

Heritage Foods Ltd: Q2FY18 Result Update

CMP INR 696 Target INR 850

Rating: BUY Upside: 21%

Date: 14th November 2017

Mixed results; healthy outlook

Heritage posted a mixed set of results for Q2FY18; wherein despite strong revenue growth at 31.6% yoy; impacted by higher milk procurement prices, one time expense related to brand revamp and communication coupled with consolidation of dilutive Reliance's business, the operating profit and net earnings declined by 44% yoy and 70% yoy respectively. Starting Q3, the milk procurement prices have cooled off and are expected to be 6-8% down from the Q2 levels; coupled with this the Reliance cost rationalization efforts is likely to breakeven by Q4FY18. Further we expect Reliance's acquisition to start positively reflecting in the financials from Q2FY19 onwards. At the current price, the stock trades at 26.7x and 19.1x its FY19 and FY20 Earnings. We value the company at 32.5x its FY19 earnings to arrive at our price target of 850 and re-iterate our Buy rating on the stock

Mixed results- Strong revenue; higher procurement prices coupled with Reliance's consolidation mars margin and earnings – Heritage Foods posted strong revenue performance, the overall consolidated revenue grew by 31.6% yoy; driven by strong 22% volume growth in milk and 23% yoy growth in the value added products. This strong revenue performance got negated as high milk procurement prices, along with high expenses on account of branding & Reliance consolidation resulted in spur in expenses, and thereby impacting operating and net performance, which were down 44% and 70% yoy respectively.

Incorporating weak performance; downgrade our estimates- Incorporating weak 1HFY18 operating performance but strong revenue performance; we upgrade our revenue estimates but revise our earnings downwards. Our revised EPS for FY18 is INR 15.3 and FY19 is INR 26 respectively

Outlook and valuations: Positive; Re-iterate BUY

Improving organized dairy dynamics coupled with Heritage's aggression on expanding its procurement and distribution reach (The company has a clear vision to grow 25% annually to reach IR 6000 crore revenue by FY22) and changing the DNA of the company from traditional milk player to a leading consumer brand (expects value added products to contribute 40% to the business as against current contribution of 24%) makes us positive on the company. At the current price, the stock trades at 26.7x and 19.1x its FY19 and FY20 earnings of INR 26 and INR 36.4 respectively. We value the company at 32.5x its FY19 earnings to arrive at our price target of 850 and re-iterate our Buy rating on the stock.

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17	FY18E	FY19E
Net sales	616.1	468	31.6%	618	-0.4%	2,643	2,428	3,014
EBITDA	21.1	37.6	-43.8%	26.9	-21.4%	141.3	148.0	224.0
PAT	7.4	24.4	-69.6%	10.3	-28.2%	67	71	121
PAT from continuing operations	7.4	24.4	-69.6%	10.3	-28.2%			
Dil. EPS (INR)						28.8	15.3	26.0
Diluted P/E (x)						24.0	45.2	26.6
EV/EBITDA (x)						12	22	14
ROACE (%)						24	17	20

Bloomberg:	HTFL:IN
52-week range (INR):	830/387
Share in issue (cr):	4.6
M cap (INR cr):	3219
Promoters (%)	39.9

Q2FY18 Result Highlights

(INR cr)	Q2FY18	Q2FY17	% change	Q1FY18	% change
Net Revenues	616.1	468.1	32%	616.8	0%
Operating Expenses	595.0	430.5	38%	589.9	1%
EBITDA	21.1	37.6	-44%	26.9	-21%
Depreciation	9.2	6.2	49%	8.7	6%
EBIT	11.9	31.4	-62%	18.2	-35%
Interest expenses	4.0	1.7	135%	4.0	0%
Other income	1.7	0.7	137%	1.5	15%
PBT	9.6	30.4	-68%	15.7	-39%
Provision for tax	2.2	6.1	-63%	5.5	-60%
PAT Before Minority & Associate Share	7.4	24.4	-70%	10.2	-27%
Share of Associates	-	-		-	NA
PAT from continuing operations	7.4	24.4	-70%	10.2	-27%
Reported PAT	7.4	24.4	-70%	10.2	-27%
Equity Capital	23.2	23.2		23.2	
No of Shares	4.64	4.64		4.64	
EPS	1.60	5.25		2.20	
EBITDA Margin	3%	8%		4%	
PAT Margin	1%	5%		2%	
Tax Rate	23%	20%		35%	

Consolidated (INR cr)	FY18E			FY19E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	2,385	2,427.8	1.8	2,769	3,014	8.8
EBITDA	169.3	148.0	-12.5	225	225	-
<i>EBITDA margin (%)</i>	<i>7.1</i>	<i>6.1</i>	<i>99.8</i>	<i>8.1</i>	<i>7.5</i>	
PBT	125.8	101.5	-19.3	178	178	-
Net profit	88.0	71.1	-19.3	124	124	-
Adj EPS (Rs)	19.1	15.5	-19.3	27.0	27.0	-

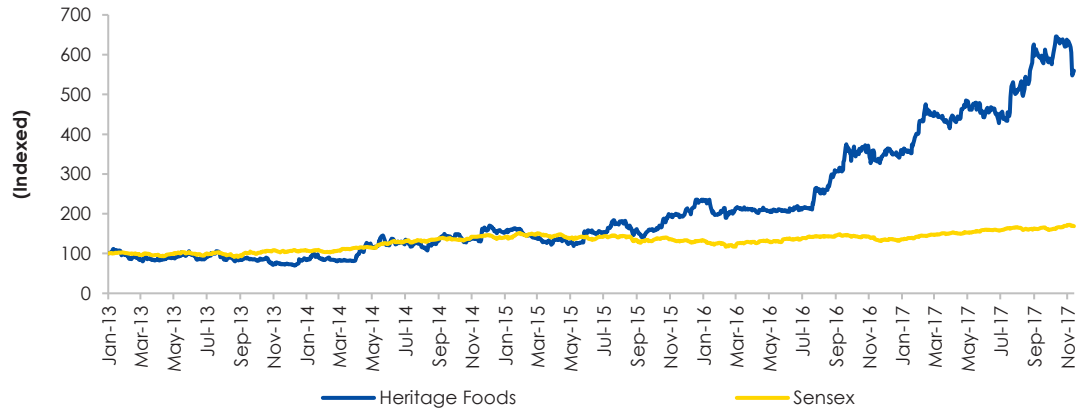
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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