

CMP: INR 401

Outlook: Positive

Stock Info

BSE	519552
NSE	HERITGFOOD
Bloomberg	HTFL.IN
Reuters	HEFI.NS
Sector	FMCG
Face Value (INR)	5
Equity Capital (INR Cr)	23
Mkt Cap (INR Cr)	1,860
52w H/L (INR)	565/ 269
Avg Yearly Vol (in 000')	258

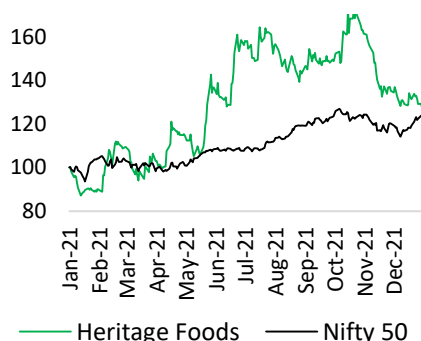
Shareholding Pattern %

(As on December, 2021)

Promoters	39.43
FII	3.97
DII	15.56
Public & Others	41.04

Stock Performance (%)	1m	3m	12m
Heritage Foods	2.6	-8.3	37.9
Nifty	5.1	0.5	25.3

Heritage Foods Vs Nifty



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Heritage foods (Heritage) is one of the largest private dairy players in South India and is expanding Pan India. The company is engaged in the business of procurement and processing of Milk & Milk products and also the generation of power through solar & wind for its dairy plants. Heritage today has a reach of over 15 lakh households in the country.

Investment Rationale:

Consumer centric approach: The focus of company has to build a consumer focused approach which would offer whole range of dairy products including traditional milk products like Milk and ghee along with value added segments like Curd, Ice creams, Cottage Cheese, flavored milk and other products.

Value added segment to drive growth: The Company continues to grow and expand its value-added product portfolio to strengthen its product basket. Heritage launched a few products during this quarter like Kesar Shrikhand, Amrakhand in Hyderabad and Mumbai markets. They also launched Malai Paneer Fresh in Mumbai. Heritage aims to grow its value-added products share in the coming years by consistently launching new healthy value-added products. Contribution from value added products is expected to touch 50% in next few years, up from the current 25.7% despite the summer season demand being impacted by COVID. 70% of the value added segment comes from curd segment. The company doesn't consider Ghee, Cream and butter as a part of the value added segment (10% of the dairy business).

CAPEX to drive growth: The Company is expected to do a CAPEX of INR 100 crores which will support growth for next five years. The CAPEX is to be supported by internal accruals only.

Outlook and Valuation: We believe that Heritage foods is ideally poised under New CEO who comes from a leading beverage company. This along with a strong procurement position and a higher share of the value added segment leads us to expecting revenues to double in next 3-4 years with margin expansions. There is also substantial improvement in the balance sheet with net debt at INR 30 crores which will lead to higher savings in interest costs. Another factor is the increase the share of organized players in the dairy segment, and the increasing growth in the value added segment with higher spending by consumers are key drivers for the company. Valuations look inexpensive as stock trades at 16.37x on TTM EPS of INR 24.5 which is huge discount to its peers. We are working on detailed numbers but we believe stock can easily gain substantially from current levels.

On basic calculations, Heritage can achieve INR 3,600 crore revenues with 10 pc margins (INR 350 crore EBITDA) in FY24 on a conservative basis and should translate into Pat of INR 220 crores which translate on EPS of INR 47 in FY24. We believe this should be given 30x valuations and arrive at price objective of INR 1,410 which can give 351 pc upside from current levels.

Investment Rationale:

Steady Margin expansion is underway: The company has been focusing on increasing market share via launching new products & specially introducing value added segment with Novandie JV (Mamie Yova) flavored yogurt, flavored Milk, Sweets, Milkshake, cheese etc. On a long term basis, company will enjoy superior margins in value added segments (as Milk Margins are around 7 pc while the Value added segment has Margins of 14 pc). We expect margins to remain ~10 pc and higher on longer term basis with increased share of value added segment in its product mix.

Aspiring to be a Pan India player: The Company is slowly increasing its footprint to becoming a pan India player from a regional player in Southern India by growing its presence in states like Maharashtra, Delhi, and other states gradually. We believe the share of non-southern states will increase gradually to 3x in next 3-4 years.

Entry barriers to this Business: We believe that procurement is a key entry barrier for this business. Heritage's strong relationships with Milk producers with timely payment for Milk (~10 days), and also supplying them credit for quality animal feed products has helped company to become one of the stronger players in the market. They are planning to double the milk procurement from 1.5 mn liters per day to ~ 3 mn liters per day over next 5-6 years.

Massive Shift from Cooperative to private players: In India prior to 90s, the dairy sector was largely driven by cooperatives where lot of inefficiencies prevailed. Apart from a few players like Amul, Nandini (Supported by state government incentives), & Mother dairy, hardly any of them are strong in their respective regions. We have observed a massive shift towards private milk dairies in last 25 years gradually with players like Hatsun, Dodla, Govardhan & Heritage. They have become stronger and have gained market share from cooperative milk players (most of them are reeling into huge losses). The share of private players is close to 50% currently in Indian dairy segment.

Normalcy to be back in FY23: In comparison to first wave of COVID, demand has not been severely hit during the subsequent second and third waves. There was hardly any impact during the current wave as of now in key southern states. Opening up of educational institutions and the return to normalcy in workplaces would stop reverse migration and revive demand for next few quarters as things stabilize.

Omni Channel presence: The company has been expanding its Omni channel presence with a current share of E commerce at 5 pc.

Nutrifeed business has been impacted by good Monsoon and inflationary pressure: We believe this is expected to bounce back going forward as raw material prices are now stabilizing.

Financial Performance

Consolidated Statement of Profit and Loss (INR Cr)	FY19	FY20	FY21
Revenue From Operations	2515	2726	2473
Other Income	9	9	8
Gain due to changes in fair value of derivative liabilities	131	294	0
Total Income	2655	3029	2481
Cost of Materials Consumed	1881	2226	1842
Purchase of Stock in Trade	59	12	27
Changes in Inventories	33	-14	-31
Employee Benefit Expenses	142	156	178
Finance Costs	21	23	19
Depreciation and Amortisation Expense	45	50	46
Impairment losses	4	1	4
Other expenses	211	216	187
Fair value loss on FVTPL securities	131	512	5
Total Expenses	2527	3182	2276
Profit/ Loss Before share of loss of an associate and a joint venture from continuing operations	128	-152	205
Share of loss of an associate and a joint venture	0	1	2
Profit/(loss) before tax from continuing operations	128	-153	203
Tax Expense	45	15	7
Profit/(loss) for the year from continuing operations	83	-169	196
Basic and Diluted EPS	18	-35	32

Consolidated Statement of Cash Flow (INR Cr)	FY19	FY20	FY21
Net cash used/ generated from operating activities	148	117	174
Net cash used/ generated in investing activities	-133	-97	69
Net cash used/ generated in financing activities	-3	-22	-191
Net increase/(decrease) in cash and cash equivalents during the year	12	-2	51
Cash and cash equivalents at the beginning of the year	-41	-29	-31
Cash and cash equivalents at the end of the year	-29	-31	20

Consolidated Balance Sheet (INR Cr)	FY19	FY20	FY21
Assets			
Non Current Assets			
Property, Plant and Equipment	461	469	571
Capital work-in-progress	42	76	16
Investment property	4	6	5
Other intangible assets	11	6	4
Intangible assets under development	0	2	3
Investment in associate and joint venture	9	8	13
Financial assets	832	150	6
Other non-current assets	2	3	2
Total Non Current Assets	1360	720	619
Current Assets			
Inventories	138	145	198
Financial assets	120	83	43
Current tax assets (net)	1	1	3
Other current assets	13	17	15
Disposal group - Assets held for sale	2	23	1
Total Current Assets	275	269	259
Total Assets	1635	988	879
Equity and Liabilities			
Equity			
Equity share capital	23	23	23
Other equity	779	436	573
Non-controlling interest	12	2	0
Total Equity	814	462	596
Liabilities			
Non-current liabilities			
Financial liabilities	461	176	37
Government grant	0	0	3
Provisions	7	8	10
Deferred tax liabilities (net)	26	22	24
Total Non Current Liabilities	495	207	74
Current liabilities			
Financial liabilities	311	300	187
Other current liabilities	6	8	8
Government grant	0	0	0
Provisions	8	11	13
Disposal group - liabilities related to assets held for sale	0	0	0
Total Current Liabilities	326	320	208
Total Equity and Liabilities	1635	988	879

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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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