in milk procurement prices, which outpaced the company's calibrated consumer price hikes of 4.9%. Additionally, the company recognized a one-time employee benefit provision of approximately INR 27.78 Mn on a consolidated basis following new labour code notifications.

Income Statement

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Net sales	37,939	41,346	45,154	49,885	55,769
<i>Growth (%)</i>	17.1	9.0	9.2	10.5	11.8
Operating expenses	(35,837)	(38,030)	(42,222)	(46,492)	(51,798)
Operating profit	2,102	3,316	2,932	3,393	3,971
Other operating income					
EBITDA	2,102	3,316	2,932	3,393	3,971
<i>Growth (%)</i>	51.8	57.8	(11.6)	15.7	17.0
Depreciation	(615)	(702)	(806)	(959)	(1,144)
Other income	120	279	293	307	323
EBIT	1,607	2,893	2,419	2,741	3,149
Finance cost	(91)	(154)	(165)	(167)	(168)
Exceptional & extraordinary					
Profit before tax	1,516	2,739	2,254	2,575	2,981
Tax (current + deferred)	(385)	(700)	(496)	(592)	(686)
P / L form discontinuing operations					
Profit / (Loss) for the period	1,131	2,039	1,758	1,982	2,295
P/L of Associates, Min Int, Pref Div					
Reported Profit / (Loss)	1,131	2,039	1,758	1,982	2,295
Adjusted net profit	1,131	2,039	1,758	1,982	2,295
<i>Growth (%)</i>	70	80	(14)	13	16

Balance Sheet

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Share capital	464	464	464	464	464
Reserves & surplus	7,672	9,256	9,367	11,232	13,408
Shareholders' funds	8,136	9,720	9,831	11,696	13,872
Minority Interests and others					1
Non-current liabilities	1,659	2,098	2,098	2,098	2,098
Long-term borrowings	751	1,110	1,110	1,110	1,110
Other non-current liabilities	907	988	988	988	988
Current liabilities	3,071	3,766	3,137	3,480	3,884
ST borrowings, Curr maturity	226	254	266	280	294
Other current liabilities	2,844	3,512	2,871	3,200	3,591
Total (Equity and Liabilities)	12,865	15,583	15,066	17,273	19,855
Non-current assets	7,615	8,732	9,624	11,100	12,900
Fixed assets (Net block)	7,203	8,114	9,007	10,483	12,282
Non-current Investments	177	96	96	96	96
Other non-current assets	121	521	521	521	521
Current assets	5,250	6,852	5,442	6,173	6,956
Cash & current investment	2,060	2,559	2,079	2,274	2,394
Other current assets	3,190	4,293	3,364	3,899	4,562
Total (Assets)	12,865	15,583	15,066	17,273	19,855
Total debt	978	1,364	1,377	1,390	1,404
Capital employed	10,021	12,071	12,196	14,073	16,265

Source: Arianth Research, Company Filings

Cash Flow Statement

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Profit before tax	1,516	2,739	2,254	2,575	2,981
Depreciation	615	702	806	959	1,144
Change in working capital	2,234	(266)	288	(206)	(272)
Total tax paid	(371)	(674)	(496)	(592)	(686)
Others	91	156	165	169	168
Cash flow from oper. (a)	4,084	2,658	3,017	2,904	3,336
Capital expenditure	(1,402)	(1,613)	(1,699)	(2,435)	(2,944)
Change in investments	(1,254)	(560)			
Others	(71)	(400)		1	
Cash flow from inv. (b)	(2,727)	(2,573)	(1,699)	(2,434)	(2,944)
Free cash flow (a+b)	1,358	85	1,319	470	392
Equity raised/(repaid)					
Debt raised/(repaid)	(415)	386	13	13	14
Dividend (incl. tax)	(116)	(116)	(116)	(116)	(116)
Others	(180)	(497)	(1,695)	(172)	(170)
Cash flow from fin. (c)	(711)	(226)	(1,799)	(274)	(272)
Net chg in cash (a+b+c)	647	(142)	(480)	195	120

Key ratios

Key ratios (%)	FY24	FY25	FY26E	FY27E	FY28E
Adjusted EPS (Rs)	12.2	22.0	18.9	21.4	24.7
<i>Growth</i>	<i>70.1</i>	<i>80.3</i>	<i>(13.8)</i>	<i>12.8</i>	<i>15.8</i>
CEPS (Rs)	18.8	29.5	27.6	31.7	37.1
Book NAV/share (Rs)	87.7	104.7	105.9	126.0	149.5
Dividend/share (Rs)	1.3	1.3	1.3	1.3	1.3
Dividend payout ratio	10.3	5.7	6.6	5.9	5.1
EBITDA margin	5.5	8.0	6.5	6.8	7.1
EBIT margin	4.2	7.0	5.4	5.5	5.6
Tax rate	25.4	25.5	22.0	23.0	23.0
RoCE	16.5	26.2	19.9	20.9	20.8
Total debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
Net debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Du Pont Analysis - ROE					
Net margin	3.0	4.9	3.9	4.0	4.1
Asset turnover (x)	3.1	2.9	2.9	3.1	3.0
Leverage factor (x)	1.6	1.6	1.6	1.5	1.5
Return on equity	14.7	22.8	18.0	18.4	18.0

Valuations

Valuations (x)	FY24	FY25E	FY26E	FY27E	FY28E
PER	14.2	7.9	15.4	13.7	11.8
PCE	9.2	5.9	10.6	9.2	7.9
Price/Book	2.0	1.7	2.8	2.3	2.0
Yield (%)	0.7	0.7	0.4	0.4	0.4
EV/EBITDA	7.1	4.5	9.0	7.7	6.6

Source: Arihant 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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