

CMP: INR 323

Rating: BUY

Target Price: INR 543

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)	3,022
52w H/L (INR)	343 / 135
Avg Daily Vol (in 000')	462

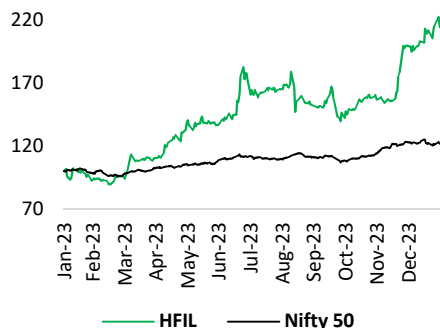
Shareholding Pattern %

(As on September 2023)

Promoters	41.30
FII	1.73
DII	11.97
Public & Others	44.99

Stock Performance (%)	1m	6m	12m
Heritage	5.9	27.9	107.7
Nifty 50	(0.1)	10.1	23.3

Heritage vs Nifty 50



Heritage surpasses estimates across all fronts, driven by value added products and growth in milk procurement and sales volume. The reduction in procurement prices, coupled with an increase in selling prices, fuels revenue growth. Company's revenue was up 19.8% YoY to INR 9,411 Mn (-3.8% QoQ), outperforming our estimate of INR 9,039 Mn by 4.1%. EBITDA demonstrated strong YoY growth, surging by 61.1% to reach INR 520 Mn (+10.4% QoQ) and exceeding our estimated figures of INR 488 Mn by 6.6%. EBITDA Margin expanded 140bps YoY to 5.5% (+70bps QoQ), beating our estimate of 5.4%. PAT nearly doubled YoY, reaching INR 269 Mn compared to INR 137 Mn in Q3FY23 (+20% QoQ), surpassing our expectation of INR 240 Mn by 12.1%.

VAP margins and market share: The VAP margin is currently only 200-300 bps higher than liquid milk, but there's an expectation for it to increase by 3%. In Q3, 19% of the revenue growth in value-added products came from volume growth, with significant market share gains in cities like Bangalore and Chennai. The company plans to capitalize on this by increasing the prices of VAP in the summer, when VAP products experience growth.

Milk price, procurement, and margin: Company maintained growth in milk procurement, achieving a 14.3% YoY increase to an average of 1.63 million liters per day. The average milk procurement prices decreased by 57 paise/liter, reaching Rs43.9/liter and average Milk selling prices increased by INR 2.71/liter (5.18%) YoY to INR 55/liter. Additionally, EBITDA margins improved attributed to favorable conditions during the flush season and a decline in raw milk prices, bolstering profitability.

Guidance: Company aspires to achieve INR 6,000 Crores in Revenue in the Next Two to Three Years with Steady-State EBITDA Margin Target of 7%. Current Quarter's Value-Added Product Margin at 9.9%, Indicating Pricing Opportunities and Upside Potential in Coming Quarters.

Valuation and Outlook: The company surpassed expectations, driven by robust performance in value-added products, along with strong milk volume and pricing. Anticipated reduction in fat losses and increase in prices in the VAP segment, positions the company for continued success in both revenue and profitability aspects. We assign a TP of INR 543 valued at a P/E multiple of 25x the FY26E EPS of INR 21.7 (68% upside with a 'Buy' rating).

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,912	44,646	52,630
Growth (%)	8.42	20.86	16.99	17.76	17.88
EBITDA	1,912	1,385	1,968	2,664	3,404
Growth (%)	-29.48	-27.59	42.14	35.36	27.76
EBITDA margin	7.13	4.27	5.19	5.97	6.47
Adjusted net profit	1,117	665	1,085	1,548	2,016
Growth (%)	-27.43	-40.44	63.20	42.65	30.25
Adjusted EPS (Rs)	24.1	7.2	11.7	16.7	21.7
RoCE	24.8	12.7	16.6	22.6	24.7
Total debt/Equity (x)	0.0	0.2	0.2	0.2	0.2
PER	13.7	24.1	14.8	10.4	13.4
Price/Book	3.3	2.2	2.5	2.1	2.8
EV/EBITDA	7.9	12.5	8.6	6.1	7.9

Source: Company, Arihant Research

INR Cr (Consolidated)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y	Q3FY24E	Surprise
Net Revenue	9411	9786	7860	-3.83%	19.74%	9039	4.12%
Raw Material Costs	7445	7937	6283	-6.20%	18.49%	7141	4.25%
Gross Profit	1966	1849	1577	6.36%	24.68%	1898	3.60%
<i>Gross Margin</i>	<i>20.90%</i>	<i>18.89%</i>	<i>20.07%</i>	<i>200bps</i>	<i>83bps</i>	<i>21.00%</i>	<i>-10bps</i>
Employee costs	664	621	561	6.85%	18.29%	633	4.94%
Other Expenses	783	757	690	3.48%	13.42%	777	0.71%
EBITDA	520	471	326	10.34%	59.55%	488	6.45%
<i>EBITDA margin</i>	<i>5.52%</i>	<i>4.81%</i>	<i>4.14%</i>	<i>71bps</i>	<i>138bps</i>	<i>5.40%</i>	<i>12bps</i>
Other Non Operating Income	30	18	32	67.02%	-6.16%	25	20.12%
Depreciation	155	150	143	3.27%	8.55%	145	7.33%
EBIT	394	339	215	16.49%	83.73%	368	7.04%
Finance costs	18	15	5	15.90%	257.20%	15	19.07%
Share of profit/ loss (Associates)	-16	-16	-20	-2.14%	-19.80%	-20	-19.80%
PBT	361	307	190	17.51%	90.07%	333	8.10%
Tax Expense	92	83	53	10.72%	72.64%	93	-2.01%
<i>Effective tax rate</i>	<i>25.38%</i>	<i>26.94%</i>	<i>27.94%</i>	<i>-156bps</i>	<i>-256bps</i>	<i>28.00%</i>	<i>-262bps</i>
PAT	269	224	137	20.02%	96.83%	240	12.04%
<i>PAT margin</i>	<i>2.85%</i>	<i>2.29%</i>	<i>1.74%</i>	<i>56bps</i>	<i>112bps</i>	<i>2.65%</i>	<i>20bps</i>

Source: Company, Arihant Research

Q3FY24 Operational Highlights:

- **Losses from fat sales:** The company faced INR 15.5 crores in losses from bulk fat disposal this quarter, amounting to 2% of revenue, a reduction from the previous quarter's INR 17.5 crores. These losses impacted the margin, but the company anticipates a decrease in Q4 losses due to increased consumer-packed sales of fat products.
- **Growth in value-added products:** The company achieved a robust 23% YoY growth, amounting to INR 245 crores in its value-added products portfolio. This segment contributed 26.5% to the overall revenue for the quarter, with strong volume growth of 19% YoY driven by consumer acquisition, retention, and market expansion.
- **Whatsapp commerce model:** The company has transitioned from Heritage Touch to the WhatsApp commerce model due to uninstallation challenges. Successful pilots in Bangalore indicate a high retention rate of over 98%, making it a more profitable and scalable approach for direct-to-consumer outreach.
- **Modern trade and e-commerce contribution:** The company derives approximately 11% of its revenue from modern trade and e-commerce, with a growing presence in these channels across various states.
- **Shift in milk mix:** Observing a consistent 2-3% annual shift from buffalo to cow milk contribution. This ongoing trend may lead to a change in the current 80-20 ratio. Over a full year, this could potentially result in a 70-30 ratio. A 10% swing could influence a price difference of about 1-1.5 rupees per liter over the next two to three years.
- **Breakup of fat sales:** The cumulative fat sales amount to 93 crores, with 41 crores attributed to consumer sales and 52 crores to bulk commodity sales.

Key Financials

Income Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,912	44,646	52,630
Growth (%)	8.4	20.9	17.0	17.8	17.9
Operating expenses	-24,901	-31,022	-35,944	-41,982	-49,226
Operating profit	1,912	1,385	1,968	2,664	3,404
Other operating income					
EBITDA	1,912	1,385	1,968	2,664	3,404
Growth (%)	(29.5)	(27.6)	42.1	35.4	27.8
Depreciation	-526	-564	-601	-687	-806
Other income	113	121	127	133	140
EBIT	1,499	942	1,494	2,110	2,737
Finance cost	-40	-39	-44	-46	-48
Exceptional & extraordinary					
Profit before tax	1,459	903	1,450	2,064	2,689
Tax (current + deferred)	-342	-238	-365	-516	-672
P / L form discontinuing operations					
Profit / (Loss) for the period	1,117	665	1,085	1,548	2,016
P/L of Associates, Min Int, Pref Div					
Reported Profit / (Loss)	1,117	665	1,085	1,548	2,016
Adjusted net profit	1,117	665	1,085	1,548	2,016
Growth (%)	-27	-40	63	43	30

Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Share capital	232	464	464	464	464
Reserves & surplus	4,436	6,795	5,845	7,277	9,176
Shareholders' funds	4,668	7,259	6,309	7,741	9,640
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	3,452	3,822	4,264
ST borrowings, Curr maturity	66	1,348	1,415	1,486	1,560
Other current liabilities	1,760	1,798	2,037	2,337	2,704
Total (Equity and Liabilities)	7,118	11,250	10,606	12,409	14,750
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	3,628	4,701	5,923
Cash & current investment	356	192	536	1,323	1,989
Other current assets	2,551	4,341	3,092	3,379	3,934
Total (Assets)	8,982	11,250	10,606	12,409	14,750
Total debt	145	1,393	1,460	1,531	1,605
Capital employed	5,359	9,452	8,569	10,072	12,046

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,459	903	1,450	2,064	2,689
Depreciation	526	564	601	687	806
Change in working capital	-443	-1,775	1,488	13	-188
Total tax paid	-344	-229	-365	-516	-672
Others	40	39	44	46	48
Cash flow from oper. (a)	1,238	-499	3,218	2,294	2,683
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	2,356	878	757
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	2,361	787	666

Source: Arihant Research, Company Filings

Key Ratios

Key ratios

Key ratios (%)	FY22	FY23	FY24E	FY25E	FY26E
Adjusted EPS (Rs)	24.1	7.2	11.7	16.7	21.7
<i>Growth</i>	<i>(27.4)</i>	<i>(70.2)</i>	<i>63.2</i>	<i>42.7</i>	<i>30.3</i>
CEPS (Rs)	35.4	13.2	18.2	24.1	30.4
Book NAV/share (Rs)	100.6	78.2	68.0	83.4	103.9
Dividend/share (Rs)	5.0	1.3	1.3	1.3	1.3
Dividend payout ratio	25.0	17.4	10.7	7.5	5.8
EBITDA margin	7.1	4.3	5.2	6.0	6.5
EBIT margin	5.6	2.9	3.9	4.7	5.2
Tax rate	23.5	26.3	25.2	25.0	25.0
RoCE	24.8	12.7	16.6	22.6	24.7
Total debt/Equity (x)	0.0	0.2	0.2	0.2	0.2
Net debt/Equity (x)	(0.0)	0.2	0.1	0.0	(0.0)
Du Pont Analysis - ROE					
Net margin	4.2	2.1	2.9	3.5	3.8
Asset turnover (x)	3.0	3.2	3.5	3.9	3.9
Leverage factor (x)	1.7	1.7	1.6	1.6	1.6
Return on equity	21.0	11.2	16.0	22.0	23.2

Valuations

Valuations (x)	FY22	FY23	FY24E	FY25E	FY26E
PER	13.7	24.1	14.8	10.4	13.4
PCE	9.3	13.1	9.5	7.2	9.6
Price/Book	3.3	2.2	2.5	2.1	2.8
Yield (%)	1.5	0.7	0.7	0.7	0.4
EV/EBITDA	7.9	12.5	8.6	6.1	7.9

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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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