

CMP: INR 237

Rating: BUY

Target Price: INR 634

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)	2,244
52w H/L (INR)	287 / 136
Avg Daily Vol (in 000')	296

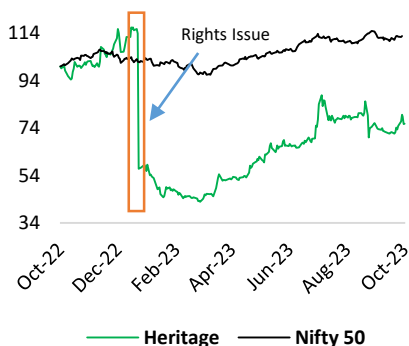
Shareholding Pattern %

(As on September 2023)

Promoters	41.57
FII	1.74
DII	14.48
Public & Others	42.20

Stock Performance (%)	1m	6m	12m
Heritage	1.6	43.5	(24.2)
Nifty 50	(1.7)	11.1	11.4

Heritage vs Nifty 50



Heritage's Q2FY24 Revenue was up 19.9% YoY to INR 9,786 Mn (+5.94% QoQ), Beating our estimate by 3.36%. Gross Margin contracted 56bps YoY 18.89% (-26bps QoQ), missing our estimate of 20%. EBITDA grew 18.14% YoY to INR 471 Mn (+16.99% QoQ). EBITDA Margin contracted 7bps YoY to 4.81% (+45bps QoQ), missing our estimates of INR 483 Mn and 5.1% respectively. PAT grew 17.69% YoY to INR 224 Mn (+33.91% QoQ), marginally beating our estimate of INR 223 Mn.

Inventory losses from fat sales: The company sustained inventory losses during the quarter on account of high cost butter inventories that had to be liquidated, and sales activities which hit margins. Since butter inventories have been liquidated, these losses will not recur going ahead, resulting in sequential margin improvement. Now, the company is well poised to enter flush season. Current butter inventories are INR 20cr vs the initial INR 100cr at the beginning of the quarter (these had been accumulated over a period of 7-8 months).

Milk price, procurement, and demand trajectory: During the quarter, milk prices remained elevated and saw signs of softening toward the end- in September. Going ahead, the falling trajectory is going to maintain itself and demand is expected to remain normal. This should translate to a high teen growth in top line, and margins to the tune of ~7% in the medium term. Procurement will grow in line with demand momentum- to the tune of 8-9%.

Cost Saving initiatives and capacity addition: Heritage is currently working on 7 initiatives to reduce operating costs. These will result in a 10% saving every year starting FY24. During the quarter the company set up an additional 55,000 liter capacity at Chittoor (25,000 on a net basis).

VAP Sales: VAPs is the fastest growing product category and major growth driver for Heritage with high double-digit growth visible in curd, drinkables, and ice cream. New product developments and launches in this category are constantly underway.

Outlook and Valuation: We assign a TP of INR 634 valued at a P/E multiple of 30x the FY26E EPS of INR 21 (168% upside with a 'Buy' rating). Value addition will majorly come from the VAP segment, comfortably growing in high teens which will lead to improvements in realization over the next few years coupled with correcting procurement costs.

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,230	43,854	51,710
Growth (%)	8.42	20.86	14.88	17.79	17.91
EBITDA	1,912	1,385	1,734	2,604	3,330
Growth (%)	(29.48)	(27.59)	25.20	50.18	27.92
EBITDA margin	7.13	4.27	4.66	5.94	6.44
Adjusted net profit	1,117	665	910	1,503	1,962
Growth (%)	(27.43)	(40.44)	36.80	65.18	30.54
Adjusted EPS (Rs)	24.1	7.2	9.8	16.2	21.1
RoCE	24.8	12.7	14.1	22.5	24.6
Total debt/Equity (x)	0.0	0.2	0.2	0.2	0.2
PER	13.7	24.1	17.6	10.7	13.8
Price/Book	3.3	2.2	2.6	2.1	2.9
EV/EBITDA	7.9	12.5	9.9	6.3	8.1

Source: Company, Arihant Research

Heritage Foods

INR Mn (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y	Q2FY24E	Surprise
Net Revenue	9,786	9,237	8,162	5.94%	19.90%	9467	3.36%
Raw Material Costs	7,937	7,468	6,574	6.28%	20.73%	7574	4.79%
Gross Profit	1,849	1,769	1,588	4.52%	16.46%	1893	-2.36%
<i>Gross Margin</i>	<i>18.89%</i>	<i>19.15%</i>	<i>19.45%</i>	<i>-26bps</i>	<i>-56bps</i>	<i>20.00%</i>	<i>-111bps</i>
Employee costs	621	586	528	6.13%	17.62%	587	5.86%
Other Expenses	757	780	661	-3.06%	14.51%	824	-8.15%
EBITDA	471	403	399	16.99%	18.14%	483	-2.47%
<i>EBITDA margin</i>	<i>4.81%</i>	<i>4.36%</i>	<i>4.88%</i>	<i>45bps</i>	<i>-7bps</i>	<i>5.10%</i>	<i>-29bps</i>
Other Non Operating Income	18	26	29	-32.10%	-37.98%	28	-36.69%
Depreciation	150	146	138	2.97%	8.68%	151	-0.77%
EBIT	339	283	289	19.62%	17.03%	360	-5.89%
Finance costs	15	31	3	-50.39%	362.76%	30	-48.63%
Share of profit/ loss from associates	(16)	(17)	(23)	-1.74%	-27.61%	-20	-18.05%
PBT	307	235	263	30.38%	16.50%	310	-0.96%
Tax Expense	83	68	73	21.67%	13.38%	87	-4.72%
<i>Effective tax rate</i>	<i>26.94%</i>	<i>28.87%</i>	<i>27.68%</i>	<i>-193bps</i>	<i>-74bps</i>	<i>28.00%</i>	<i>-106bps</i>
PAT	224	167	190	33.91%	17.69%	223	0.50%

Source: Company, Arianth Research

Q2FY24 Operational Highlights:

- Overall Q2FY24 VAP contribution stood at 26.8% at INR 2,579 Mn (+18% YoY), and 29% for H1FY24.
- **New Product Launches:** Launched Premium Buffalo Milk with 7% fat in Hyderabad branded "Goodness from Village"; Launched Cow Ghee 50ml & 100ml Jars primarily as a pooja pack, gaining traction in temple markets and in eCommerce.
- Ecommerce share of revenues remains at 10%.
- **Milk Procurement:** Average milk procurement was at 1.48 MLPD (+1% YoY). Average milk procurement prices increased by INR 2.57 YoY to INR 43.22/Liter.
- **Milk Sales:** Q2FY24 Milk sales were 1.13 MLPD (+1% YoY), while average Milk selling prices increased by 8% YoY.
- **Distribution network:** Added 437 new distribution points during the quarter.
- **New plant commissioned:** This quarter the company commissioned the processing and packing of Milk of 30 KLPD, Curd of 20 MTPD and Butter Milk of 5 KLPD at the Chittoor production facility.

Key Financials

Income Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,230	43,854	51,710
Growth (%)	8.4	20.9	14.9	17.8	17.9
Operating expenses	(24,901)	(31,022)	(35,496)	(41,250)	(48,380)
Operating profit	1,912	1,385	1,734	2,604	3,330
Other operating income					
EBITDA	1,912	1,385	1,734	2,604	3,330
Growth (%)	(29.5)	(27.6)	25.2	50.2	27.9
Depreciation	(526)	(564)	(601)	(687)	(806)
Other income	113	121	127	133	140
EBIT	1,499	942	1,260	2,049	2,664
Finance cost	(40)	(39)	(44)	(46)	(48)
Exceptional & extraordinary					
Profit before tax	1,459	903	1,216	2,004	2,616
Tax (current + deferred)	(342)	(238)	(306)	(501)	(654)
P / L form discontinuing operations					
Profit / (Loss) for the period	1,117	665	910	1,503	1,962
P/L of Associates, Min Int, Pref Div					
Reported Profit / (Loss)	1,117	665	910	1,503	1,962
Adjusted net profit	1,117	665	910	1,503	1,962
Growth (%)	(27)	(40)	37	65	31

Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Share capital	232	464	464	464	464
Reserves & surplus	4,436	6,795	5,669	7,056	8,901
Shareholders' funds	4,668	7,259	6,133	7,520	9,365
Minority Interests and others	0				
Non-current liabilities	624	846	846	846	846
Long-term borrowings	80	45	45	45	45
Other non-current liabilities	545	801	801	801	801
Current liabilities	1,826	3,146	3,440	3,807	4,244
ST borrowings, Curr maturity	66	1,348	1,415	1,486	1,560
Other current liabilities	1,760	1,798	2,025	2,321	2,684
Total (Equity and Liabilities)	7,118	11,250	10,419	12,173	14,454
Non-current assets	6,074	6,717	6,978	7,707	8,827
Fixed assets (Net block)	5,829	6,417	6,678	7,407	8,526
Non-current Investments	174	144	144	144	144
Long-term loans and advances	67	107	107	107	107
Other non-current assets	4	50	50	50	50
Current assets	2,908	4,533	3,441	4,465	5,627
Cash & current investment	356	192	384	1,142	1,757
Other current assets	2,551	4,341	3,056	3,323	3,870
Total (Assets)	8,982	11,250	10,419	12,173	14,454
Total debt	145	1,393	1,460	1,531	1,605
Capital employed	5,359	9,452	8,394	9,851	11,770

Cash Flow Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,459	903	1,216	2,004	2,616
Depreciation	526	564	601	687	806
Change in working capital	(443)	(1,775)	1,512	29	(184)
Total tax paid	(344)	(229)	(306)	(501)	(654)
Others	40	39	44	46	48
Cash flow from oper. (a)	1,238	(499)	3,066	2,264	2,632
Capital expenditure	(419)	(1,151)	(862)	(1,416)	(1,926)
Change in investments	(42)	30			
Others	19	(46)			
Cash flow from inv. (b)	(443)	(1,167)	(862)	(1,416)	(1,926)
Free cash flow (a+b)	796	(1,667)	2,204	848	706
Equity raised/(repaid)		222			
Debt raised/(repaid)	(214)	1,247	67	71	74
Dividend (incl. tax)	(280)	(116)	(116)	(116)	(116)
Others	(2,089)	(5)	54	(46)	(49)
Cash flow from fin. (c)	(2,583)	1,348	6	(91)	(91)
Net chg in cash (a+b+c)	(1,788)	(319)	2,210	757	615

Source: Arihant Research, Company Filings

Key Ratios

Key ratios

Key ratios (%)	FY22	FY23	FY24E	FY25E	FY26E
Adjusted EPS (Rs)	24.1	7.2	9.8	16.2	21.1
Growth	(27.4)	(70.2)	36.8	65.2	30.5
CEPS (Rs)	35.4	13.2	16.3	23.6	29.8
Book NAV/share (Rs)	100.6	78.2	66.1	81.0	100.9
Dividend/share (Rs)	5.0	1.3	1.3	1.3	1.3
Dividend payout ratio	25.0	17.4	12.8	7.7	5.9
EBITDA margin	7.1	4.3	4.7	5.9	6.4
EBIT margin	5.6	2.9	3.4	4.7	5.2
Tax rate	23.5	26.3	25.2	25.0	25.0
RoCE	24.8	12.7	14.1	22.5	24.6
Total debt/Equity (x)	0.0	0.2	0.2	0.2	0.2
Net debt/Equity (x)	(0.0)	0.2	0.2	0.1	(0.0)
Du Pont Analysis - ROE					
Net margin	4.2	2.1	2.4	3.4	3.8
Asset turnover (x)	3.0	3.2	3.4	3.9	3.9
Leverage factor (x)	1.7	1.7	1.6	1.7	1.6
Return on equity	21.0	11.2	13.6	22.0	23.2

Valuations

Valuations (x)	FY22	FY23	FY24E	FY25E	FY26E
PER	13.7	24.1	17.6	10.7	13.8
PCE	9.3	13.1	10.6	7.3	9.8
Price/Book	3.3	2.2	2.6	2.1	2.9
Yield (%)	1.5	0.7	0.7	0.7	0.4
EV/EBITDA	7.9	12.5	9.9	6.3	8.1

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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