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Q1FY23 result review and  
earnings/TP revision

## Dairy

Target price: Rs400

### Earnings revision

(%)	FY23E	FY24E
Sales	↑ 5.5	↑ 5.5
EBITDA	↓ 20.6	↓ 4.7
EPS	↓ 24.4	↓ 4.8

### Target price revision

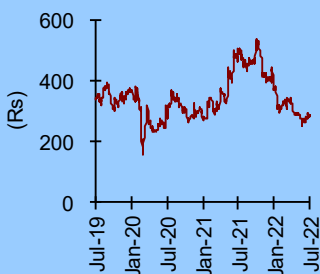
Rs400 from Rs450

### Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	39.4	39.4	39.4
Institutional investors	19.5	17.5	16.7
MFs and other	15.4	15.8	14.5
Banks / FI's	0.0	0.0	0.0
FIs	4.1	1.7	2.2
Others	41.1	43.1	43.9

Source: BSE

### Price chart



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## INDIA

# Heritage Foods

**BUY**  
Maintained

Lowest EBITDA margin in past decade due to delay  
in price hikes; expect quick recovery in FY23

**Rs282**

Rising share of value added products and strong up-tick in curd volume sales are the key positives of 1QFY23 result. Revenue grew 26.7% YoY but EBITDA margin declined to 2.9% (lowest in past 44 quarters) due to delayed price hikes. Heritage continued to launch new products during the quarter. We remain believer of Heritage to be a beneficiary of steady value migration from co-operatives and unorganised players to private players. We model Heritage to report PAT CAGR of 30.2% over FY22-FY24 with (1) high single-digit growth in milk procurement and (2) steady increase in the share of value-added product portfolio. We cut earnings estimates due to delay in price hikes. We stay positive and maintain BUY rating on the stock with a revised DCF-based target price of Rs400 (10x of FY24E EPS; prior TP: Rs450).

- **Q1FY23 result:** Heritage reported revenue growth of 26.7% YoY, but reported EBITDA and adj. PAT decline of 55.2% and 71.1% YoY, respectively. Gross and EBITDA margins declined 538bps and 532bps YoY, respectively, due to higher input prices. Reduction in interest cost arrested the decline in PAT margin to 380bps YoY.
- **Segment-wise performance:** While dairy segment reported revenue growth of 27.7%, its feed business revenue declined 6.8% YoY. Share of value-added products increased to 34.9% in Q1FY23 from 27.3% Q1FY22. Curd volume sales were up 45.4% YoY during the quarter. We believe the contribution of VAP has increased due to favourable base and higher revenue of curd and ice-cream.
- **Steady launch of new products:** The company has launched multiple VAPs (*Gulab Jamun, Rasgulla, Cup Buttermilk and Ghee in spout packs*) in Q1FY23. Rising share of VAP products in total sales is evident of high customer acceptance. We believe company is on track to achieve 40% of sales from VAP in next 2-3 years.
- **Strong volume growth:** The company procured 1.47mn litres of milk per day, up 20.8% YoY in Q1FY23 (3 year CAGR: -0.7%). Average milk sales during the year were also up 15.1% YoY (2 Year CAGR: -2%).
- **Maintain BUY:** We model Heritage to report revenue and PAT CAGRs of 17.5% and 30.2%, respectively, over FY22-FY24E with RoE > cost of capital. We are positive on its business model led by its competitive advantages and strong growth opportunity. We maintain BUY rating on the stock and value it as per DCF methodology at Rs400 (implied P/E 10x FY24E).

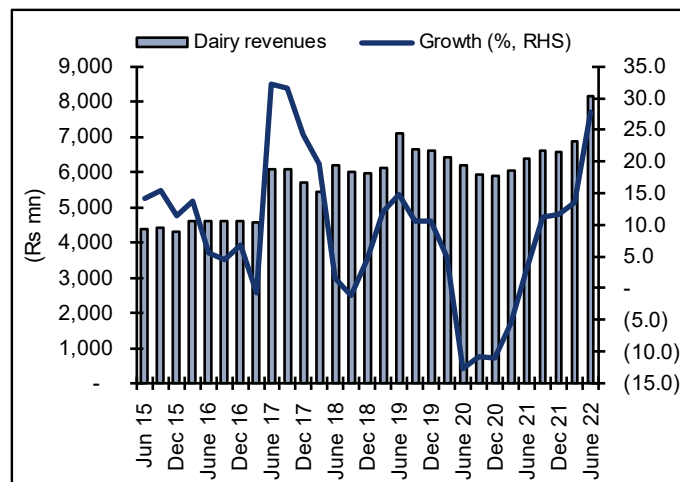
Market Cap	Rs13.1bn/US\$165mn	Year to March	FY21	FY22P	FY23E	FY24E
Reuters/Bloomberg	HEFI.BO / HTFL IN	Revenue (Rs mn)	24,731	26,813	32,446	36,989
Shares Outstanding (mn)	46.4	Adj. Net Profit (Rs mn)	1,598	1,066	1,175	1,806
52-week Range (Rs)	536/254	Dil. Rec. EPS (Rs)	34.4	23.0	25.3	38.9
Free Float (%)	60.6	% Chg YoY	174.4	(33.3)	10.2	53.7
FII (%)	1.7	P/E (x)	8.1	12.2	11.1	7.2
Daily Volume (US\$'000)	444	CEPS (Rs)	44.4	34.2	37.7	52.6
Absolute Return 3m (%)	(9.4)	EV/EBITDA (x)	4.8	6.8	6.4	4.7
Absolute Return 12m (%)	(41.7)	Dividend Yield (%)	1.8	2.1	2.1	2.1
Sensex Return 3m (%)	1.6	RoCE (%)	31.5	19.9	18.9	24.0
Sensex Return 12m (%)	10.7	RoE (%)	29.0	16.4	16.2	21.3

**Table 1: Q1FY23 financial performance***(Rs mn, year ending March 31)*

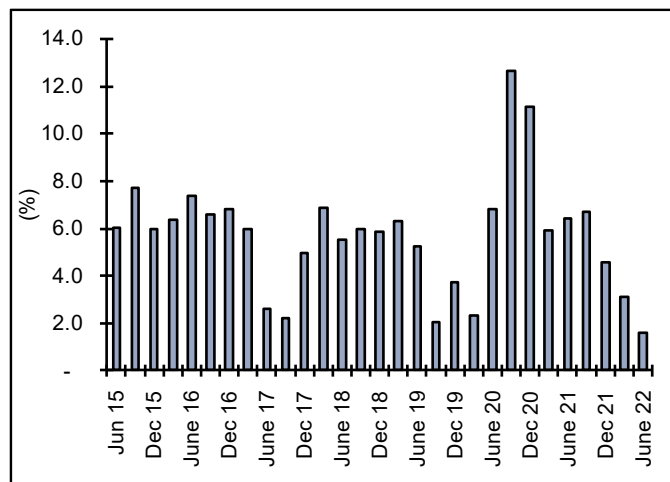
Y/e March	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
<b>Revenue</b>	<b>8,209</b>	<b>6,481</b>	<b>26.7</b>	<b>6,959</b>	<b>18.0</b>
<b>Expenditure</b>					
Raw materials	6,773	4,998	35.5	5,555	21.9
% of revenue	82.5	77.1		79.8	
Employee cost	512	462	10.8	418	22.3
% of revenue	6.2	7.1		6.0	
Other expenditure	685	487	40.7	666	2.9
% of revenue	8.3	7.5		9.6	
Total expenditure	7,970	5,947	34.0	6,639	20.0
<b>EBITDA</b>	<b>239</b>	<b>534</b>	<b>(55.2)</b>	<b>320</b>	<b>(25.3)</b>
EBITDA margin	2.9	8.2		4.6	
Other income	26	28	(6.9)	25	7.4
<b>PBDIT</b>	<b>266</b>	<b>562</b>	<b>(52.8)</b>	<b>345</b>	<b>(22.9)</b>
Depreciation	134	128	5.3	135	(0.1)
<b>PBIT</b>	<b>131</b>	<b>434</b>	<b>(69.8)</b>	<b>210</b>	<b>(37.5)</b>
Interest	7	14	(51.8)	11	(34.9)
<b>PBT</b>	<b>124</b>	<b>420</b>	<b>(70.4)</b>	<b>199</b>	<b>(37.7)</b>
Prov for tax	33	104	(68.3)	51	(36.0)
% of PBT	26.5	24.7		25.8	
<b>Adjusted PAT</b>	<b>91</b>	<b>316</b>	<b>(71.1)</b>	<b>148</b>	<b>(38.3)</b>
Extra ordinary items	(0)	(1)	(94.2)	(21)	(99.6)
<b>Reported PAT</b>	<b>91</b>	<b>315</b>	<b>(71.0)</b>	<b>127</b>	<b>(27.9)</b>

Source: Company data, I-Sec research

## Key performance highlights

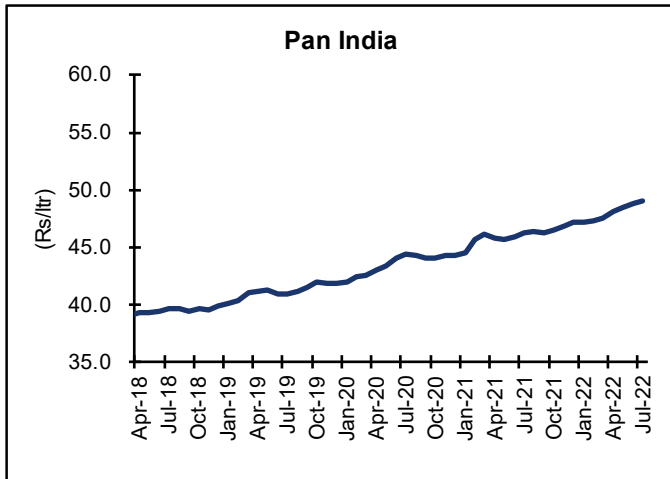
**Chart 1: Revenue and revenue growth**

Source: Company data, I-Sec research

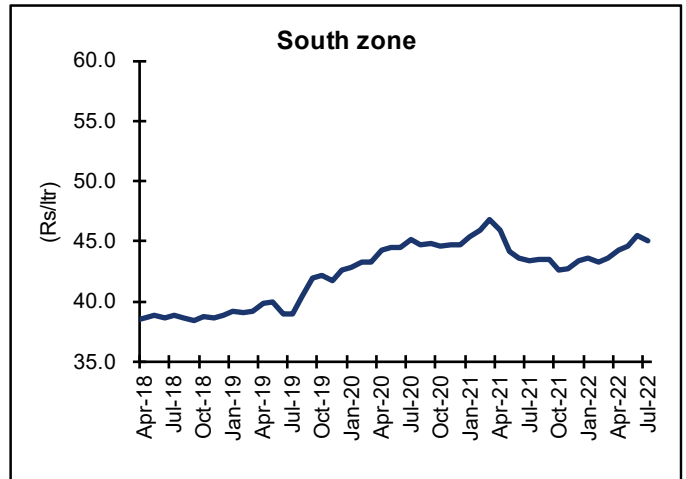
**Chart 2: EBIT margin of dairy segment**

Source: Company data, I-Sec research

**Chart 3: Milk prices – pan-India**

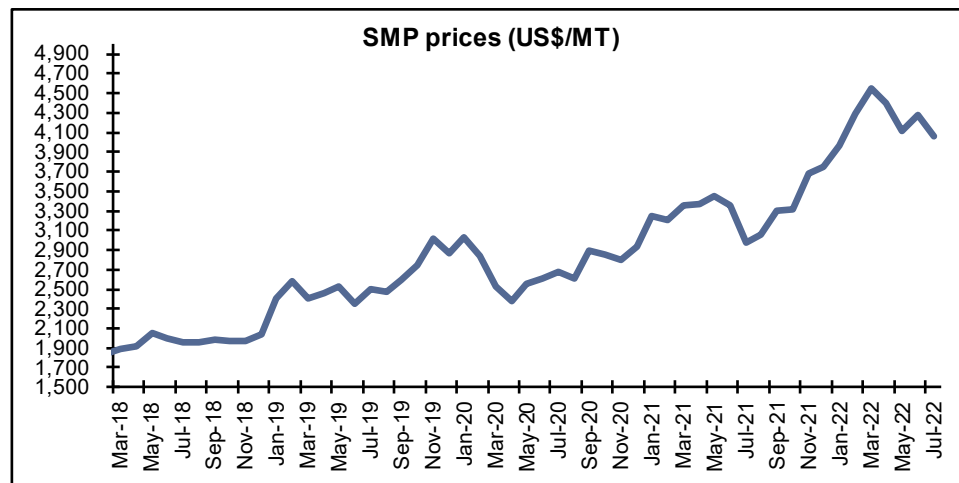


**Chart 4: Milk prices - South India**



Source: Department of consumer affairs, I-Sec research

**Chart 5: Skimmed milk powder (SMP) prices**



Source: Industry, I-Sec research

## Valuation and risks

We model Heritage to report revenue and PAT CAGRs of 17.5% and 30.2%, respectively, over FY22-FY24E and adjusted RoE to change from 16.4% in FY22 to 21.3% in FY24E. We value the stock at a target price of Rs400 as per DCF methodology. At the DCF price, implied P/E works out to 10x on FY24E EPS. Maintain BUY.

**Table 2: DCF valuation**

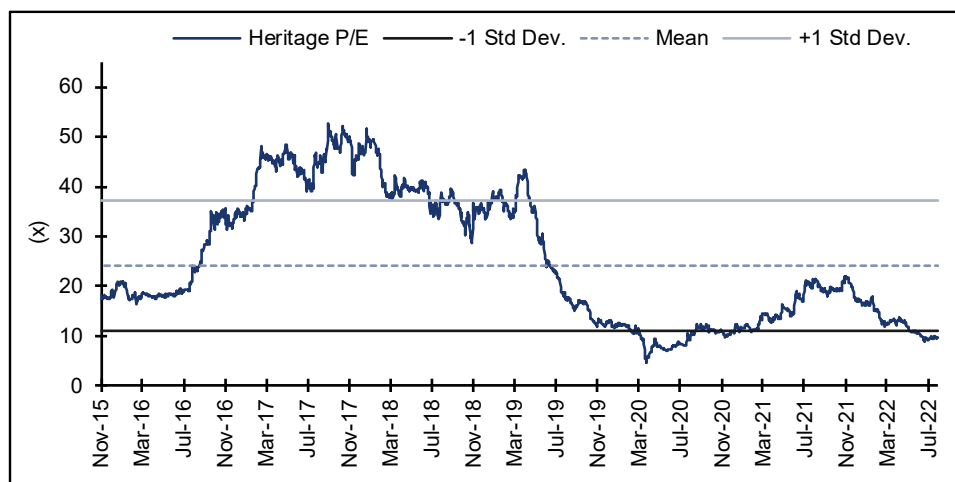
Particulars (Rs mn)	Amt (Rs)
Cost of Equity (%)	13.0%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (Rsmn)	11,211
Discounted terminal value (Rsmn)	7,348
Total equity value (Rsmn)	18,559
<b>Value per share (Rs)</b>	<b>400</b>

Source: Company data, I-Sec research

## Mean P/E and standard valuation

The stock has traded at an average P/E of 24x over the past 10 years. The stock is trading around 1 standard deviation below its mean P/E.

**Chart 6: Mean P/E and standard deviation**



Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices

Any major increase in commodity prices will result in downside to our estimates.

### Sharp increase in competition

Any major increase in competition will result in downside to our estimates

## Financial summary

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
<b>Net Sales</b>	<b>24,731</b>	<b>26,813</b>	<b>32,446</b>	<b>36,989</b>
<b>Operating Expenses</b>	<b>22,020</b>	<b>24,900</b>	<b>30,418</b>	<b>34,215</b>
<b>EBITDA</b>	<b>2,712</b>	<b>1,913</b>	<b>2,028</b>	<b>2,774</b>
% margins	11.0	7.1	6.3	7.5
Depreciation & Amortisation	462	522	576	634
Gross Interest	192	40	42	42
Other Income	80	113	175	330
<b>Recurring PBT</b>	<b>2,138</b>	<b>1,463</b>	<b>1,584</b>	<b>2,428</b>
Less: Taxes	535	342	399	612
Less: Minority Interest	6	56	10	10
<b>Net Income (Reported)</b>	<b>1,598</b>	<b>1,066</b>	<b>1,175</b>	<b>1,806</b>
Extraordinaries (Net)	(119)	(100)	-	-
<b>Recurring Net Income</b>	<b>1,478</b>	<b>965</b>	<b>1,175</b>	<b>1,806</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	2,595	2,908	2,350	2,598
of which cash & cash eqv.	236	356	62	33
Total Current Liabilities & Provisions	2,060	1,788	2,758	3,144
<b>Net Current Assets</b>	<b>535</b>	<b>1,119</b>	<b>(408)</b>	<b>(546)</b>
Investments	254	289	2,489	3,989
Net Fixed Assets	5,753	5,749	6,053	6,219
Capital Work-in-Progress	183	80	-	-
<b>Total Assets</b>	<b>6,725</b>	<b>7,238</b>	<b>8,134</b>	<b>9,661</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>522</b>	<b>423</b>	<b>423</b>	<b>423</b>
<b>Deferred Tax Liability</b>	<b>241</b>	<b>239</b>	<b>239</b>	<b>239</b>
Minority Interest	5	0	0	0
Equity Share Capital	232	232	232	232
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	5,726	6,344	7,240	8,767
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>5,958</b>	<b>6,576</b>	<b>7,472</b>	<b>8,999</b>
<b>Total Liabilities</b>	<b>6,725</b>	<b>7,238</b>	<b>8,134</b>	<b>9,661</b>

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sept 21	Dec 21	Mar 22	June 22
Net sales	6,703	6,670	6,959	8,209
% growth (YoY)	9.9	10.3	12.4	26.7
EBITDA	651	408	320	239
Margin (%)	9.7	6.1	4.6	2.9
Other income	29	31	25	26
Extraordinaries (Net)	(93)	(18)	(21)	(0)
Net profit	327	207	129	73

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
<b>Operating Cashflow</b>	<b>1,999</b>	<b>1,544</b>	<b>1,751</b>	<b>2,440</b>
Working Capital Changes	(475)	(72)	1,234	109
Capital Commitments	(662)	(417)	(800)	(800)
<b>Free Cashflow</b>	<b>862</b>	<b>1,056</b>	<b>2,185</b>	<b>1,749</b>
<b>Cashflow from Investing Activities</b>	<b>1,334</b>	<b>(32)</b>	<b>(2,200)</b>	<b>(1,500)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(1,566)	(548)	-	-
Dividend paid	(116)	(348)	(278)	(278)
<b>Change in Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>514</b>	<b>128</b>	<b>(294)</b>	<b>(29)</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22P	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	34.4	23.0	25.3	38.9
Cash EPS	44.4	34.2	37.7	52.6
Dividend per share (DPS)	5.0	6.0	6.0	6.0
Book Value per share (BV)	133.6	146.9	166.2	199.1
<b>Growth (%)</b>				
Net Sales	(9.3)	8.4	21.0	14.0
EBITDA	109.7	(29.5)	6.0	36.8
PAT	174.4	(33.3)	10.2	53.7
Cash EPS	90.1	(22.9)	10.3	39.4
<b>Valuation Ratios (x)</b>				
P/E	8.1	12.2	11.1	7.2
P/CEPS	6.3	8.2	7.4	5.3
P/BV	2.1	1.9	1.7	1.4
EV / EBITDA	4.8	6.8	6.4	4.7
EV / Sales	0.5	0.5	0.4	0.4
<b>Operating Ratios</b>				
Raw Material / Sales (%)	74.3	77.7	79.8	78.5
Employee cost / Sales (%)	7.2	6.9	6.5	6.5
SG&A / Sales (%)	0.4	-	0.8	0.8
Other Income / PBT (%)	3.8	7.7	11.0	13.6
Effective Tax Rate (%)	25.0	23.4	25.2	25.2
Working Capital (days)	1.2	2.8	(1.5)	(1.6)
Inventory Turnover (days)	29.3	28.0	20.1	20.1
Receivables (days)	2.2	2.5	2.2	2.2
Payables (days)	28.5	23.2	29.2	29.2
Net D/E (x)	0.0	0.0	(0.2)	(0.4)
<b>Profitability Ratios (%)</b>				
Net Income Margins	6.5	4.2	3.7	4.9
RoACE	31.5	19.9	18.9	24.0
RoAE	29.0	16.4	16.2	21.3
Dividend Payout	14.5	26.1	23.7	15.4
Dividend Yield	1.8	2.1	2.1	2.1
EBITDA Margins	11.0	7.1	6.3	7.5

Source: Company data, I-Sec research

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