

CMP: INR 585

Rating: HOLD

Target Price: INR 637

Stock Info

BSE	519552
NSE	HERITGFOOD
Bloomberg	HTFL:IN
Reuters	HEFI.NS
Sector	Dairy Products
Face Value (INR)	5
Equity Capital (INR Cr)	46
Mkt Cap (INR Cr)	5,449.4
52w H/L (INR)	272/ 209
Avg Daily Vol (in 000')	610

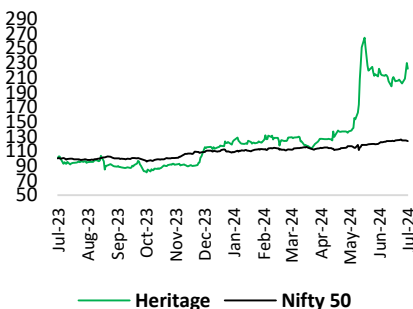
Shareholding Pattern %

(As on July 2024)

Promoters	41.30
FII	3.32
DII	3.66
Public & Others	51.72

Stock Performance (%)	1m	6m	12m
Heritage	-0.12	78.13	120.2
Nifty 50	2.92	14.34	24.05

Heritage vs Nifty 50



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Heritage reported a spectacular performance with beats all across the board. Revenue was up 11.8% YoY to INR 10,327 Mn (+1.01% QoQ), Beating our estimate of INR 10,164 Mn by 1.60%. Gross Margin expanded 634 bps YoY 25.49% (+163bps QoQ). EBITDA grew 132.68% YoY to INR 938 Mn (+32.43% QoQ), beating our estimate of INR 559 Mn by 67.8%. EBITDA Margin expanded 472bps YoY to 9.08% (+163bps QoQ), beating our estimate of 5.5% by 358bps. PAT grew 248.66% YoY to INR 584 Mn (+44.42% QoQ), beating our estimate of INR 309 Mn by 89.09%. There was an increase in milk sales volume, strong growth in (VAP) revenue, and significant growth in ice cream revenue.

Procurement prices in the South: For their presence in Maharashtra, the company is replicating the actions of large cooperatives, but in the south procurement prices are relatively more stable and lower by about INR 3.5/ Lt.

Growing unorganized sector threatens market share: Heritage has started to incorporate strategies to mitigate potential market share impact from increased competition and price discrepancies.

Subsidiary and JV performance: Robust performance from subsidiary and joint venture companies.

SMP Inventories: SMP Inventory is at a standard stock level to cover the company's needs until the end of the calendar year.

Guidance: The company aims for 17%-18% revenue growth for FY25 and FY26, with a sustainable EBITDA margin in the 7%-8% range. They do not plan to take any price increases going ahead, given that procurement prices are not expected to fluctuate significantly for the next year.

Outlook and Valuation: We assign a TP of INR 637 valued at a P/E multiple of 30x the FY26E EPS of INR 21 (9% upside with a 'Hold' rating). We incorporate the management guidance of high teens revenue growth for FY25 and FY26, with a sustainable EBITDA margin in the 7%-8% range, focusing on volume expansion, new geography expansion, and maintaining growth momentum. However, there remain concerns regarding cyclicity of the dairy industry and potential impact of milk price fluctuations on profitability are a possible headwind.

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net sales	26,813	32,407	37,939	43,854	51,710
Growth (%)	8.42	20.86	17.07	15.59	17.91
EBITDA	1,912	1,385	2,102	2,604	3,330
Growth (%)	(29.48)	(27.59)	51.81	23.85	27.92
EBITDA margin	7.13	4.27	5.54	5.94	6.44
Adjusted net profit	1,117	665	1,131	1,509	1,969
Growth (%)	(27.43)	(40.44)	70.07	33.46	30.48
Adjusted EPS (Rs)	24.1	7.2	12.2	16.3	21.2
RoCE	24.8	12.7	16.5	20.8	25.1
Total debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
PER	13.7	24.1	14.2	10.6	13.8
Price/Book	3.3	2.2	2.0	2.1	2.8
EV/EBITDA	7.9	12.5	7.1	6.2	8.0

Source: Company, Arihant Research

INR Mn (Consolidated)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Net Revenue	9,506	9,411	8,176	1.01%	16.26%
Raw Material Costs	7,223	7,445	6,529	-2.98%	10.63%
Gross Profit	2,283	1,966	1,647	16.09%	38.58%
<i>Gross Margin</i>	<i>24.02%</i>	<i>20.90%</i>	<i>20.15%</i>	<i>312bps</i>	<i>387bps</i>
Employee costs	705	664	514	6.12%	37.21%
Other Expenses	870	783	713	11.08%	22.01%
EBITDA	709	519	421	36.50%	68.31%
<i>EBITDA margin</i>	<i>7.46%</i>	<i>5.52%</i>	<i>5.15%</i>	<i>194bps</i>	<i>231bps</i>
Other Non Operating Income	45	30	34	50.38%	34.05%
Depreciation	163	155	148	4.99%	9.88%
EBIT	591	394	306	49.97%	92.82%
Finance costs	26	18	24	47.09%	8.73%
Share of profit/ loss from associates	(16)	(16)	(24)	1.75%	-31.91%
PBT	548	360	258	52.26%	112.26%
Tax Expense	143	92	79	56.63%	81.44%
<i>Effective tax rate</i>	<i>26.14%</i>	<i>25.41%</i>	<i>30.58%</i>	<i>73bps</i>	<i>-444bps</i>
PAT	405	269	179	50.77%	125.84%

Source: Company, Aриhant Research

Q1FY25 Operational Highlights:

- Momentum in VAPs continued with a robust growth of 19.9%, with VAP contribution at 41.5% compared to 38.6% in Q1FY24. (including Ghee/Butter) Excluding Ghee and butter the VAP revenue was contributed 37.5%, compared to 35.3% in Q1FY24, growing at the rate of 18.7%.
- Milk sales volumes grew steadily, registering a growth by 4.26% YoY to 1.13 MLPD, and Milk selling prices averaged INR 54.81/Lt, up +0.40%
- Average milk procurement was 1.62 MLPD, registering a growth of 6.66% YoY, whereas average milk procurement prices decreased by INR 3.47/Lt (-7.75% YoY) over Q1FY24.
- Summer launches included 3 new variants of Lassi – Sweet, Mango & Strawberry and 3 new variants of ball ice-creams under Alpenvie brand – Cotton Candy, Banana Strawberry and Bubble Gum. We also launched long shelf-life milk in UHT cartons of various sizes.
- Ahead of festive season, they launched a range of Laddus under ‘Heritage Truly Good’ brand in 3 variants – Ghee Besan, Ghee Jawar & Ghee Millet Laddu.
- Heritage Nutrivet Limited, the Wholly Owned Subsidiary had a robust top-line growth of 29% YoY and an exponential growth of 363% in bottom line.
- Heritage Novandie Foods, the JV Company has reduced losses by INR 2.3 Mn YoY (INR 33.36 Mn to INR 31.06 Mn).

Income Statement

INR Mn	FY23	FY24	FY25E	FY26E
Net sales	32,407	37,939	43,854	51,710
<i>Growth (%)</i>	20.9	17.1	15.6	17.9
Operating expenses	(31,022)	(35,837)	(41,250)	(48,380)
Operating profit	1,385	2,102	2,604	3,330
Other operating income				
EBITDA	1,385	2,102	2,604	3,330
<i>Growth (%)</i>	(27.6)	51.8	23.9	27.9
Depreciation	(564)	(615)	(687)	(806)
Other income	121	120	126	132
EBIT	942	1,607	2,042	2,656
Finance cost	(39)	(91)	(30)	(30)
Exceptional & extraordinary				
Profit before tax	903	1,516	2,013	2,626
Tax (current + deferred)	(238)	(385)	(503)	(656)
P / L form discontinuing operations				
Profit / (Loss) for the period	665	1,131	1,509	1,969
P/L of Associates, Min Int, Pref Div				
Reported Profit / (Loss)	665	1,131	1,509	1,969
Adjusted net profit	665	1,131	1,509	1,969
<i>Growth (%)</i>	(40)	70	33	30

Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E
Share capital	464	464	464	464
Reserves & surplus	6,795	7,672	7,284	9,136
Shareholders' funds	7,259	8,136	7,748	9,600
Minority Interests and others				
Non-current liabilities	846	1,659	1,659	1,659
Long-term borrowings	45	751	751	751
Other non-current liabilities	801	907	907	907
Current liabilities	3,146	3,071	2,539	2,912
ST borrowings, Curr maturity	1,348	226	238	249
Other current liabilities	1,798	2,844	2,301	2,662
Total (Equity and Liabilities)	11,250	12,865	11,945	14,170
Non-current assets	6,717	7,615	7,820	8,940
Fixed assets (Net block)	6,417	7,203	7,408	8,528
Non-current Investments	144	177	177	177
Long-term loans and advances	107	114	114	114
Other non-current assets	50	121	121	121
Current assets	4,533	5,250	4,125	5,231
Cash & current investment	192	2,060	790	1,349
Other current assets	4,341	3,190	3,335	3,882
Total (Assets)	11,250	12,865	11,945	14,170
Total debt	1,393	978	989	1,001
Capital employed	9,452	10,021	9,644	11,508

Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E
Profit before tax	903	1,516	2,013	2,626
Depreciation	564	615	687	806
Change in working capital	(1,775)	2,234	(689)	(186)
Total tax paid	(229)	(371)	(503)	(656)
Others	39	91	30	30
Cash flow from oper. (a)	(499)	4,084	1,537	2,620
Capital expenditure	(1,151)	(1,402)	(892)	(1,926)
Change in investments	30	(1,254)		
Others	(46)	(71)		
Cash flow from inv. (b)	(1,167)	(2,727)	(892)	(1,926)
Free cash flow (a+b)	(1,667)	1,358	645	694
Equity raised/(repaid)	222			
Debt raised/(repaid)	1,247	(415)	11	12
Dividend (incl. tax)	(116)	(116)	(116)	(116)
Others	(5)	56	(30)	(31)
Cash flow from fin. (c)	1,348	(475)	(134)	(135)
Net chg in cash (a+b+c)	(319)	883	511	559

Source: Arianth Research, Company Filings

Key ratios (%)	FY23	FY24	FY25E	FY26E
Adjusted EPS (Rs)	7.2	12.2	16.3	21.2
Growth	(70.2)	70.1	33.5	30.5
CEPS (Rs)	13.2	18.8	23.7	29.9
Book NAV/share (Rs)	78.2	87.7	83.5	103.5
Dividend/share (Rs)	1.3	1.3	1.3	1.3
Dividend payout ratio	17.4	10.3	7.7	5.9
EBITDA margin	4.3	5.5	5.9	6.4
EBIT margin	2.9	4.2	4.7	5.1
Tax rate	26.3	25.4	25.0	25.0
RoCE	12.7	16.5	20.8	25.1
Total debt/Equity (x)	0.2	0.1	0.1	0.1
Net debt/Equity (x)	0.2	(0.1)	0.0	(0.0)
Du Pont Analysis - ROE				
Net margin	2.1	3.0	3.4	3.8
Asset turnover (x)	3.2	3.1	3.5	4.0
Leverage factor (x)	1.7	1.6	1.6	1.5
Return on equity	11.2	14.7	19.0	22.7
Valuations (x)	FY23	FY24	FY25E	FY26E
PER	24.1	14.2	10.6	13.8
PCE	13.1	9.2	7.3	9.8
Price/Book	2.2	2.0	2.1	2.8
Yield (%)	0.7	0.7	0.7	0.4
EV/EBITDA	12.5	7.1	6.2	8.0

Source: Arianth 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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