

Margins Pressure is now gradually Easing Off

CMP: INR 247

Rating: BUY

Target Price: INR 448

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)	2,294
52w H/L (INR)	287 / 135
Avg Daily Vol (in 000')	390

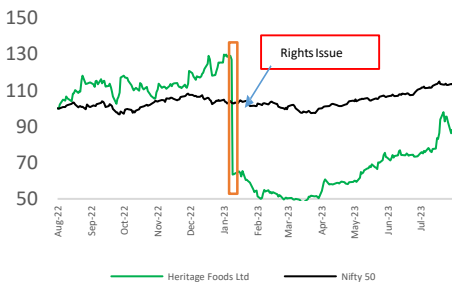
Shareholding Pattern %

(As on July 2023)

Promoters	41.57
FII	2.07
DII	15.88
Public & Others	40.48

Stock Performance (%)	1m	6m	12m
Heritage	13.6	72	69.78
Nifty 50	-.03	9.10	11.5

Heritage vs Nifty 50



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Heritage Foods Ltd has reported healthy in-line numbers with a minor beat to our estimate and the revenue was at INR 9,236 Mn which is an increase of 12.5% YoY from INR 8,209 Mn in Q1FY23 and saw an increase of 13% QoQ. **The company has reported an EBITDA of INR 403 Mn which was a beat to our estimate of INR 385 Mn, also seen a higher EBITDA margin of 4.36% in Q1FY24 which was up from the previous year's same quarter at 2.9% in Q1FY23 up by 144bps**, this margin expansion led due to lower raw material prices and a decline in other expenses From INR 73 Mn in Q1FY23 to INR 167 Mn in Q1FY24 (up 6.7% QoQ), the company's PAT increased by 128% YoY.

Company confident of delivering higher growth than industry: Heritage has targeted a revenue of INR 6,000 Cr in the next 4 years (and INR 10,000 Cr in the long terms) with 7- 8% steady state margins once the built-in cost efficiencies start to play out of milk prices continue to normalize. The dairy industry is currently growing at 11-12% and the company is keeping growth momentum ahead of it by focusing on gaining market share.

Increasing shares of VAP: Value Added Products have higher margins compared to milk and comprise ~38% of sales. Since VAP sales bring stability to margins, the company is aiming to consistently increase its overall revenue share to 40% in the next years. Curd is 75% of all VAP sales and is the fastest-growing product. They also are looking to further expand their presence into RTC/ RTE products.

Capex and Facilities: Capex upward of INR 100-125 Cr per year for the next 3 years is planned. They are investing in villages and setting up collection and cooling infrastructure- in line with their goal to increase village-level milk collection and strengthen processing facilities.

Valuation and Outlook: Volumes will return as harvests improve (and consequently milk availability), and the higher VAP sales will drastically improve realizations and margin profile going ahead. Going forward the company aims to achieve an EBITDA margin of 7-8% . The numerous cost-saving initiatives will also aid in margin expansion in coming quarters are they get fully implemented. Going forward, VAP sales and new product developments will be huge drivers for growth

We assign a TP of INR 448 valued at a P/E multiple of 20x the FY26E EPS of INR 22.4, indicating a 80% upside, and a BUY rating.

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,797	45,841	56,349
Growth (%)	8	21	17	21	23
EBITDA	1,912	1,385	1,960	2,939	3,756
Growth (%)	(29)	(28)	42	50	28
EBITDA margin	7.13	4.27	5.19	6.41	6.66
Adjusted net profit	1,117	665	823	1,525	2,077
Growth (%)	(27)	(40)	24	85	36
Adjusted EPS (Rs)	24.1	7.2	8.9	16.4	22.4
RoCE (%)	21.4	11.3	14.4	21.8	24.9
Total debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
PER	13.7	24.1	19.5	10.5	13.1
Price/Book	2.3	2.2	2.0	1.7	2.4
EV/EBITDA	7.9	12.5	8.2	5.2	6.6

Source: Company, Arihant Research

Particulars (in INR million)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Total Revenue	9,236.8	8,175.0	8,209.0	13.0%	12.5%
Raw Material	7,468	6,529	6,772	14.4%	10.3%
Employee cost	586	514	512	14.0%	14.4%
Other Expenses	780	713	685	9.5%	13.9%
EBITDA	403	420	240	-4.1%	67.9%
EBITDA margin %	4.4%	5.1%	2.9%	-78bps	144bps
Depreciation	146	146	134	-0.2%	8.6%
EBIT	257	274	106	-6.1%	143.1%
EBIT margin %	2.8%	3.4%	1.3%	-57bps	150bps
Other Income	26	34	26	-21.4%	0.0%
Finance costs	31	24	7	28.6%	355.9%
PBT	253	284	125	-10.9%	101.4%
Tax Expense	84	103	51	-18.2%	65.3%
Effective tax rate %	33.4%	36.3%	40.7%	-296bps	-730bps
PAT	168	181	74	-6.8%	126.2%
PAT margin %	1.8%	2.2%	0.9%	-39bps	92bps
EPS (INR)	1.8	1.9	0.8	-6.7%	125.0%

Source: Research Arianth, Company reports

Q1FY24 Concall Takeaways:-

- **Segment Revenue-**
 - Milk- Up 9.7% YoY to INR 5,369 Mn (up 3.5% QoQ)
 - Value Added Products- Up 13.4% YoY to INR 3,221 Mn (up 39.2% QoQ)
 - Fat Products- Up 21.7% YoY to INR 313 Mn (down 16.9% QoQ)
 - Ice-Cream- Up 35% YoY to INR 260 Mn (up 71% QoQ)
- Average milk procurement was at 1.52 Mn LPD, registering a growth of 9% YoY.
- **Average milk procurement prices** were INR 44.5/L, while the **average selling price** increased by 11% YoY or INR 5.43/L in Q1FY24.
- During the quarter the **company launched 10 new products**: Cold Coffee in 2 new formats, Long shelf-life Lassi in 3 flavors, and expanded the Heritage ice-cream range with 4 flavours.
- **Ice cream** as a category is growing extremely fast, and the company is focused on deepening its presence in existing markets, expanding across channels, and continuous innovation
- The company added 20,000 new distribution outlets in general trade, with the addition of over a thousand retail assets for ice creams and value-added products.
- The company wants to maintain its position as the 3rd largest curd seller in terms of volume in the country.
- In the 2nd half of the year company expects to see growth in majorly fat products and value-added products, supported by good flush season and increased milk procurement.

Key Financials

Income Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,797	45,841	56,349
Growth (%)	8.4	20.9	16.6	21.3	22.9
Operating expenses	-24,901	-31,022	-35,837	-42,902	-52,593
Operating profit	1,912	1,385	1,960	2,939	3,756
Other operating income					
EBITDA	1,912	1,385	1,960	2,939	3,756
Growth (%)	(29.5)	(27.6)	41.6	49.9	27.8
Depreciation	-526	-564	-697	-775	-853
Other income	113	121	127	133	140
EBIT	1,499	942	1,390	2,297	3,042
Finance cost	-40	-39	-289	-263	-273
Exceptional & extraordinary					
Profit before tax	1,459	903	1,100	2,033	2,769
Tax (current + deferred)	-342	-238	-277	-508	-692
P / L form discontinuing operations					
Profit / (Loss) for the period	1,117	665	823	1,525	2,077
P/L of Associates, Min Int, Pref Div					
Reported Profit / (Loss)	1,117	665	823	1,525	2,077
Adjusted net profit	1,117	665	823	1,525	2,077
Growth (%)	-27	-40	24	85	36

Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Share capital	232	464	464	464	464
Reserves & surplus	6,344	6,795	7,600	9,009	10,969
Shareholders' funds	6,576	7,259	8,064	9,473	11,433
Minority Interests and others	0				
Non-current liabilities	624	846	842	838	815
Long-term borrowings	80	45	50	55	40
Other non-current liabilities	545	801	792	783	775
Current liabilities	1,826	3,146	2,711	2,994	3,583
ST borrowings, Curr maturity	66	1,348	1,000	900	950
Other current liabilities	1,760	1,798	1,711	2,094	2,633
Total (Equity and Liabilities)	9,026	11,250	11,616	13,305	15,831
Non-current assets	6,118	6,717	7,527	8,059	8,522
Fixed assets (Net block)	5,873	6,417	7,180	7,657	8,056
Non-current Investments	174	144	159	174	192
Long-term loans and advances	67	107	133	167	208
Other non-current assets	4	50	55	60	66
Current assets	2,908	4,533	4,089	5,246	7,308
Cash & current investment	356	192	1,012	1,723	3,315
Other current assets	2,551	4,341	3,077	3,524	3,993
Total (Assets)	9,026	11,250	11,616	13,305	15,831
Total debt	145	1,393	1,050	955	990
Capital employed	7,266	9,452	9,905	11,211	13,197

Cash Flow Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,459	903	1,100	2,033	2,769
Depreciation	526	564	697	775	853
Change in working capital	-443	-1,775	1,141	-105	20
Total tax paid	-344	-229	-277	-508	-692
Others	40	39	289	263	273
Cash flow from oper. (a)	1,238	-499	2,951	2,458	3,222
Capital expenditure	-418	-1,107	-1,461	-1,252	-1,252
Change in investments	-42	30	-14	-16	-17
Others	19	-46	-5	-5	-6
Cash flow from inv. (b)	-441	-1,123	-1,480	-1,273	-1,275
Free cash flow (a+b)	797	-1,622	1,471	1,185	1,947
Equity raised/(repaid)		232			
Debt raised/(repaid)	-214	1,247	-343	-95	35
Dividend (incl. tax)	-280	-116	-116	-116	-116
Others	-182	94	-191	-263	-274
Cash flow from fin. (c)	-676	1,458	-650	-474	-355
Net chg in cash (a+b+c)	121	-165	821	710	1,592

Source: Arihant Research, Company Filings

Key Ratios

Key ratios

Key ratios (%)	FY22	FY23	FY24E	FY25E	FY26E
Adjusted EPS (Rs)	24.1	7.2	8.9	16.4	22.4
Growth	(27.4)	(70.2)	23.8	85.2	36.2
CEPS (Rs)	35.4	13.2	16.4	24.8	31.6
Book NAV/share (Rs)	141.7	78.2	86.9	102.1	123.2
Dividend/share (Rs)	5.0	1.3	1.3	1.3	1.3
Dividend payout ratio	25.0	17.4	14.1	7.6	5.6
EBITDA margin	7.1	4.3	5.2	6.4	6.7
EBIT margin	5.6	2.9	3.7	5.0	5.4
Tax rate	23.5	26.3	25.2	25.0	25.0
RoCE	21.4	11.3	14.4	21.8	24.9
Total debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
Net debt/Equity (x)	(0.0)	0.2	0.0	(0.1)	(0.2)
Du Pont Analysis - ROE					
Net margin	4.2	2.1	2.2	3.3	3.7
Asset turnover (x)	3.0	3.2	3.3	3.7	3.9
Leverage factor (x)	1.4	1.5	1.5	1.4	1.4
Return on equity	17.8	9.6	10.7	17.4	19.9

Valuations

Valuations (x)	FY22	FY23	FY24E	FY25E	FY26E
PER	13.7	24.1	19.5	10.5	13.1
PCE	9.3	13.1	10.6	7.0	9.3
Price/Book	2.3	2.2	2.0	1.7	2.4
Yield (%)	1.5	0.7	0.7	0.7	0.4
EV/EBITDA	7.9	12.5	8.2	5.2	6.6

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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