

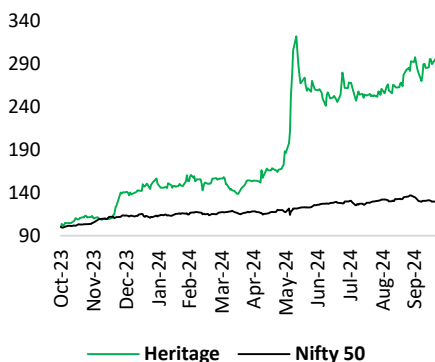
CMP: INR 537
Rating: Accumulate
Target Price: INR 637
Stock Info

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)	4,982
52w H/L (INR)	727/ 209
Avg Daily Vol (in 000')	75

Shareholding Pattern %
(As on September 2024)

Promoters	41.30
FII	8.27
DII	3.89
Public & Others	46.56

Stock Performance (%)	1m	3m	12m
Heritage	(15.2)	(5.14)	141.1
Nifty 50	(6.6)	(1.6)	28.4

Heritage vs Nifty 50

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Heritage delivered a spectacular bottom-line performance coupled with a top line miss. Revenue was up 4.19% YoY to INR 10,195 Mn (-1.27% QoQ), missing our estimate of INR 10,764 Mn by 5.28%. Gross Margin expanded 585 bps YoY 24.75% (-74bps QoQ). EBITDA grew 76.77% YoY to INR 832 Mn (-11.22% QoQ), beating our estimate of INR 646 Mn by 28.86%. EBITDA Margin expanded 335bps YoY to 8.16% (-91bps QoQ), beating our estimate of 6% by 216bps. PAT grew 116.98% YoY to INR 486 Mn (-16.71% QoQ), beating our estimate of INR 358 Mn by 35.85%. Milk sales grew 5% while VAP revenues grew 15%. Milk procurement prices have fallen ~7% in Q2 which translated into an increase in volumes procured. Their subsidiary Heritage Nutrivet saw a top line growth of 18%.

VAP growth not up to par: Heritage delivered a VAP growth of 15.5%, which isn't on par with peers that have delivered >20% VAP growth in Q2. This was attributable to a lower volume of B2B (bulk) fat sales. To drive fat sales, they are working on developing the consumer fat category (B2C) which has shown promising results, growing >50%. Adverse weather negatively impacted sales of curd, drinkables, ice cream, and some other VAP products.

Value- Volume mix: In line with the rest of the industry, Heritage has not taken any significant pricing action in Q2 and doesn't plan to do so in the immediate future either, as their focus will remain on maintaining volume growth. Although milk procurement prices have declined, the company has not yet raised product prices to counterbalance cost inflation, which applied downward pressure on margins this quarter. There might be price increases some quarters down the line.

Outlook and Valuation: We assign a TP of INR 637 valued at a P/E multiple of 30x the FY26E EPS of INR 21 (19% upside with an 'Accumulate' rating). The industry has seen a re-entry of competitors which has led to significant price slashing. As a result, most private dairy players have been refocusing on volumes. There are also concerns regarding unfavourable weather conditions that hindered VAP growth might prolong, but the company will most likely implement price hikes down the line to mitigate the impact of this. Overall, we believe the company is well poised to navigate the next few quarters given that they are enhancing production capacity for VAPs, improving procurement capabilities, and expanding marketing investments.

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)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Net Revenue	10,195	10,327	9,786	-1.27%	4.19%
Raw Material Costs	7,672	7,694	7,937	-0.29%	-3.33%
Gross Profit	2,523	2,632	1,849	-4.15%	36.47%
<i>Gross Margin</i>	<i>24.75%</i>	<i>25.49%</i>	<i>18.89%</i>	<i>-74bps</i>	<i>585bps</i>
Employee costs	781	753	621	3.79%	25.75%
Other Expenses	909	941	757	-3.42%	20.18%
EBITDA	832	938	471	-11.22%	76.77%
<i>EBITDA margin</i>	<i>8.16%</i>	<i>9.08%</i>	<i>4.81%</i>	<i>-91bps</i>	<i>335bps</i>
Other Non Operating Income	75	56	18	33.99%	314.40%
Depreciation	173	166	150	4.34%	15.42%
EBIT	733	827	339	-11.31%	116.63%
Finance costs	39	34	15	13.54%	150.88%
Share of profit/ loss from associates	(20)	(16)	(16)	28.91%	22.15%
PBT	675	777	307	-13.20%	119.95%
Tax Expense	188	193	83	-2.61%	128.03%
<i>Effective tax rate</i>	<i>27.93%</i>	<i>24.89%</i>	<i>26.94%</i>	<i>304bps</i>	<i>99bps</i>
PAT	486	584	224	-16.71%	116.98%

Source: Company, Arianth Research

Guidance: The company has guided for a mid-single digit milk volume growth, and a mid- teens -VAP growth, and plan to maintain EBITDA margins within the previously guided range of 7-8%.

Capex: The company deployed INR 200 Cr toward a greenfield facility for the manufacture of ice cream. The ice cream segment is showing promising growth from an increased reach and growing per capita consumption.

Operational Highlights:

- Employee costs have increased to 7.5-8% of revenue (up from 6%), due to higher variable pay aligned with better profitability and the addition of staff in new geographical areas.
- Average milk procurement increased to 1.64 MLPD (+11.46% YoY) at an average price of INR 40.25/Litre (-6.81% YoY).
- Milk sales volume grew by 5.11% YoY, with an average selling price of INR 54.59/Litre.
- VAP revenue surged by 15.5% YoY, with a particular growth in ghee and butter at 19.2% YoY. VAP's contribution to total revenue in Q2FY25 was 34.8%, up from 30.6% in Q2FY24.
- Consumer products' revenue (excluding bulk fat) rose by 10.1% YoY. Curd and paneer (+11.6%) and drinkables (+19%).
- Sales operations were launched in Kolkata, Raipur, Patna, Indore, and Cuttack for products like ghee, drinkables, and UHT milk.
- Heritage Nutrivet Limited (HNL) recorded a 17% YoY revenue growth to INR 855 Mn, with a 53% YoY, EBITDA increase to INR 72 Mn.

Income Statement

INR Mn	FY23	FY24	FY25E	FY26E
Net sales	32,407	37,939	43,854	51,710
Growth (%)	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
Growth (%)	(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
Growth (%)	(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
<i>Growth</i>	<i>(70.2)</i>	<i>70.1</i>	<i>33.5</i>	<i>30.5</i>
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: Arihant 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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