

Industry turnaround story to drive volumes and margin expansion.

Arihant Capital values your support in the AsiaMoney Brokers Poll 2023 for Institutional team. We request your ballot

ASIAMONEY

[Click here](#)

Sector Thematic

Company

Dodla Dairy

CMP : INR 618

TP : INR 1,366

Rating : Buy

Heritage Foods

CMP : INR 238

TP : INR 448

Rating : Buy

Parag Milk Foods

CMP : INR 136

TP : INR 450

Rating : Buy

Abhishek Jain

Abhishek.jain@arihantcapital.com

022 67114851

Anushka Chitnis

anushka.chitnis@arihantcapital.com

022 67114870

India is the largest dairy producer in the world as of 2022, accounting for ~24% of global milk production. It constitutes to 5% of the national economy. Gujarat, Uttar Pradesh, Maharashtra, Himachal Pradesh, Madhya Pradesh, Punjab, Rajasthan and Tamil Nadu are the major production area of Dairy Products in India. Milk production in India has grown 51% in the last 8 years (2015-2022). The unorganized segment is a majority of the market but is quickly losing share to organized players. The industry has growth 8% from 2015-2022, and milk production in India has grown 5.3% in 2022. Nearly all of the dairy produce in India is consumed domestically, with the majority of it being sold and consumed as fluid milk. On account of this, the Indian dairy industry holds tremendous potential for value-addition and overall development, and is estimated to grow ~12.5% from FY22 to FY25.

Milk Production in India continues to spike: India remains the world's largest milk producer, with the Government implementing various measures to enhance livestock productivity. These initiatives have led to a significant increase in milk production. In the years 2021 and 2022, milk production reached 209.96 million tonnes and 221.06 million tonnes, respectively, representing an annual growth rate of 5.29%.

Favorable demographic trends: The state of rising disposable incomes in the country from a growing middle class is driving the growth of ready to eat/ drink dairy products which includes Value Added Dairy Products. Dietary patterns across India are also indicating a steep rise in the consumption of dairy over grains like cereals. The huge vegetarian population in India turns to dairy as a reliance source of protein.

Private players starting to dominate the market: There have been substantial investments in the dairy sector, surpassing the combined capacity of both dairy cooperatives and government dairies over the past two decades. Some of these private players have now exceeded the size of certain cooperative dairies and exhibit significant potential for further growth. The overall market is still dominated by the unorganized sector, but is quickly losing share to the private organized sector as more consumer prefer branded products with an increasing propensity to consume.

Growing per capita availability of milk: The per capita availability of milk in India has surged to an impressive 444 grams per day during 2022, surpassing the global average of 320 grams per day. This growth signifies the sector's progress and its contribution to meeting the nutritional needs of the population while fostering economic development.

Flourishing VAP market: Around 50% of the milk produced is consumed in the form of liquid milk and the balance is converted into various value-added products. The value-added market has taken the dairy industry by storm as the consumption of these products has been consistently increasing over the past few years. Further, as the spending capacity of the consumer is increasing, along with rising awareness of health and fitness, there is an enhanced willingness for these products.

Initiate coverage with Buy: We initiate coverage on Dodla Dairy, Heritage Foods, and Parag Milk Foods with a Buy rating. We believe that all the companies are well positioned in their respective markets and have a promising growth trajectory ahead of them owing their to their expanding procurement network, growing share of margin heavy value added products, and better flush season.

VAP Segment as a promising growth driver: The Indian dairy market has a total size of approximately INR 13.17 lakh cr in 2021. Over the past 15 years, the dairy market has experienced a consistent annual growth rate of about 15%. It is projected that the market will reach a size of around INR 30.84 lakh cr by 2027. The liquid milk market represents half of the domestic dairy market. In the last three years alone, the organized sector's share of the liquid milk market has surged from 32% to 41%. It is anticipated that the share of the organized sector will further increase, reaching 54% by 2026. This shift reflects the growing preference for organized dairy products among consumers. The market for liquid milk is projected to grow by approximately 16% over the next 5-6 years. Additionally, niche products such as cheese, flavored milk, lassi, buttermilk, whey, and organic milk are expected to experience a robust growth rate of over 20% per annum. Traditional dairy products like paneer, ghee, ice-cream, khoa, curd, etc., are also estimated to grow between 11% to 20% annually. In terms of volume, household consumption of milk and milk products currently stands at 16.1 cr tonnes. However, this figure is predicted to surge to 26.7 cr tonnes by 2030, indicating a significant increase in demand and consumption.

Industry has remained steadfast over the years: From a previously milk deficit nation, India has become one of the largest global producers of milk today. With the growing role of the private sector, India is expected to sustain its growth in milk production and processing in the coming decades. The dairy sector is also a major contributor to growth in the rural economy. In recent times (over the past few years), the industry has faced many major headwinds, but has continued to grow despite of that due to aggressive value addition which has caused a shift to start taking place in the industry product mix- away from plain liquid milk, and toward more premium dairy products which has aided the industry profitability- a trend we see continuing into the future. This helped compensate for the adverse impact of rising procurement prices from high feed costs and other supply side shortages due to the pandemic.

Government Initiatives boosting the industry: The market growth in Dairy requires support of significant infrastructure investment across processing, chilling, logistics, cattle feed etc. Lucrative untapped opportunities exist in value-added dairy products, organic/ farm fresh milk and exports. To facilitate the infrastructure growth, Central/ State Governments have released various incentives to attract investments in this sector. Animal Husbandry Infrastructure Development fund (AHIDF) is a scheme whereby an INR 15,000 Cr fund has been setup for financial support to set up new units/ expand existing units in dairy processing & related value addition, and Animal Feed Plant. The Dairy Infrastructure Development Fund (DIDF) was also set up to spur growth in the sector. Additionally, the IDDP (Intensive Dairy Development Scheme) was implemented to enhance milk production and improve the dairy supply chain by providing financial aids and technical inputs. The Strengthening Infrastructure and Clean Milk Production Scheme was set up to promote clean milk production and the creation of necessary infrastructure for it. The National Program for Cattle Breeding encourages Genetic upgradation by bringing all breedable female cattle under organized breeding. The Central Fodder Scheme helps promote fodder cultivation and animal feed processing. The Dairy Venture Capital Fund Scheme was set up to promote ventures in the dairy sector, and the National Dairy Plan to increase milk production in India.

FY23- A challenging year, and the road ahead for the Indian dairy industry:

In FY23, there have been key developments in the dairy industry. Milk production experienced a growth of just 1% during FY23, well below the average annual rate of 5.6% over the past decade. Farmers are facing a challenging situation due to: their cows being affected by the deadly lumpy skin disease which threatened livestock health and productivity; and there being a reduction in market-ready cattle stock due to the COVID-19 pandemic, which slowed down the breeding process. There were also unseasonal rains and heat waves during the year which impacted feed crop produce, driving prices higher.

The sector faced additional pressure due to an increase of 39% in dairy exports for 2022. This surge in exports, combined with reduced milk supplies, has led to a decrease in inventories, and increase in price of butter and skimmed milk powder (SMP). Simultaneously, the rising incomes of consumers resulted in an increased demand for protein-rich dairy products. These products play a vital role in meeting the nutritional requirements of a large vegetarian population. Consensus anticipate a 7% growth in demand for dairy this year (2023). The selling price of milk has already risen more than 15% YoY to ~INR 57 per liter (vs a procurement price of ~INR 37-39 per liter)- the sharpest price surge in a decade, which is concerning from a retail inflation standpoint. The increased cost of production was passed on by dairy companies to the end consumer via changing product mix to be more VAP heavy, and increasing the selling price of milk.

However, there is some resolve. The industry is seeing brighter times with the anticipation of a healthy flush season which will lead to high milk production in the country, and subsequent softening in the procurement prices of milk from now lower feed costs. (like soybean, cereals, rice bran, and corn) The impact of lumpy skin disease is starting to fade away. The overall industry is seeing a rise in demand for dairy, but was facing supply side issues with stocks of SMP dwindling in the country.

As we look to improved production this year, this is anticipated to change soon as most dairy companies anticipate improved availability of cow and buffalo milk production which will drive down procurement prices. However, as summer rolls around, the share of VAP sales will increase, which coupled the now lowering procurement costs will lead to improved realizations for these players. SMP is a major input for the dairy industry which started to rally since the onset of the covid-19 pandemic has now started to soften. Given, the softening had begun earlier in global markets, but is now taking place in India as well which will aid margin expansion and improve realizations.

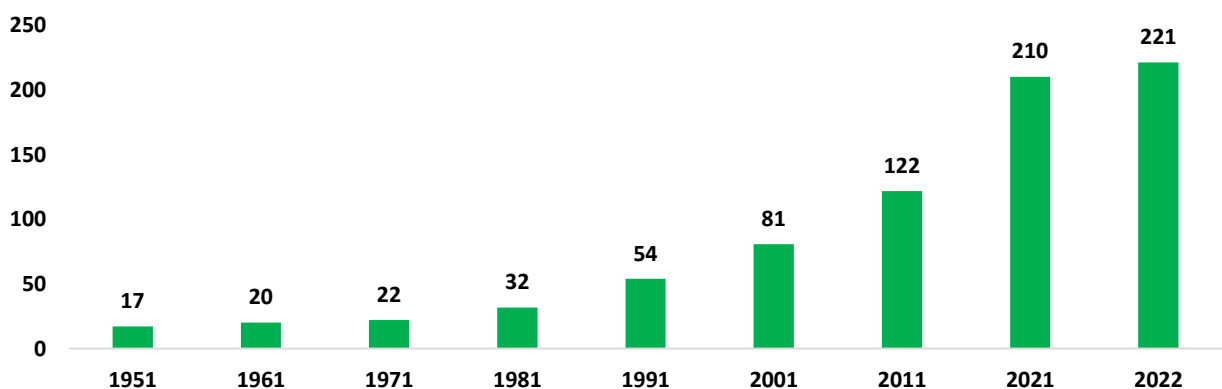
Many companies, especially private dairies have now started to expand their procurement network to reach a more pan-India presence- to grow and maintain a healthy procurement network. That, combined with the visible structural shift in the industry toward more premium dairy products (VAPs) and away from plain milk will lead to an improved margin profile for all players, as demand for said products is on a massive uptick.

Key Displays



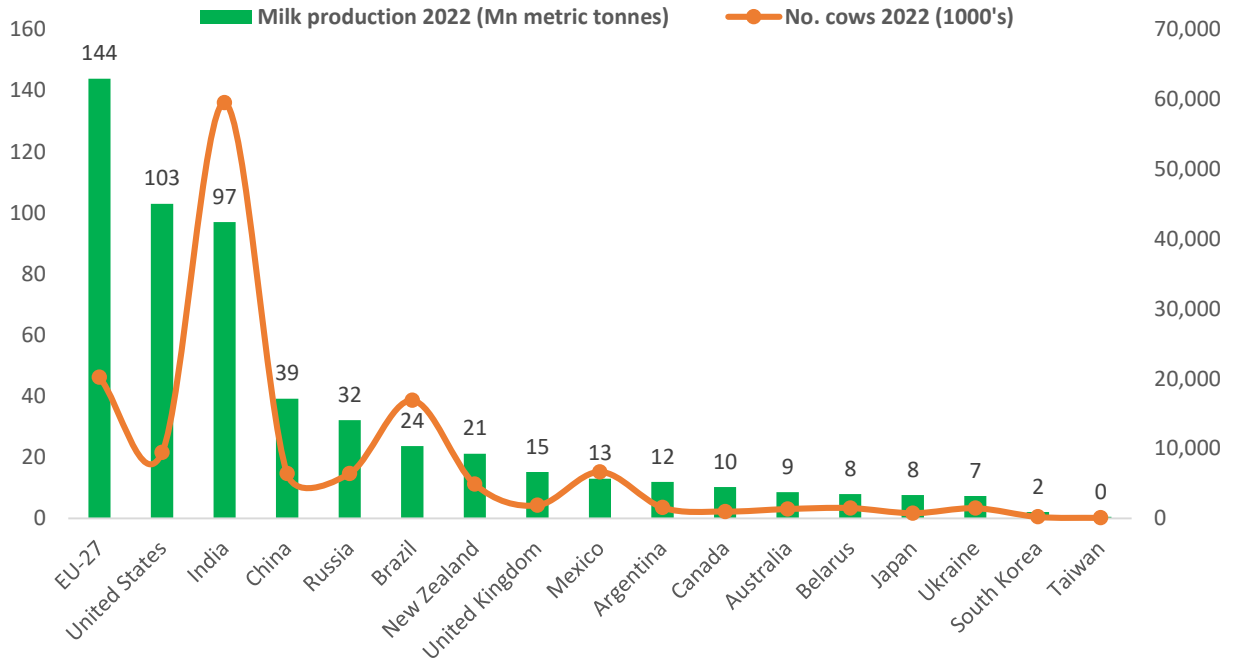
Source: Company, Arihant Research

Milk Production in India (Mn tonnes)

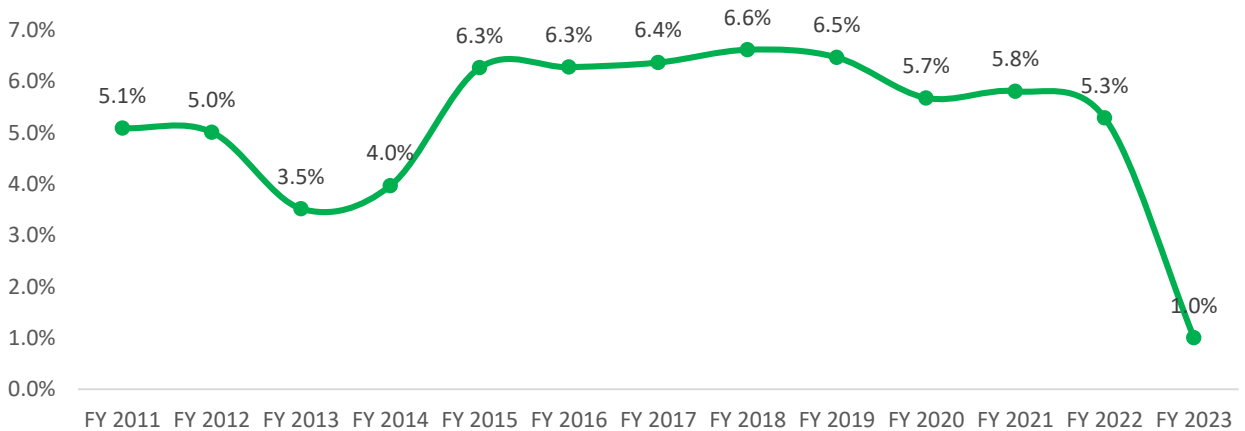


Source: PIB, Company, Arihant Research

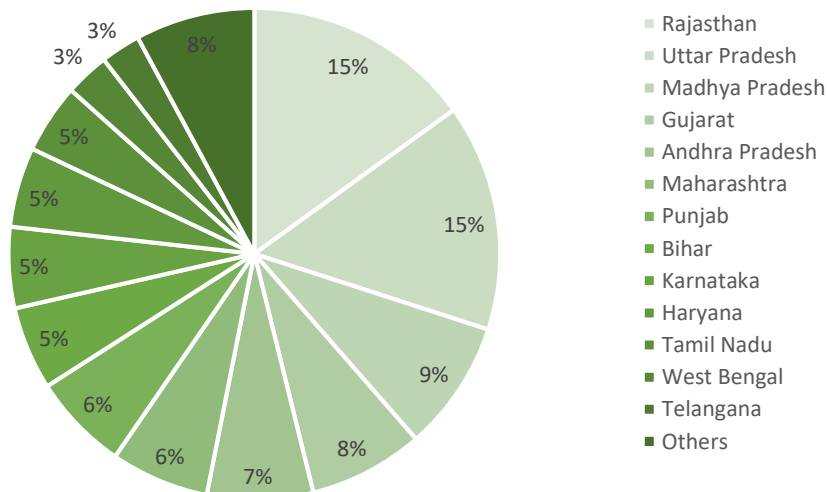
Key Displays: Statista, Aриhant Research



Annual growth in milk production in India

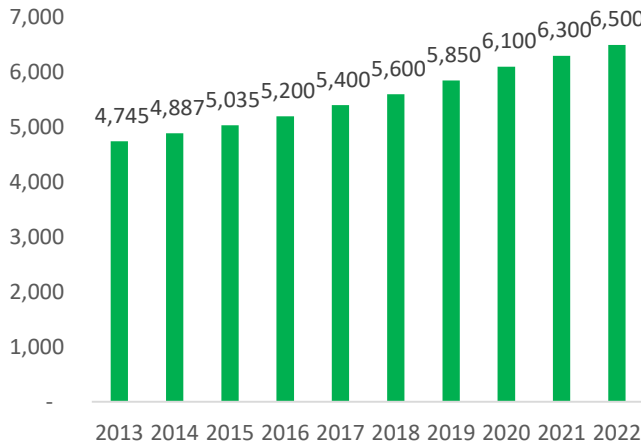


State wise share in milk production, 2022

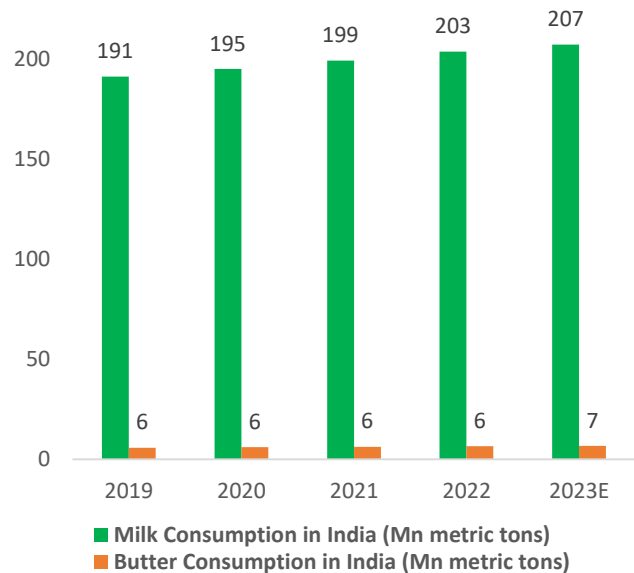
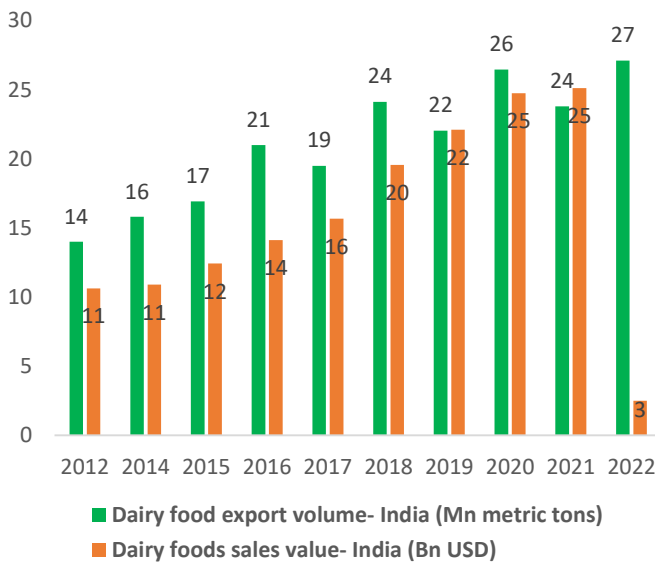
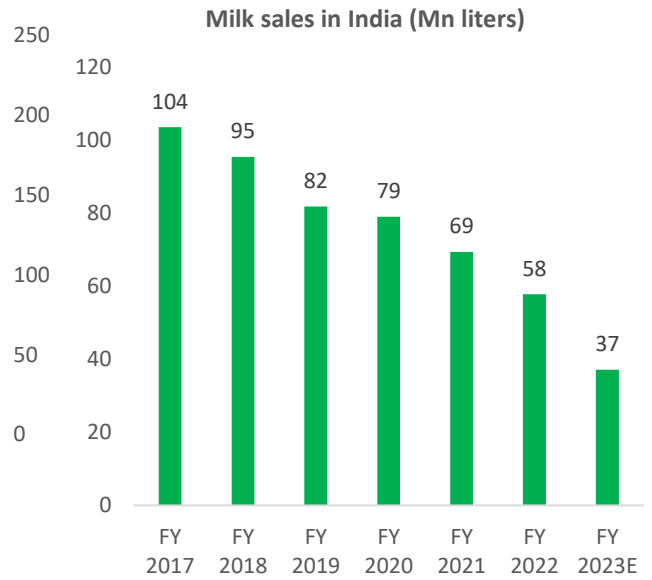
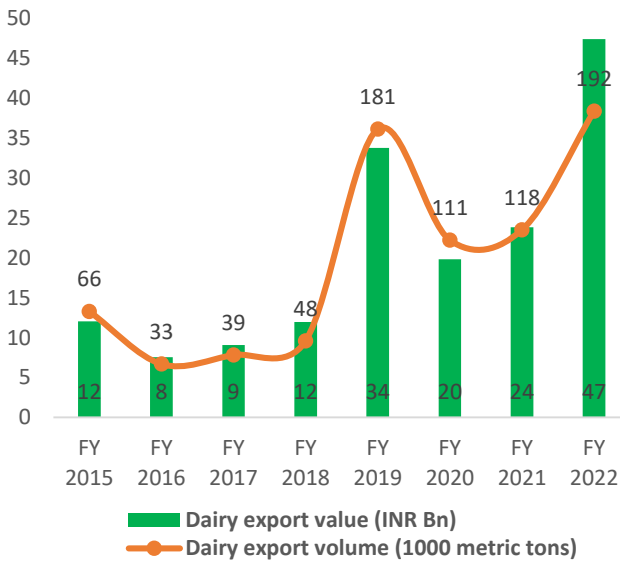
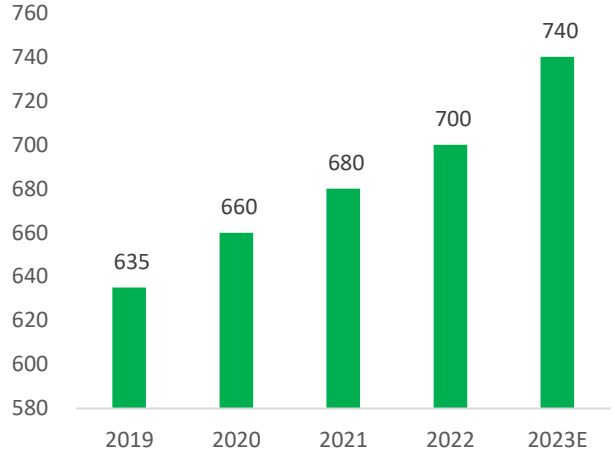


Key Displays: Statista, Arihant Research

Production volume of butter across India (1,000 metric tons)



Production volume of skimmed milk powder in India (in 1,000 metric tons)

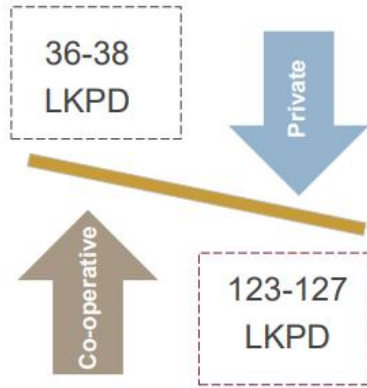


Key Displays: Crisil, Arihant Research

Private players have a strong foothold in 8 of the top 12 milk-producing states in India- Private players are growing at a pace much faster than co-op players as the organized sector continues to win over the unorganized sector.

Maharashtra

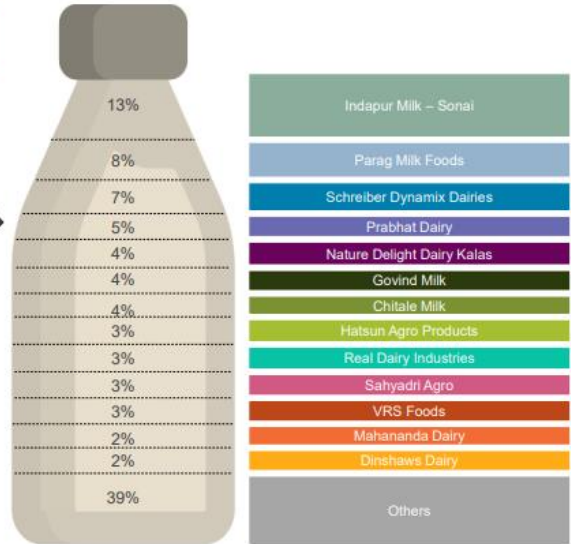
Milk procurement scenario (fiscal 2020-21)



LKPD – lakh kg per day

Source: Primary interactions with industry stakeholders, NDDB

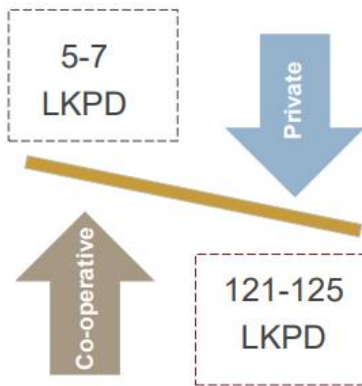
Break-up of private procurement



Note: Others include 14 companies procuring over 1 LKPD and 117 companies procuring less than 1 LKPD; break-up of all the companies constituting 'others' is available

Uttar Pradesh

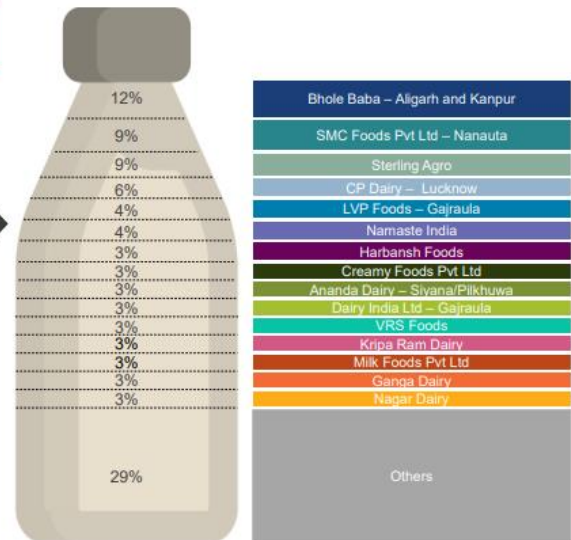
Milk procurement scenario (fiscal 2020-21)



LKPD – lakh kg per day

Source: Primary interactions with industry stakeholders, NDDB

Break-up of private procurement

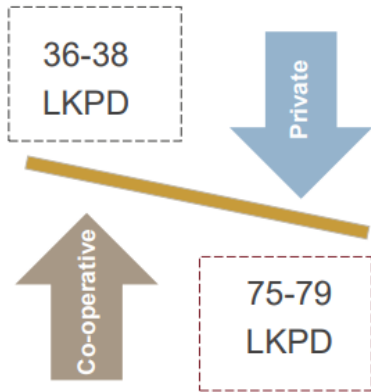


Note: Others include 18 companies procuring over 1 LKPD and five companies procuring less than 1 LKPD; company break-up of 26% of the total 29% of 'others' is available

Key Displays: Crisil, Arihant Research

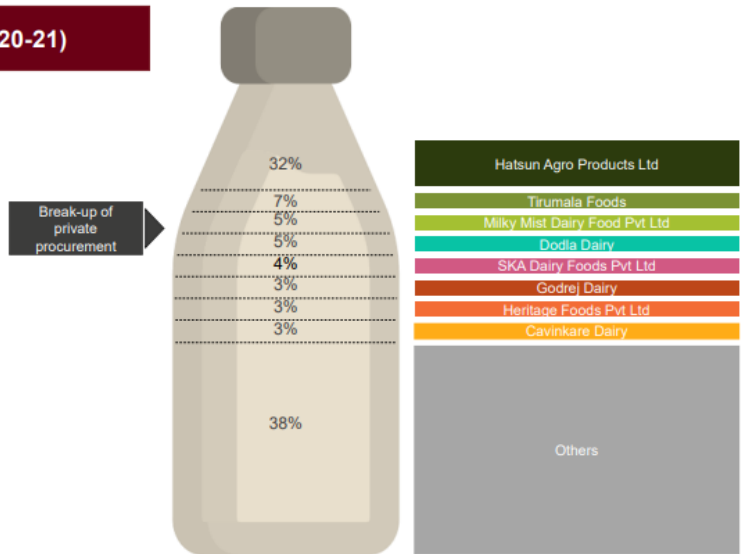
Tamil Nadu

Milk procurement scenario (fiscal 2020-21)



LKPD – lakh kg per day

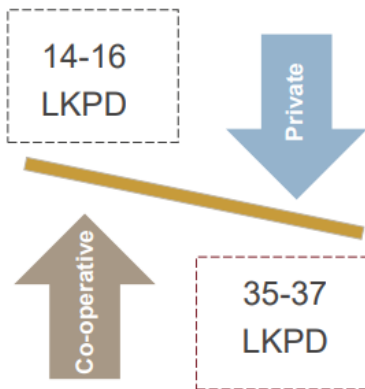
Source: Primary interaction with industry stakeholders, NDDB



Note: Others include seven companies procuring over 1 LKPD and 35 companies procuring less than 1 LKPD; break-up of all the companies constituting 'others' is available

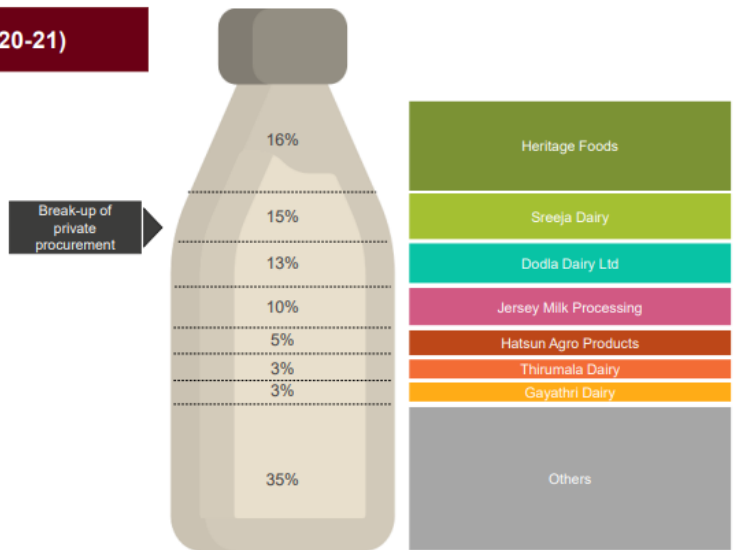
Andhra Pradesh

Milk procurement scenario (fiscal 2020-21)



LKPD – lakh kg per day

Source: Primary interactions with industry stakeholders, NDDB

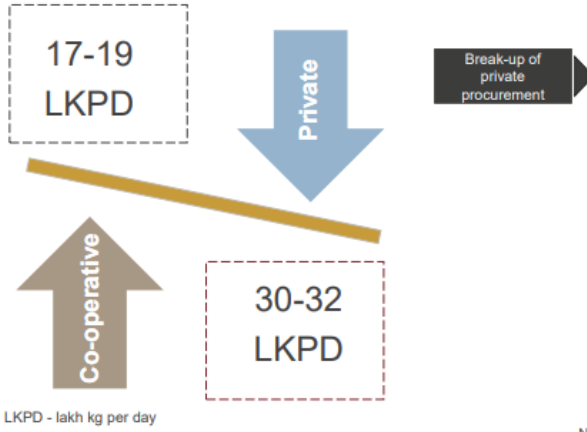


Note: Others include 15 companies procuring less than 1 LKPD; company break-up of 16% of the total 39% of 'others' is available

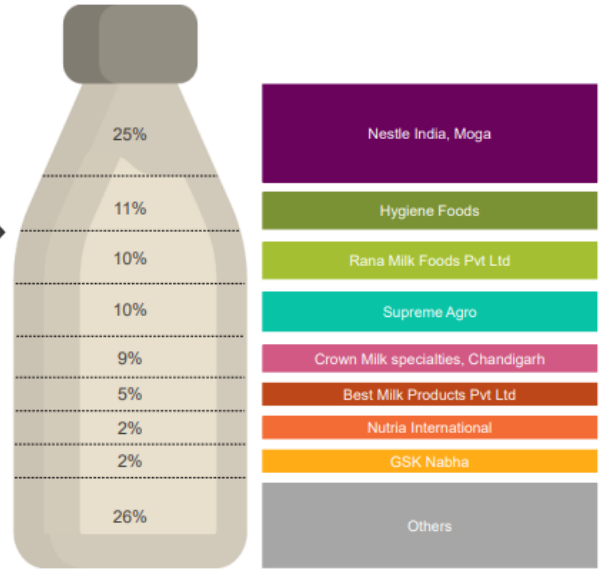
Key Displays: Crisil, Arihant Research

Punjab

Milk procurement scenario (fiscal 2020-21)



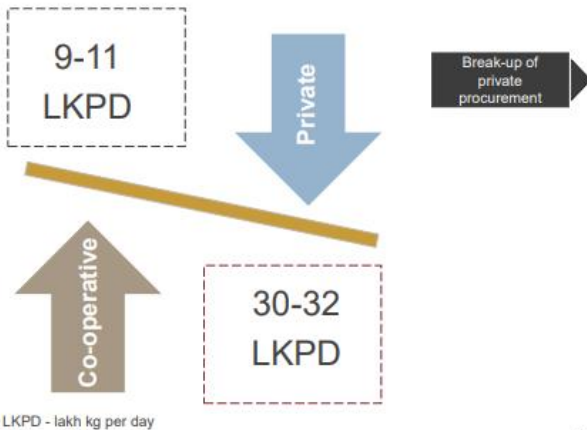
Source: Primary interactions with industry stakeholders, NDDB



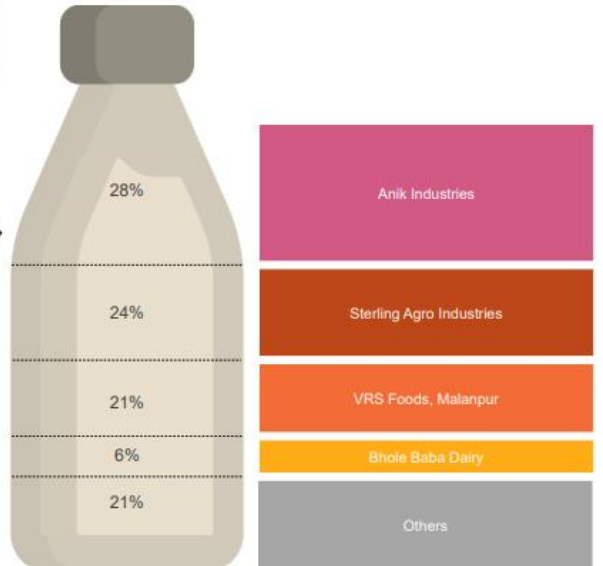
Note: Procurement units for 'others' is obtained on an aggregate basis

Madhya Pradesh

Milk procurement scenario (fiscal 2020-21)



Source: Primary interactions with industry stakeholders, NDDB

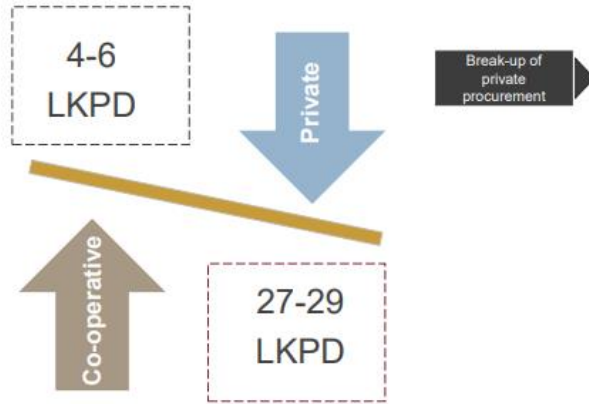


Note: Procurement units for 'others' is obtained on an aggregate basis

Key Displays: Crisil, Arihant Research

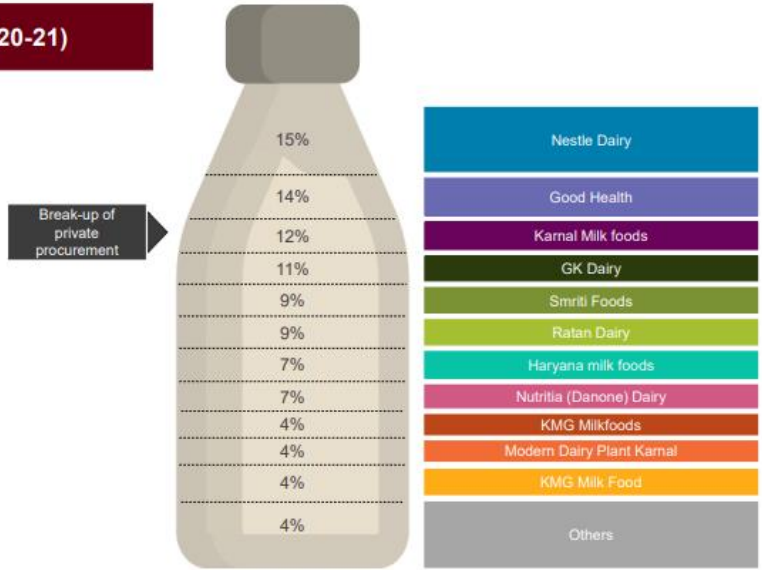
Haryana

Milk procurement scenario (fiscal 2020-21)



LKPD – lakh kg per day

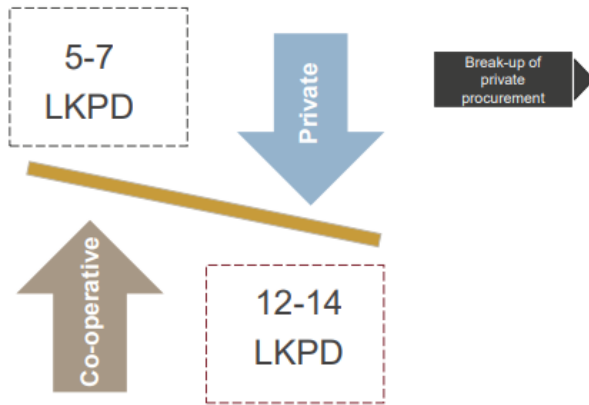
Source: Primary interactions with industry stakeholders, NDDB



Note: Procurement units for 'others' are obtained on an aggregate basis

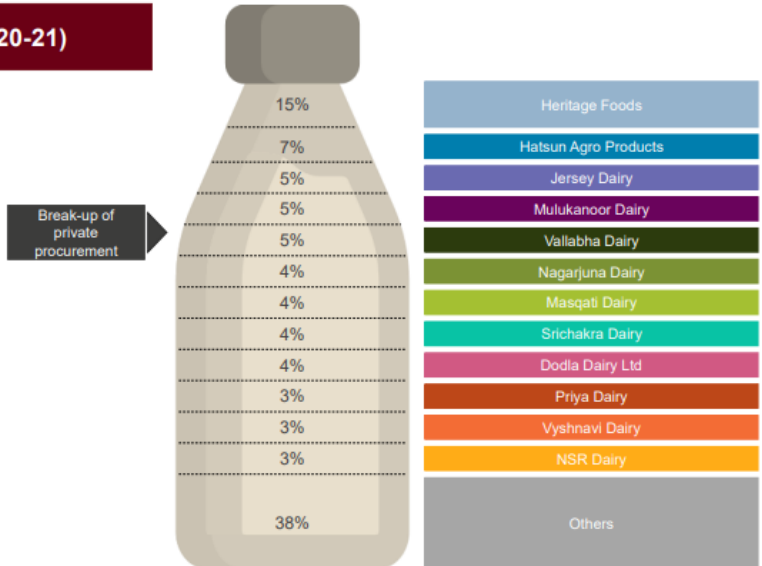
Telangana

Milk procurement scenario (fiscal 2020-21)



LKPD - lakh kg per day

Source: Primary interactions with industry stakeholders, NDDB

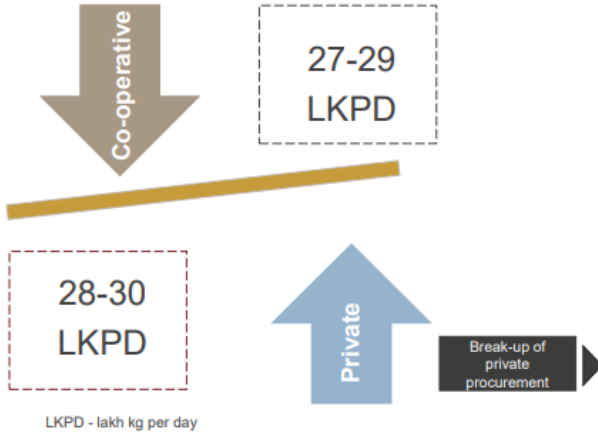


Note: Others include but is not limited to five companies procuring less than 1 LKPD. Company break-up of 8% of the total 39% in 'others' is available

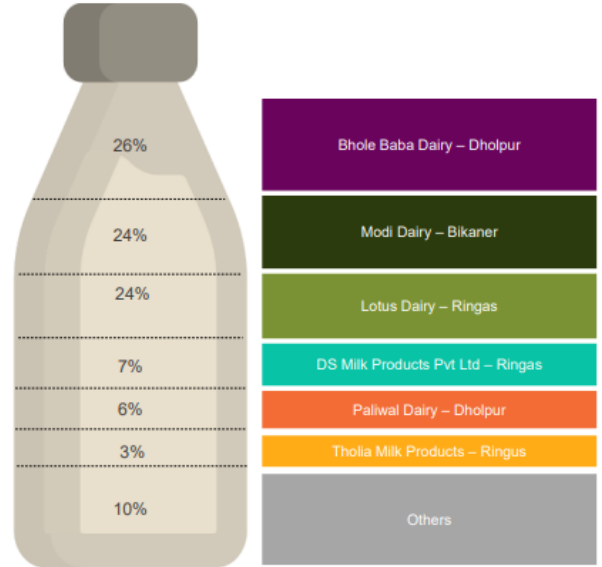
Key Displays: Crisil, Arihant Research

Rajasthan

Milk procurement scenario (fiscal 2020-21)



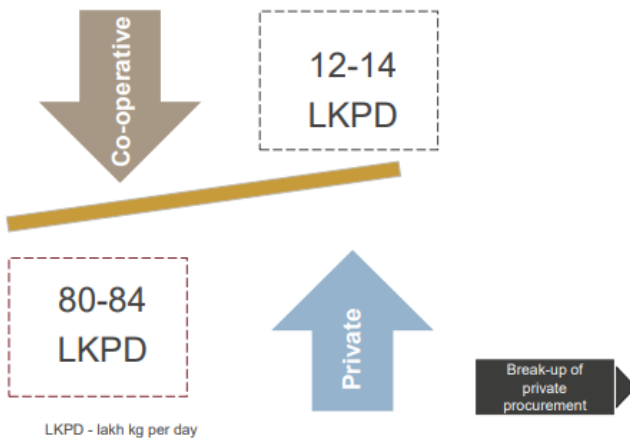
Source: Primary interactions with industry stakeholders, NDDB



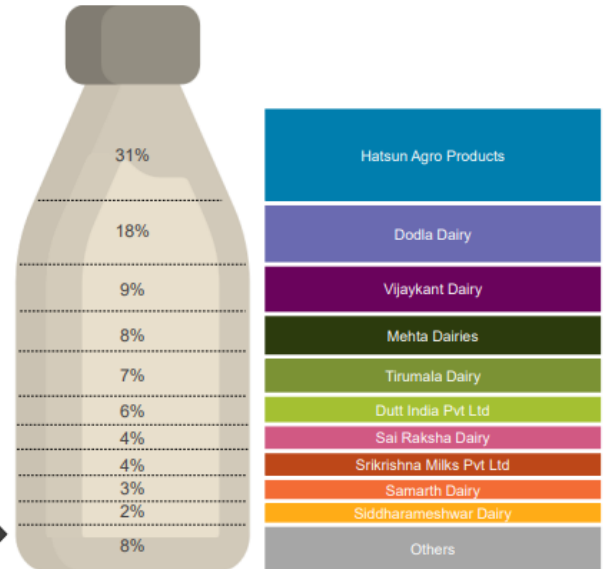
Note: Procurement units for 'others' are obtained on an aggregate basis

Karnataka

Milk procurement scenario (fiscal 2020-21)



Source: Primary interactions with industry stakeholders, NDDB

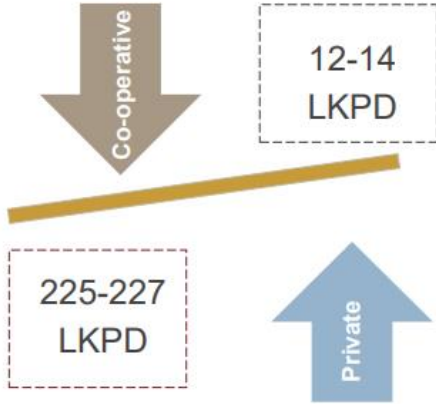


Note: Procurement units for 'others' is obtained on an aggregate basis

Key Displays: Crisil, Arihant Research

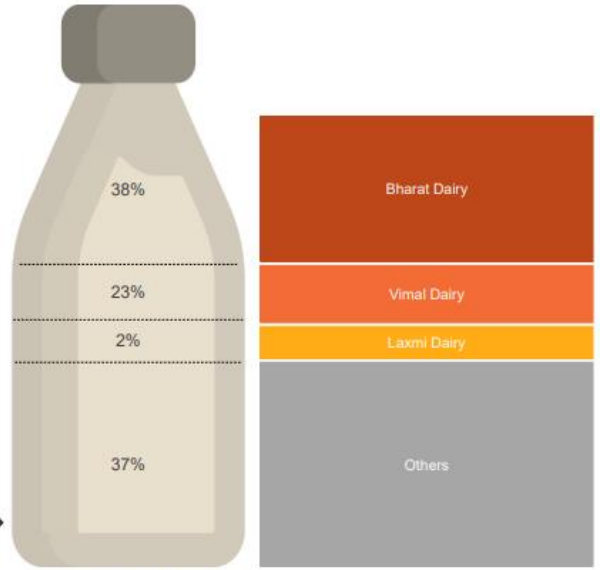
Gujarat

Milk procurement scenario (fiscal 2020-21)



LKPD - lakh kg per day

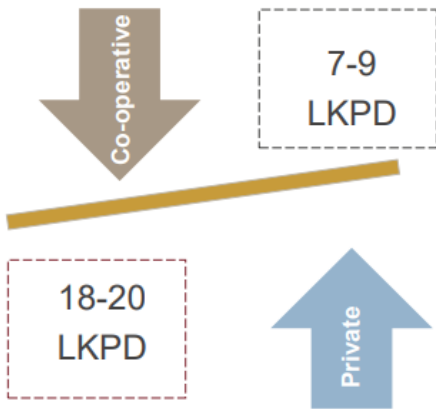
Source: Primary interactions with industry stakeholders, NDDB



Note: Procurement units for 'others' is obtained on an aggregate basis

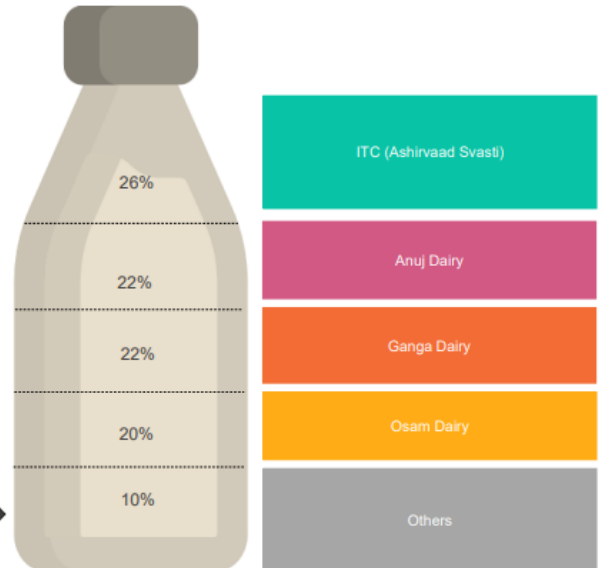
Bihar

Milk procurement scenario (fiscal 2020-21)



LKPD - lakh kg per day

Source: Primary interactions with industry stakeholders, NDDB



Note: Procurement units for 'others' is obtained on an aggregate basis

CMP: INR 618

Rating: BUY

Target Price: INR 1,366

Stock Info

BSE	543306
NSE	DODLA
Bloomberg	DODLA:IN
Reuters	DODL. NS
Sector	Dairy Products
Face Value (INR)	10
Equity Capital (INR Cr)	59
Mkt Cap (INR Cr)	4,273
52w H/L (INR)	727/ 431
Avg Yearly Vol (in 000')	28

Shareholding Pattern %

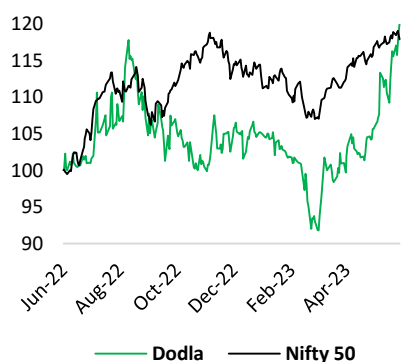
(As on June 2023)

Promoters	62.21
FII	12.83
DII	16.06
Public & Others	8.91

Stock Performance (%)

	1m	6m	12m
Dodla	29.50	43.55	47.34
Nifty 50	5.57	10.2	20.25

Dodla vs Nifty 50



Incorporated in 1995, it is an integrated dairy company based in Telangana. Dodla derives its revenue from the sale of Milk and dairy-based value-added products in the branded consumer market. Currently, its procurement is centered in 5 states and its products are available for purchase in 11 states. It has 118 milk chilling centers, 15 processing plants, and is the 3rd largest domestic dairy company by milk procurement in south India, and the 3rd biggest by market presence among Private Dairy companies in India. Dodla also has a presence in Uganda and Kenya. Its international operations contribute ~10% of total revenues. 90% of their procurement is cow milk.

Focus on the base of operations: To improve scalability, they have a heightened focus on rapidly growing their procurement network and maintaining healthy relationships with farmers. Dodla also has state of the art processing/ chilling capacities which have helped drastically cut down operational costs through the removal of inefficiencies. Milk procurement is highest in Andhra Pradesh, followed by Tamil Nadu, Karnataka, Telangana, and Maharashtra. They anticipate an increase in procurement from Maharashtra and Karnataka in the future.

Working toward growing the VAP share: VAP are more margin accretive. Currently, ~75% of VAP sales come from curd, which is a core strength of the company. However, they are diversifying into many other products like ice cream, paneer, and flavored milk to grow the VAP base. The share of VAP in FY23 was ~27%, and is expected to grow 1-2% yearly.

Prioritizing farmer relationships: The company goes out of their way to ensure their farmer network of 1.2 lakh farmers gets direct and timely payments for the milk sold. So far, about 86% of the do. They also provide veterinary and education services, along with giving them access to the company's high quality feed which has seen to improve milk yield (currently 8-9 litre per farmer Vs 4-6 litre two years ago).

Healthy cash position: Ever year they generate healthy free cash. Investors can look forward to a dividend policy. The company also enjoys a net debt free status. There is about INR 100 Cr of cash marked for expansion of capacities in Kenya, and about INR 100 Cr is parked in a Singapore entity for 4-4.5% interest. There will also be greenfield acquisitions or domestic M&A in FY24 to enter new geographies.

INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	22,434	28,120	33,665	39,849	47,410	56,406
YoY	15.40%	25.35%	19.72%	18.37%	18.97%	18.98%
EBITDA	2,107	1,913	2,693	3,586	4,741	6,205
EBITDA Margin	9.39%	6.80%	8.00%	9.00%	10.00%	11.00%
EBIT	1,721	1,531	2,311	3,199	4,357	5,834
EBIT Margin	7.62%	5.40%	6.80%	7.95%	9.10%	10.24%
PAT	1,328	1,223	1,722	2,388	3,251	4,355
YoY	5.43%	-7.92%	40.77%	38.73%	36.14%	33.95%
EPS (INR)	22.43	20.55	28.94	40.14	54.65	73.21
YoY	-0.21%	-8.36%	40.78%	38.73%	36.14%	33.95%
P/E (x)	27.56	30.07	21.36	15.40	11.31	8.44
P/B (x)	4.34	3.78	3.19	2.63	2.13	1.69
EV/EBITDA (x)	17.07	19.23	13.14	9.34	6.61	4.48
EV/EBIT (x)	20.91	24.04	15.32	10.47	7.20	4.76
D/E (x)	0.06	0.08	0.08	0.07	0.08	0.08
RONW	15.75%	12.58%	14.95%	17.10%	18.81%	20.06%
ROCE	19.32%	14.60%	18.51%	21.49%	23.32%	24.89%

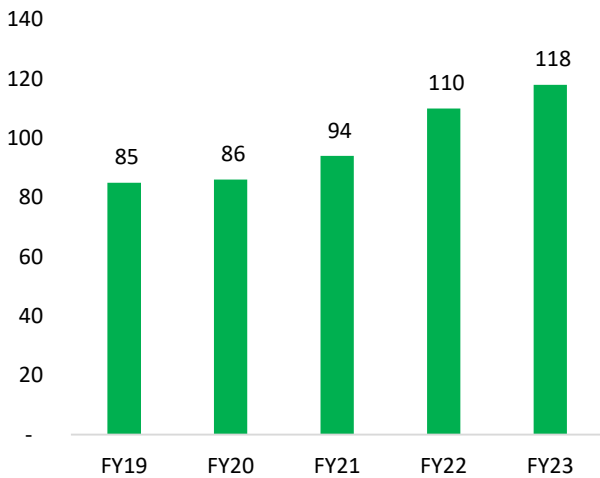
Source: Company, Arihant Research

About the Company:

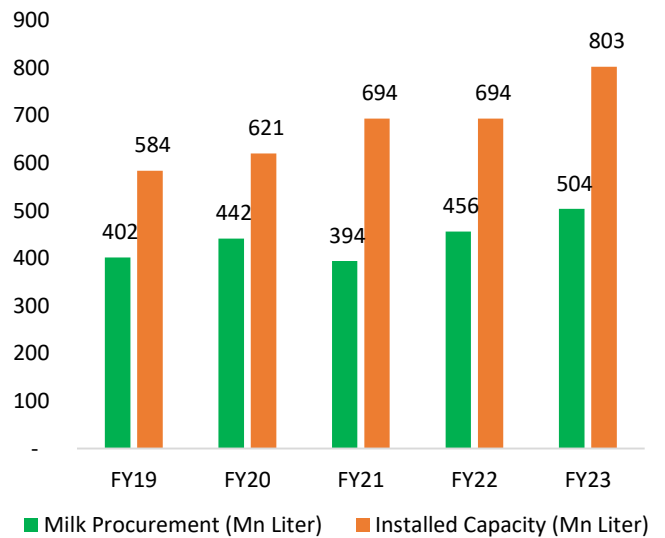
Dodla Dairy Limited is a leading private dairy company in India. The Company is also having overseas operations in Africa (Kenya and Uganda). Dodla commenced its production in the year 1998. The company has its operations across the dairy value chain. While the core business is dairy processing in liquid milk and value added products, Dodla has a strong value creation model consisting of procuring milk directly from dairy farmers along with empowering them.

They have an installed capacity of over 22LLPD, 118 chilling centers, 15 processing plants, 1,750+ milk & milk product distributors, 2,600+ distribution agents, 7,602 milk procurement centers (village level collection centers), 580 Dodla Retail Parlours, 40+ sales offices, and ~94% of milk procured directly from 1.2 lakh farmers as opposed to using agents/middlemen. They have a very small presence in modern trade and e-commerce, comprising 0.2-0.5% of revenues.

No. chilling centers

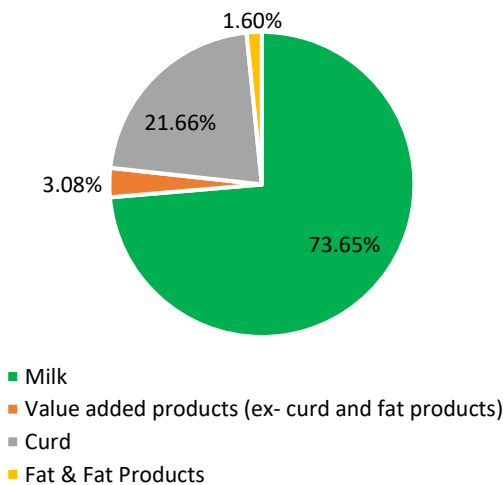


Source: Company, Arihant Research



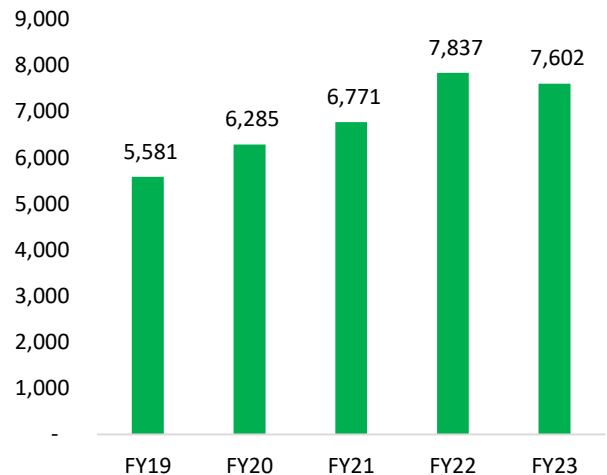
Source: Company, Arihant Research

FY23 Revenue Split



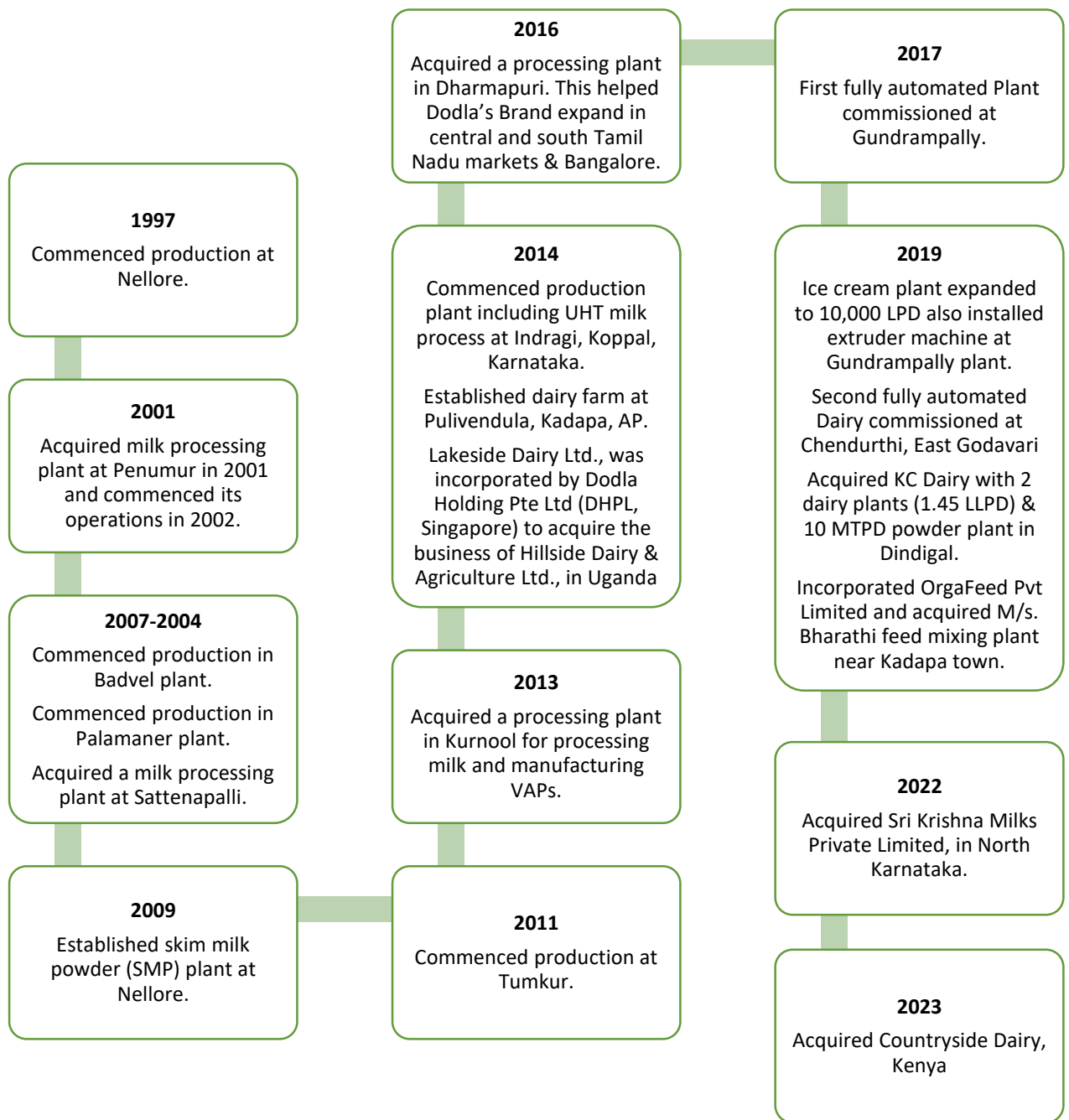
Source: Company, Arihant Research

No. Procurement centers (VLCC)



Source: Company, Arihant Research

Key Milestones:



Source: Company, Arihant Research

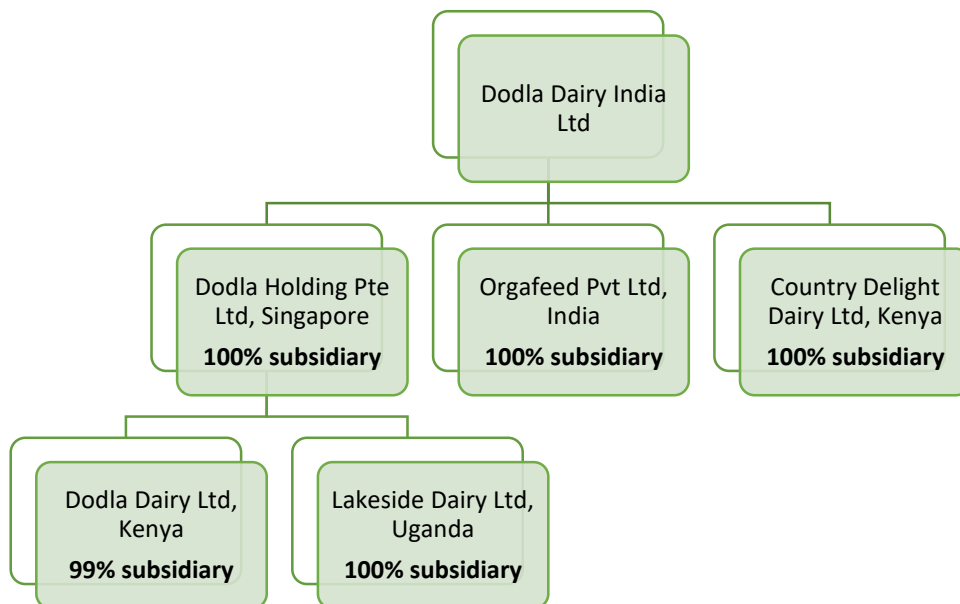
Products offered:

Product	Description
Milk	<p>Full Cream Milk, Toned Milk, Standardized Milk, Double Toned Milk and UHT Milk.</p> 
Curd	
Flavored Milk	<p>Badam, Strawberry, Pista, Vanilla, Elaichi, Chocolate and Pineapple. Sterilized flavoured milk is sold in Karnataka, Tamil Nadu, Andhra Pradesh and Telangana.</p> 
Paneer	
Butter	<p>Yellow salted butter made from cow milk cream (table butter), yellow cooking butter made from cow milk cream and white cooking butter made from buffalo milk.</p> 
Ghee	<p>Cow ghee, white ghee (buffalo ghee) and premium ghee (full boiled white ghee)</p> 
Ice Cream	<p>Available at 62 SKUs, manufactured using only milk fat and cream</p> 

<p>Butter Milk & Sweet Lassi</p>	<p>Pouches and cups sold in the states of Telangana Andhra Pradesh Karnataka and Tamil Nadu.</p> 
<p>Sweets</p>	<p>Doodh Peda, Gulab Jamun and Basundhi etc. sold in Andhra Pradesh, Tamil Nadu and Telangana.</p> 

Source: Company, Arihant Research

Holdings:

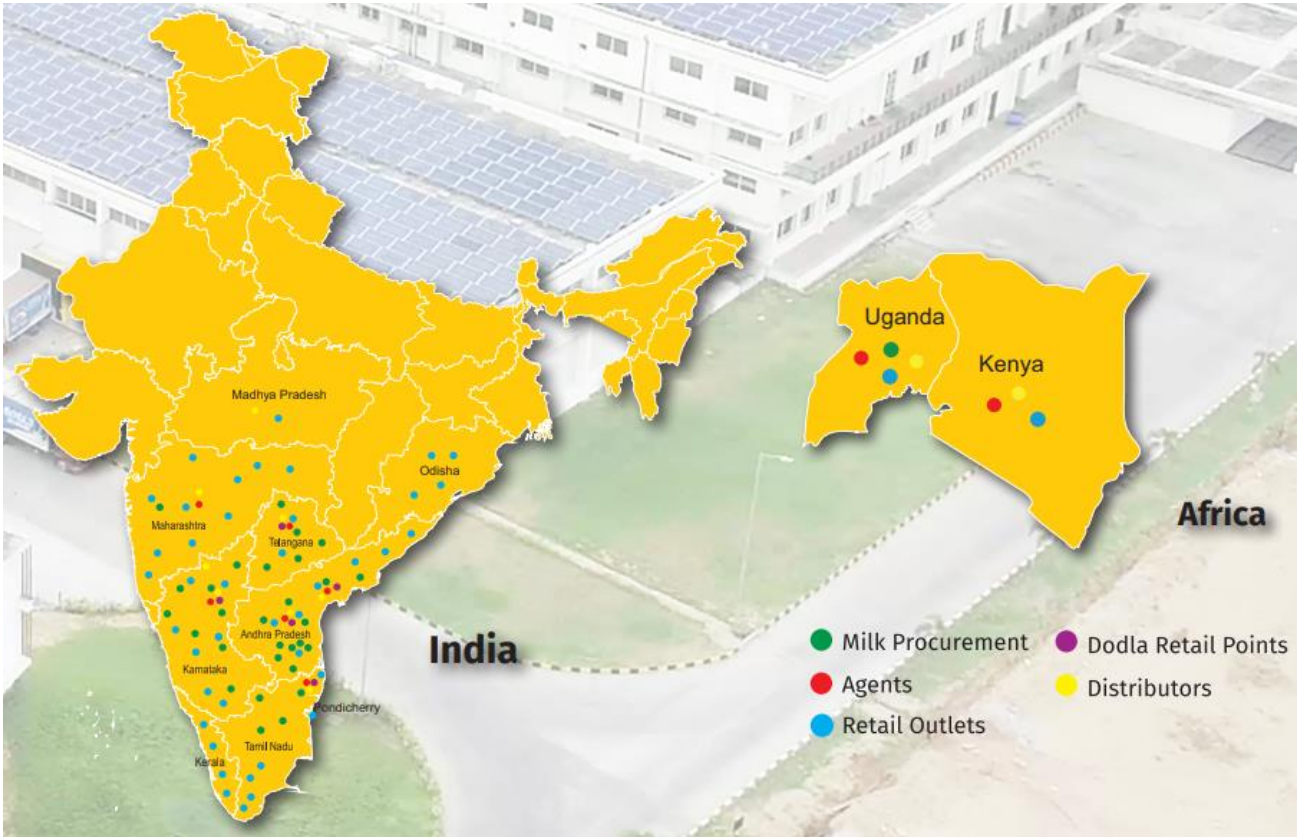


Source: Company, Arihant Research

International Presence:

Dodla Dairy contributes significant percentage to Kenya and Uganda milk industry which has limited competition as well as limited supply of processed milk. There is easier milk farming due to availability of vast grasslands and a growing population with high demand for dairy. The business in Uganda and Kenya operates through the subsidiaries Lakeside Dairy Ltd & Dodla Dairy Kenya Ltd. The African product portfolio is marketed under the brands **Dairy Top** and **Dodla +** and includes milk as well as VAP like yogurt with different flavors, ghee, cheese and UHT milk.

Network of operations:



Source: Company

Manufactured Capital:

Dodla Dairy’s manufactured capital includes processing plants, milk collection centres, storage facilities, machinery, vehicles, and products. This supports operations in producing and distributing dairy products. Processing plants transform raw milk into various dairy products. Milk collection centers ensure a steady supply of raw materials, while storage facilities manage inventory. Dodla also maintains a fleet of vehicles for transporting raw milk to plants and finished dairy products to customers.



Source: Company

Village Level Collection Centers (VLCCs):

Dodla Dairy operates over 7,600+ VLCCs equipped with GPRS-enabled electronic milk analyzers that test the fat and solid-nonfat (SNF) content of the raw milk at the village level. This ensures that the quality of milk meets its standards. Farmers are paid according to the extent their milk meets these parameters.

Chilling Centers:

Dodla Dairy operates 118 chilling centres where the raw milk undergoes adulteration tests and neutralizer tests. These detect and prevent contaminants from entering the milk supply chain and ensure quality of the milk product.

Processing Plants:

Dodla Dairy operates 15 processing plants with an aggregated capacity of 22+ LLPD (Liters per day). These are fully automated, leading to improved operational efficiencies and reduced operating costs. In India, the Company operates 14 plants in Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu. These have a combined milk processing capacity of 19+ LLPD. The plants are strategically positioned near markets and procurement clusters. Additionally, they have a processing plant in Uganda to cater to the markets in Uganda and Kenya. This plant has a capacity of 3 LLPD. While many plants are fully automated, automation is being gradually introduced in all other plants as well.

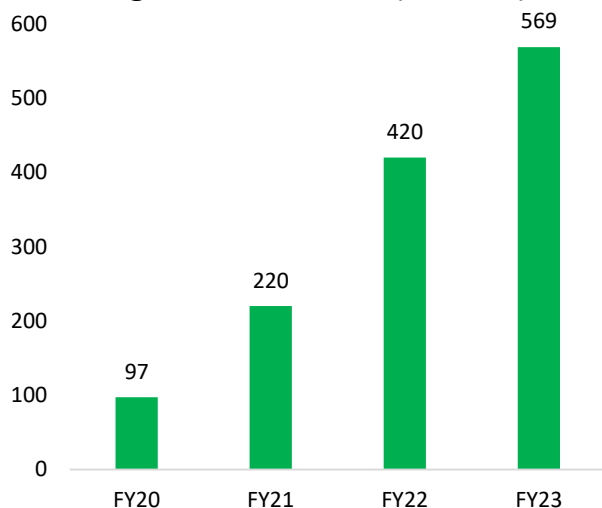
Farmer relationships:

Milk is procured from over 115,000 farmers through 7,602 automated procurement centers, equipped with stringent quality checks. The procurement operations, processing plants, and milk distribution spans Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, and Maharashtra. They also commit to dairy farmers, by providing them with a reliable and lucrative market, while also supplying them with animal feed through the subsidiary, Orgafeed Pvt. Ltd. Payments are made to farmers automatically ever 10-15 days depending on the fat and SNF content of their milk. About ~93% of all milk is procured directly from farmers.

The Feed Business- Orgafeed:

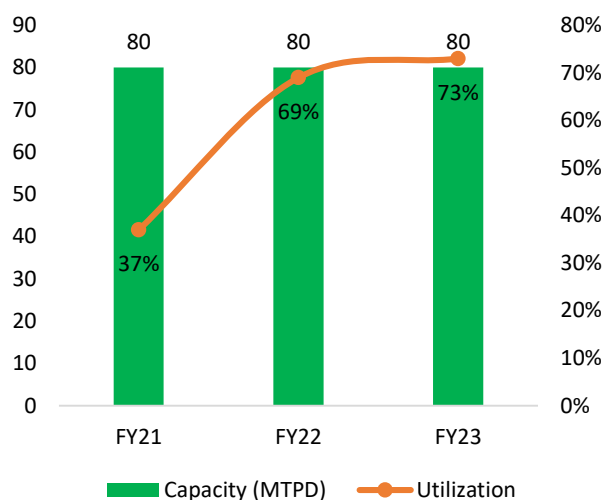
Orgafeed is involved in farming, breeding, horticulture, and allied activities such as poultry, dairy, and livestock farming. Orgafeed is also engaged in seed crushing, manufacturing, and dealing of groundnuts, gingerly, cotton, and the production of high quality cattle feed. Orgafeed's has a state-of-the-art manufacturing facility in Kadapa, Andhra Pradesh. It sells cattle feed directly to farmers in the procurement network. The cost of the cattle feed is adjusted against the value of milk supplied, which allows for a convenient and transparent payment mechanism. Orgafeed has established partnerships with veterinarians. This enables the company to provide services to farmers in the care and health management of their animals. It enhances the well-being and productivity of the farmers livestock.

Orgafeed Revenues (INR Mn)



Source: Company, Arianth Research

Orgafeed Capacity



Source: Company, Arianth Research

Key Personnel:

Name	Position	Experience
Dodla Sessa Reddy	Chairman	Has more than 24 years of experience in dairy industry.
Dodla Sunil Reddy	Managing Director	Has more than 27 years of experience in the dairy Industry.
A. Madhusudhana Reddy	Whole-time Director	Has 16 years of experience in the dairy industry
Akshay Tanna	Nominee Director	Has 18 years of experience in Financial and Business Analysis, Project Management, Private Equity, Valuation, Corporate Finance, Investments, Mergers & Acquisitions.
Rampraveen Swaminathan	Independent Director	He has over 12 years of experience in various industries.
Tallam Puranam Raman	Independent Director	He has more than 16 years of experience in handling Asset Management Companies.
Dr.Raja Rathinam	Independent Director	He has more than 41 years of experience in the dairy industry
Vinoda Kailas	Independent Director	She has over 16 years of experience in designing and implementing large scale IT solutions for clients in US and Europe and is experienced in global client acquisition.

Source: Company, Arianth Research

Investment Rationale

Shifting toward a VAP heavy portfolio

Dodla has been regularly churning out new launches in the VAP category. Additionally, they are also working on promoting their brand recall and distribution of these products through Dodla Retail parlors (DRP's). In 2023, the sales of VAP and Fat products were up 26%, and VAP sales contributed to 27% of revenues. On a yearly basis, this highly margin accretive category (curd margins are 14-16% vs milk margins of 7-8%) is expected to grow 1-2%. The company has had a clear focus on high-ROCE products like ice creams, flavored milk, lassi, butter milk, ghee, yoghurt and butter and stayed away from low-ROCE products like cheese, whey, etc. The goal is to tap into the changing consumer preferences toward these products. As the share of VAP grows, so will the company's realizations and margins. Currently, curd constitutes 75% of VAP sales but we expect to see traction on other products like ice cream, paneer, yogurt, flavored milk, and fat products like ghee and butter.

SOR	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Milk	72.93%	72.92%	74.98%	73.80%	73.65%	71.06%	68.02%	64.77%	61.08%
Value added products (ex- curd and fat products)	1.51%	1.67%	2.51%	2.61%	3.08%	3.22%	3.37%	3.49%	3.66%
Curd	21.43%	21.19%	19.73%	20.81%	21.66%	24.31%	27.34%	30.58%	34.18%
Fat & Fat Products	4.12%	4.22%	2.78%	2.78%	1.60%	1.41%	1.27%	1.15%	1.07%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Company, Aриhant Research

We can see a declining share of revenue from milk and a growing share of revenues from VAP. This trend is expected to carry forward into the years to come. The company intends to boost investments in these products to improve the margin profile. In FY23 Dodla Dairy experienced a substantial increase in revenue (+26% YoY) from VAP & Fat based products, reaching INR 7,408 Mn. This indicates successful market penetration, wide distribution network and strong brand recall. Curd sales also exhibited a positive growth trajectory, with sales of 323.8 MTPD (+20% YoY). This growth indicates the effectiveness of Dodla Dairy's strategies in capturing market demand for curd.

For the past 2 years, the dairy sector in India has been battling heavy inflation in procurement prices owing to inflation in feed costs, the unavailability of raw milk from the lumpy skin disease and unseasonal rainfall, and domestic shortage of SMP supplies which hit operating margins and gross margins hard.

For FY23, Dodla faced procurement price of INR 37/ liter, and managed to pass most of this on through price increases and growing the VAP share, with the average selling price coming in at INR 53/ liter. The ASP for milk per liter was INR 51.2, VAP was INR 55.2, and fat was INR 450. Vs INR 47.1, INR 50.4, and INR 374 respectively for FY22. This is indicative of the rampant price increases that plague the industry.

However, there upcoming flush season for FY24 is expected to be much better, and with milk and feed prices cooling off (dropping almost INR 1 by FY23), the growing VAP share is expected to show on margins.

Growth ahead of the industry

Dodla targets a growth rate of 15% in revenue (which is ahead of the industry growth), with a standard growth rate of 10-12% in volume and 15-17% in sales. The improvement in volumes expected will flow in from the initiatives taken to gain market share.

Upcoming capacity expansion and advertising spend

In an effort to expand their geographic reach both overseas and domestically, the company is investing in expansion of its capacities on both the chilling and processing side. So far, about INR 100 Cr has been set aside to invest in the unit in Kenya, and domestically the company is looking at greenfield acquisition or M&A in FY24 to facilitate entry into new geographical territories.

In FY23, ad spending incurred was INR 9.7cr, with INR 15 cr targeted for FY24. The total capex incurred in FY23 is INR 134.1 Cr out of which investments in the procurement network amounted to INR 19.7 Cr (village level collection investments), and the rest went toward modernization and capacity expansion across the Kurnool plant, Sri Krishna Milk, and the Kenya project.

Regular capex of INR 50- 90 cr will be invested for modernizing existing facilities (which will need INR 40-50 Cr), procurement at village levels, and marketing which includes freezer placements. Compared to its peers, Dodla spends relatively less on advertising (~1-2% of revenues) as they prioritize service, quality and timeliness of delivery. They are currently investing heavily in the supply chain to improve on these metrics, and maintain leadership in the mass premium segment.

Efficient working capital management

The company has a negative working capital cycle, to the tune of INR 6 Cr in FY23. This was due to appropriate stocking of fat and SMP. This year there might be a slight increase in working capital by a couple of days since the government introduced GST on curd and other products. Also, the company bills at point of dispatch Vs at the point of sale

Continued success in international operations

Dodla's Africa business is scaling up rather well, displaying a impressive growth of 55.2% in FY23 vs the domestic business which grew 23.3%. This is indicative of how successfully the company navigated sectorial challenges both internationally and abroad. Knowing this, the company is investing in manufacturing units in Kenya as the market has high scope for growth. They have also acquired a small business in Kenya for INR 5 Cr (and might warrant an additional INR 5 Cr of investment) and plan to start production from October. The Africa business as a whole is extremely cash accretive, and generates INR 350 Cr in cash every year.
















Flourishing feed business

The feed plant is expected to generate around INR 200 cr of revenue and 10% EBITDA margins at full capacity. It is currently undergoing capacity expansion and will commission the new capacity by July 2023. Current revenues from this business are about INR 45 Cr which will grow as the farmer network expands and the number of large organized farmers increases.

Growing the milk procurement network

Having an adequate procurement base is key to the success of any dairy company as it ensures availability of raw milk and hedges against the effect of industry wide milk shortages. This year, despite the procurement issues faced by the industry, Dodla managed to grow its procurement volume from an average of 12. LLPD in FY22 to 13.8 LLPD in FY23. The number of milk collection centers grew from 5,581 to 7,602 from FY19 to FY23. They procure directly from 1.2 lakh farmers across 7,900 villages. Dodla constantly endeavors to ramp up its procurement network and volumes as it provides the means to enter newer geographies with its products. The company has a robust direct milk procurement policy, which allows for quality control across the value chain and benefits farmers as well. This has resulted in a remarkable increase in direct procurement from farmers over the years, from 7% in FY14 to 93% in FY23, which also reduces procurement costs. As direct procurement grows so do the number of Dodla Dairy Collection Centers (DDCs), and the average Litres Per Day (LPD).

State wise procurement

 Nellore (AP) 2,07,300 LPD	 Indragi (KA) 2,00,000 LPD
 Settenapalle (AP) 46,700 LPD	 Rajahmundry (AP) 1,50,000 LPD
 Kurnool (AP) 50,000 LPD	 Palamaner (AP) 3,80,000 LPD
 Hyderabad (TS) 3,24,910 LPD	 Tumkur (KA) 30,000 LPD
 Batlagunda (TN) 95,000 LPD	 Dharmapuri (TN) 1,00,000 LPD
 Penumur (AP) 50,000 LPD	 Vedaundur (TN) 50,000 LPD
 Badvel (AP) 50,000 LPD	 Uganda 3,00,000 LPD
 Kirwatti (KA) 2,00,000 LPD	

Source: Company

In FY23 There has been an expansion in the procurement network by ways of an increase in the number of chilling centers and creation of newer, smaller collection centers across 22 villages. There also has been an addition to existing capacities of a feed plant to handle high volumes of almost 8,000 tonnes/month. Investments in the back end to facilitate better integration are a continuous endeavor as they lead to higher cost savings and better transparency. The plant capacity in India was increased by 235,710 LPD in FY23 resulting in a total capacity of 1,933,910 LPD. They are also moving toward partnering with larger, more organized farmers that have a higher milk yield.

Continuous Endeavor to enter new markets through inorganic expansion

Historically, the company has always been proactive and strategic with both greenfield and brownfield expansion to enter untapped markets with high potential. In 2022 they acquired Sri Krishna Milks in Karnataka to expand its presence in North Karnataka & the Goa markets and Countryside Dairy in Kenya. In 2019 they acquired KC Dairy which gave it access to a strong operating network around Madurai, whereby it established itself in the Tamil Nadu market. Production in the Kenya acquisition is expected to begin in end of Q2FY24.

The company has seen changing customer preferences and requirements for its VAPs like curd, yoghurt, ice-creams, flavored milk, etc., and they intend to boost investments in these products which could substantially improve margins.

Strengthening farmer relationships

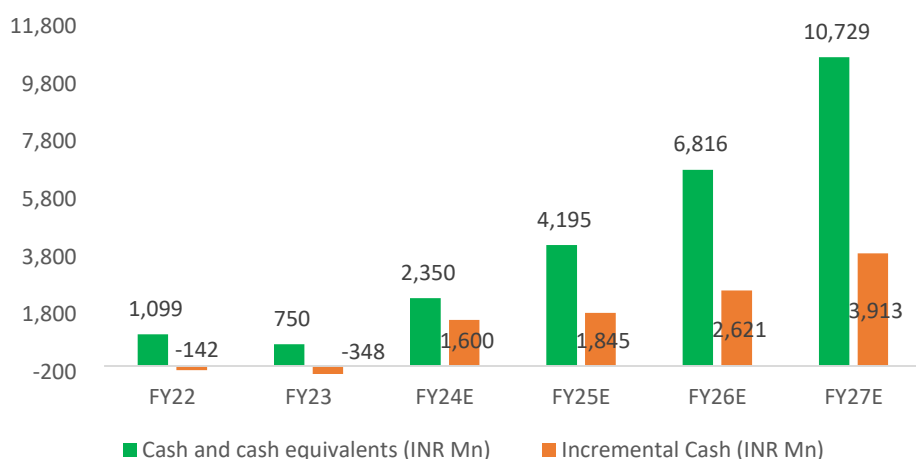
One of the defining characteristics of the company that sets it apart from its peers is that it highly values and nurtures farmer relationships, which results in loyalty from the farmers side. It has built a strong ground level team to interact with farmers. Dodla makes sure to provide timely direct payments every 10-15 days to 86% of all farmers, cattle feed through the Orgafeed business, and veterinary services to farmers through training camps, all of which strengthen its sourcing network.

They provide farmers with high quality feed which has drastically increased their milk yield. The cost of feed is netted against the value of milk provided. They also facilitate bank loans for farmers to invest in their cattle.

Payments made to farmers depend on the quality of raw milk supplied, which is tested for fat and SNF on collection at the VLCC. This provides farmers with proper transparency.

Healthy cash position and balance sheet

The company enjoys a net debt free position as it has a healthy cash position and good working capital management. INR 100 Cr is earmarked for capacity expansion in the Kenya plant. There is about INR 100 Cr of cash marked for expansion of capacities in Kenya, and about INR 100 Cr is parked in a Singapore entity for 4-4.5% interest. There will also be greenfield acquisitions or domestic M&A in FY24 to enter new geographies. Investors can also look forward to a dividend policy being implemented. Every year they generate about INR 150-200 Cr of cash which will be utilized in organic and inorganic expansion.



Source: Company and Arihant Research

Valuation and Outlook:

In view of the structural changes taking place in the industry, along with the headstrong approach the company employs to expand its presence into untapped markets, we believe that Dodla is well poised to grow ahead of the industry to cement itself as a market leader in the years to come.

The company does not shy away from organic and inorganic expansions as is seen with its track record of continuously investing across the value chain. Despite this, it manages to maintain a healthy balance sheet with a net debt 0 status.

They plan on keeping prices constant to maintain and grow their consumer base, as procurement prices have begun to soften in FY24 owing to a good cow flush (which has already begun in June 2023) and buffalo flush (which will begin in September- October 2023), in addition to a good monsoon and moderating feed prices. The summer demand will lead to a growing share of high margin VAP products that bring stability to margins along with better realizations. To make the portfolio more VAP heavy, they are constantly churning out new products and adding lines to existing facilities to cater to VAP demand in particular geographies where they see it arise.

They remain focused on their core of strengthening procurement and manage a decent sized farmer network which is in expansion mode. The wide array of services provided to farmers also ensures their stickiness and loyalty to the company which helps de risk the business.

We assign a TP of INR 1,366 valued at a P/E multiple of 25x the FY26E EPS of INR 54.7, indicating an upside of 121% and a BUY rating.

Key Financials

Income Statement						
INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue from operations	22,434	28,120	33,665	39,849	47,410	56,406
Cost of materials consumed	16,262	21,409	24,912	29,090	34,135	40,049
Employee benefit expenses	1,024	1,191	1,347	1,594	1,896	2,256
Other expenses	3,040	3,607	4,713	5,579	6,637	7,897
EBITDA	2,107	1,913	2,693	3,586	4,741	6,205
EBITDA Margin	9.39%	6.80%	8.00%	9.00%	10.00%	11.00%
Depreciation & amortisation expense	524	612	719	786	858	934
Finance Cost	65	12	15	15	22	27
Other income	137	230	337	398	474	564
PBT after exceptional Items	1,656	1,518	2,295	3,184	4,335	5,807
Cash Tax	327	296	574	796	1,084	1,452
PAT	1,328	1,223	1,722	2,388	3,251	4,355
EPS after exceptional items:						
Basic (INR)	22.43	20.55	28.94	40.14	54.65	73.21
Diluted (INR)	22.24	20.39	28.71	39.82	54.22	72.62
Balance Sheet						
INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Equity Share Capital	595	595	595	595	595	595
Other Equity	7,837	9,127	10,917	13,373	16,692	21,115
Net Worth	8,432	9,722	11,512	13,968	17,287	21,710
Total debt	474	764	972	921	1,397	1,729
Deferred tax liability (net)	346	230	230	230	230	230
Other non current liabilities	131	119	337	398	474	564
Total Liabilities	951	1,113	1,539	1,549	2,101	2,523
Net Block	5,152	5,589	5,648	5,699	5,737	5,762
CWIP	41	581	637	696	759	827
Goodwill	442	516	567	624	686	755
Other intangible assets	43	115	125	148	176	209
Biological assets	22	16	21	25	30	35
Investments	2,027	2,795	3,346	3,960	4,712	5,606
Other non current assets	470	118	244	288	343	408
Net Working Capital:	87	355	113	-119	128	-98
Inventories	1,210	1,199	1,629	1,830	2,228	2,748
Trade receivables	48	87	74	116	110	159
Cash and cash equivalents (INR Mn)	1,099	750	2,350	4,195	6,816	10,729
Bank Balances (INR Mn)	220	496	166	196	233	277
Other current assets	111	253	190	225	268	319
Trade payables	1,029	1,269	1,424	1,877	1,996	2,764
Other current liabilities	472	410	521	609	714	838
Total assets	9,383	10,835	13,050	15,517	19,388	24,233
Cash Flow						
INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit before tax	1,656	1,518	2,295	3,184	4,335	5,807
Depreciation & amortization	524	612	719	786	858	934
Tax paid	327	296	574	796	1,084	1,452
Working capital Δ	-844	268	-242	-232	247	-227
Goodwill Δ	-	74	52	57	62	69
Operating cash flow	2,695	1,493	2,632	3,349	3,799	5,448
Capital expenditure	678	1,589	834	896	959	1,027
Free cash flow	2,017	-96	1,798	2,453	2,840	4,421
Equity raised	469	-0	-	-	-	-
Investments made	1,285	767	551	615	751	894
Other asset purchases	411	-286	141	72	87	103
Debt financing	-897	289	209	-51	476	332
Other items	-35	-60	285	130	143	158
Net Δ in cash	-142	-348	1,600	1,845	2,621	3,913
Opening cash balance	1,241	1,099	750	2,350	4,195	6,816
Ending cash balance	1,099	750	2,350	4,195	6,816	10,729

Source: Arianth Research, Company Filings

Key Ratios

Ratios	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Growth Matrix (%)						
Revenue	15.40%	25.35%	19.72%	18.37%	18.97%	18.98%
EBITDA	-13.09%	-9.20%	40.76%	33.17%	32.19%	30.87%
EBIT	-13.14%	-11.05%	50.97%	38.44%	36.22%	33.90%
PBT	-11.09%	-8.28%	51.16%	38.73%	36.14%	33.95%
PAT	5.43%	-7.92%	40.77%	38.73%	36.14%	33.95%
PAT after OCI	9.82%	-6.67%	38.62%	37.26%	35.15%	33.25%
Profitability (%)						
EBITDA Margin	9.39%	6.80%	8.00%	9.00%	10.00%	11.00%
EBIT Margin	7.62%	5.40%	6.80%	7.95%	9.10%	10.24%
Net Profit Margin	5.88%	4.31%	5.06%	5.93%	6.79%	7.64%
Net Profit Margin after OCI	6.13%	4.55%	5.26%	6.10%	6.93%	7.76%
RoCE	19.32%	14.60%	18.51%	21.49%	23.32%	24.89%
RoNW	15.75%	12.58%	14.95%	17.10%	18.81%	20.06%
RoA	14.84%	12.10%	14.41%	16.72%	18.63%	19.97%
Per Share (INR)						
Basic EPS	22.43	20.55	28.94	40.14	54.65	73.21
Diluted EPS	22.24	20.39	28.71	39.82	54.22	72.62
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Basic Cash EPS	31.27	30.85	41.02	53.36	69.07	88.91
Diluted Cash EPS	31.00	30.60	40.70	52.93	68.52	88.20
BVPS	142.40	163.42	193.50	234.78	290.57	364.92
Sales	268.61	267.34	267.34	267.34	267.34	267.34
Valuation (x)						
P/E	27.56	30.07	21.36	15.40	11.31	8.44
P/CEPS	19.77	20.04	15.07	11.59	8.95	6.95
P/B	4.34	3.78	3.19	2.63	2.13	1.69
P/Sales	2.30	2.31	2.31	2.31	2.31	2.31
EV/EBITDA	17.07	19.23	13.14	9.34	6.61	4.48
EV/EBIT	20.91	24.04	15.32	10.47	7.20	4.76
EV/Sales	1.60	1.31	1.05	0.84	0.66	0.49
Dividend Yield	0.00	0.00	0.00	0.00	0.00	0.00
Liquidity (x)						
Current Ratio	1.79	1.66	2.27	2.64	3.56	3.95
Quick Ratio	0.98	0.94	1.43	1.90	2.74	3.19
Defensive Interval Ratio	26.53	22.08	32.77	47.64	63.54	83.50
Cash Ratio	0.73	0.45	1.21	1.69	2.51	2.98
Activity (x)						
Receivables turnover	464.80	418.86	418.86	418.86	418.86	418.86
Inventory turnover	14.98	17.77	17.62	16.82	16.82	16.10
Payables turnover	17.17	18.63	18.50	17.62	17.63	16.83
Total asset turnover	2.51	2.78	2.82	2.79	2.72	2.59
Fixed asset turnover	4.39	4.95	5.41	6.29	7.36	8.62
Working capital turnover	257.12	79.13	298.20	-335.18	369.19	-573.01
Days						
Receivable days	0.79	0.87	0.87	0.87	0.87	0.87
Inventory days	24.37	20.54	20.72	21.70	21.69	22.68
Cash Conversion cycle	25.16	21.41	21.59	22.57	22.57	23.55
Payable days	21.25	19.59	19.73	20.71	20.71	21.69
Operating cycle	3.90	1.82	1.86	1.86	1.86	1.86
Leverage (x)						
Interest Coverage	26.40	126.49	149.99	219.21	196.87	212.99
Debt Equity	0.06	0.08	0.08	0.07	0.08	0.08
Net Debt Equity	-0.07	0.00	-0.12	-0.23	-0.31	-0.41
Assets to Equity	1.06	1.04	1.04	1.02	1.01	1.00
Du Pont						
Tax burden	0.80	0.81	0.75	0.75	0.75	0.75
Interest burden	0.96	0.99	0.99	1.00	0.99	1.00
EBIT Margin	0.08	0.05	0.07	0.08	0.09	0.10
Asset turnover	2.51	2.78	2.82	2.79	2.72	2.59
Leverage	1.06	1.04	1.04	1.02	1.01	1.00
ROE	16%	13%	15%	17%	19%	20%

Source: Arianth Research, Company Filings

CMP: INR 238

Rating: BUY

Target Price: INR 448

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)	2,283
52w H/L (INR)	250 / 135
Avg Daily Vol (in 000')	207

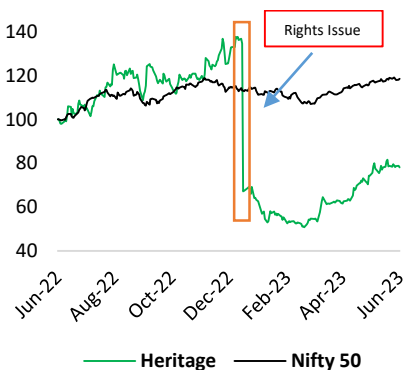
Shareholding Pattern %

(As on June 2023)

Promoters	41.57
FII	1.98
DII	15.90
Public & Others	40.55

Stock Performance (%)	1m	6m	12m
Heritage	14.5	31.66	65.53
Nifty 50	5.6	10.21	20.26

Heritage vs Nifty 50



Heritage Foods is engaged in the business of procurement and processing of Milk & Milk products and also the generation of power through solar & wind for captive consumption. The company has a reach to over 1.5mn households in India across 11 states (with procurement across 9 states). It is one of the largest private dairies in South India and has significant market shares in Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu and they are also present in a few North- Indian states. Its current focus products are sweets, cheese, curd, paneer, drinkables, and ice cream. It also has a presence in animal nutrition wherein they produce cattle feed.

Growth that beats the industry: Heritage has targeted a revenue of INR 6,000 Cr in the next 4 years (and INR 10,000 Cr in the long terms) with 7-8% steady state margins once the built in cost efficiencies start to play out of milk prices continue to normalize. The dairy industry is currently growing at 11-12% and the company is keeping growth momentum ahead of it by focusing on gaining market share.

Strong relationships with dairy farmers: The core strength of the company is its long-standing relationships with 300,000+ dairy farmers from whom they can procure 1.47MLPD of milk (to grow to 2.2-2.3MLPD in the next 3-4 years).

Increasing shares of VAP: Value Added Products have higher margins compared to milk and comprise ~25% of sales. Since VAP sales bring stability to margins, the company is aiming to consistently increase its overall revenue share to 40% in the next 4 years. Curd is 75% of all VAP sales and is the fastest-growing product. They also are looking to further expand their presence into RTC/ RTE products.

Leveraging distribution strength: Another key strength of the company is its wide distribution network across India. It also has a strong presence across e-com websites. They have a very small D2C business. Heritage is working toward improving relationships with B2B customers in the Horeca segment.

Capex and Facilities: Capex upward of INR 100-125 Cr per year for the next 3 years is planned. They are investing in villages and setting up collection and cooling infrastructure- in line with their goal to increase village-level milk collection and strengthen processing facilities.

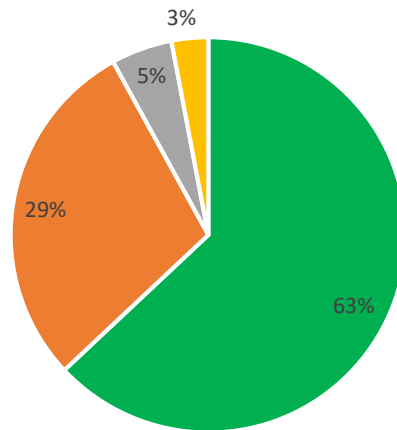
Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,797	45,841	56,349
Growth (%)	8	21	17	21	23
EBITDA	1,912	1,385	1,960	2,939	3,756
Growth (%)	(29)	(28)	42	50	28
EBITDA margin	7.13	4.27	5.19	6.41	6.66
Adjusted net profit	1,117	665	823	1,525	2,077
Growth (%)	(27)	(40)	24	85	36
Adjusted EPS (Rs)	24.1	7.2	8.9	16.4	22.4
RoCE (%)	21.4	11.3	14.4	21.8	24.9
Total debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
PER	13.7	24.1	19.5	10.5	13.1
Price/Book	2.3	2.2	2.0	1.7	2.4
EV/EBITDA	7.9	12.5	8.2	5.2	6.6

Source: Company, Arihant Research

About the Company:

Founded in 1992, Heritage Foods is India’s one of the leading Dairy companies. Heritage has a diversified product portfolio, spanning milk and milk based value added products (curd, ice cream/frozen dessert, paneer, butter milk, flavoured milk, lassi, milk powders and sweets etc). Over the years, the company has created long-lasting relationships with 300,000+ dairy farmers across 9 states in India. Heritage has 18 State-of-the-art milk processing facilities with a total processing capacity of 2.65 Mn litres per day (MLPD), and 202 Chilling Units with 2.22 MLPD capacity. It has a distribution network with products sold across 11 States including 147 Heritage Distribution Centers, 130,000+ Retail Outlets, 27 organized retail chains. and 859 Heritage Parlors. It also has a presence across 16 E-Commerce websites. The company has 11,300+ Milk Procurement Representatives & 2,100+ distribution vehicles across 11 states on the back of 6,500+ distributors who also deliver daily at doorsteps. The company services more than 1.5 Mn households daily.

FY23 Sales Mix



■ Milk ■ VAP (including ice cream) ■ Fat Products ■ Feed & others

Source: Company, Arihant Research

Product Portfolio:



Source: Company

Geographical Footprint:



Source: Company

Renewable energy vertical:

They have invested in renewable energy projects for captive consumption. Heritage has commissioned and distributing energy through captive solar & wind power at 11 different plants. In FY23 this segment made INR 8 Mn in revenues with a 29% EBIT margin. They have a 4.2 MW capacity for solar power, and 6.3 MW capacity for wind power.

Animal Nutrition:

Heritage Nutrivet Ltd. (wholly owned subsidiary) is a leading livestock, feed and feed supplement manufacturer in South India. It has state-of-the-art manufacturing facilities at Hindupur and Mallavalli, Andhra Pradesh, and serves 0.3 million farmers across Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra.

Partnerships:

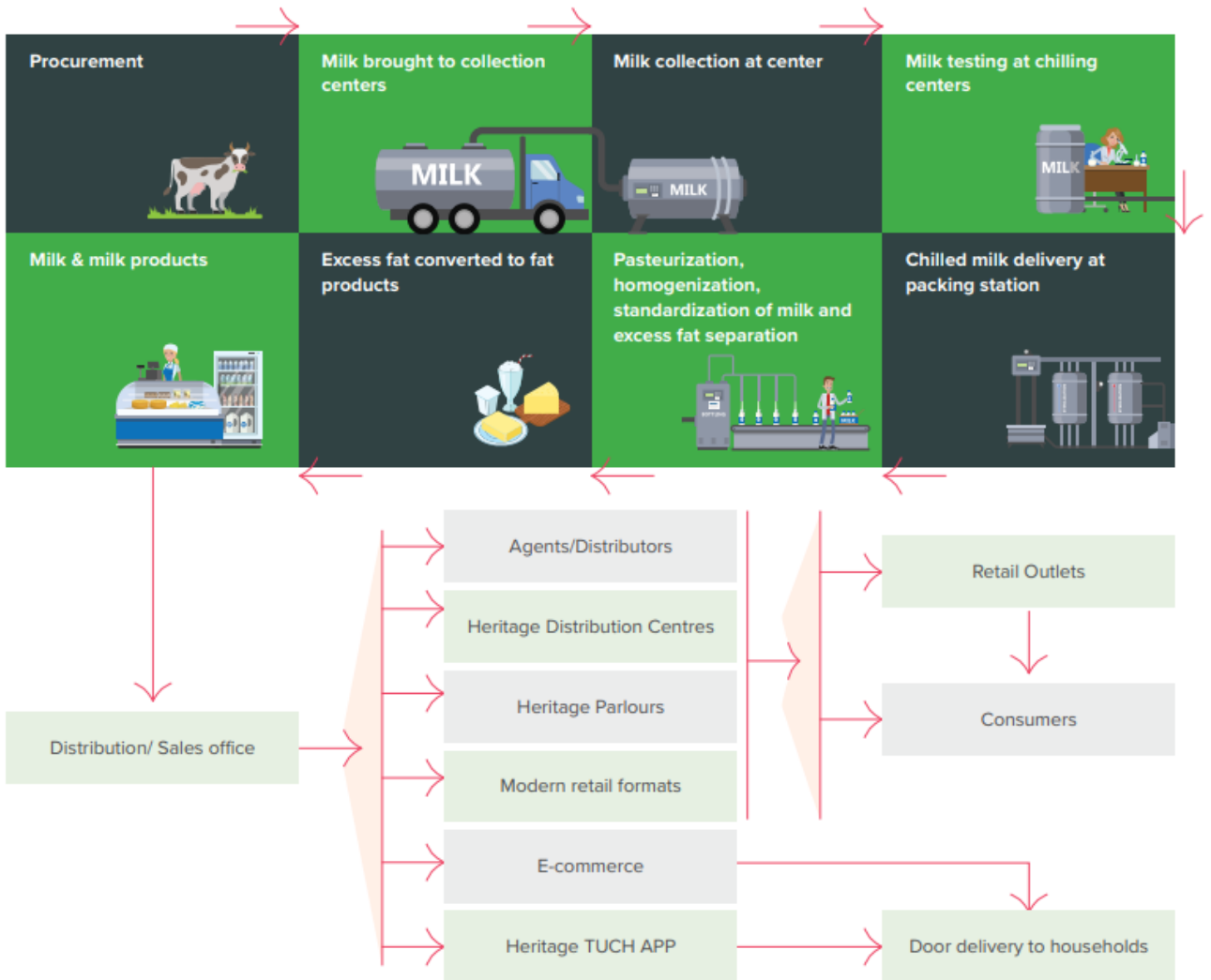
Heritage Novandie Foods Private Limited (HNFPL) is a 50:50 Joint Venture between Heritage Foods Ltd. and Novandie, a subsidiary of Andros, France. HNFPL brought French yogurt to India with the brand Mamie Yova (Stirred fruit yogurt, Yopop drinkable yogurt, and Natural French yogurt). It has a geographic presence across Maharashtra, Karnataka, Telangana, Gujarat, and Goa.

Supply chain network:

As of FY22 the company reaches 0.13 Mn Kirana stores, 23 organized retail chains, and 15 e-commerce websites through its retail trade network. As a part of its owned network it has 65 heritage distribution centers, 859 exclusive heritage parlors, and 1,105 Heritage TUCH App subscribers (for home deliveries).

Heritage Parlors: Exclusive franchise-based stores selling the whole Heritage product line. They also ensure Heritage products are available to consumers at their doorstep, with a network in Hyderabad, Visakhapatnam, Rajamahendravaram, Vijayawada, Tirupati, and Chennai.

Heritage Distribution Center (HDC): It is Heritage Foods Ltd.'s marketing arm, offering the whole Heritage product line, as well as anything provided or approved by Heritage Foods.



Source: Company

Key Personnel:

Key Person	Position	Experience
Mr. N Srivishnu Raju	Non-Executive Independent Director	Mr. Raju is the Founder Chairman and Chief Executive Officer of EXCIGA Group. A director in several public and private companies.
Mr. Rajesh Thakur Ahuja	Non-Executive Independent Director	Mr. Ahuja started Silver Line Wire Products in 1993 as a manufacturer of plastic-coated wire products for household applications. He is also on the board of several other companies.
Mrs. Aparna Surabhi	Non-Executive Independent Woman Director	Mrs. Surabhi has more than thirty years of experience in handling various kinds of audit and has been a consultant for many start-up businesses.
Mr. M P Vijay Kumar	Non-Executive Director	Mr. Kumar is Chief Financial Officer (CFO) of M/s. Sify Technologies Limited a Nasdaq Listed Company. He is an Independent Director on the Board of Thejo Engineering Limited and Life Insurance Corporation of India. Apart from the above he is also Director in other Private Limited Companies.
Dr. V. Nagaraja Naidu	Non-Executive Independent Director	Dr. Naidu held various positions in reputed Universities viz., Professor, Dean Director etc., and taught in the fields of Finance and Business Economics at Post graduate and Doctorate levels. He had been the Registrar (Administrative head) of the Dr. B R Ambedkar Open University for about 10 years. Dr. Naidu was Whole-time Director/ Managing Director of the Company during 1995 to 2007.
Mrs. N. Bhuvanewari	Vice-Chairperson & Managing Director	Mrs. Bhuvanewari has extensive experience in the business. She joined the Company in 1994 as a Whole-time Director and is now serving as the Vice-Chairperson and Managing Director. She monitors the workflow of the organization
Mrs. N. Brahmani	Executive Director	Mrs. Brahmani has worked as an Investment Associate in Vertex Venture Management Private Limited during 2009- 11 in Singapore. She joined Heritage Foods in 2011 as Vice President Business Development and since 2013 onwards she is serving as the Executive Director. She heads the business functions such as design, development and implementation of strategic plans.

Source: Company, Arihant Research

Investment Rationale

Strong and growing relationships with dairy farmers aid in growing milk procurement

The core strength of the company is its long-standing relationships with 300,000+ dairy farmers from whom they can procure 1.47MLPD of milk (to grow to 2.2-2.3MLPD in the next 3-4 years) across 12,500 collection centers. Direct Payments are made into their accounts on a timely basis and transparency is maintained. Farmers are also provided with aid through welfare activities which ensures their stickiness. Heritage is looking to add 40,000 more farmers to the procurement network to increase procurement. It has one of the strongest distributor networks in South India. Strong relationships with a large farmer network are the reason players like Heritage and Dodla flourished in southern markets, and players like Amul could not.

They have always prioritized farmer wellbeing and will continue to do so as it is one of their strongest assets over other players. Heritage is known to procure at higher prices compared to cooperatives. They also educate and support farmers about cattle wellbeing, breeding and nutrition to increase their yield and enhance their income. The costs of feed are netted against the value of milk provided. As a part of the education they conduct veterinary camps for animals at frequent intervals. They also supply of high quality cattle feed and fodder seeds

They facilitate financial support for cattle purchase, resulting in rising milk production and employment for farmers. They offer the following: Loans for the purchase of cattle through commercial banks/ NBFCs, facilitate cattle insurance, and ensure timely payment to farmers

Additionally, through Heritage Farmers Welfare Activities they collaborate with various farmers to enhance dairy productivity and the quality of life of dairy farmers by constantly implementing various farmer empowerment initiatives through out the year to support and develop the rural society. Heritage VET+ app is a one-stop solution for milch animal management that focuses on providing remote primary veterinary care and best practices in dairy management to share knowledge with and empower dairy farmers. In FY22 67,989 cattle treated and 21,452 farmers benefitted with 1,071 cattle in health camps.

Andhra Pradesh, Maharashtra, and Tamil Nadu will continue to be the greatest contributors to procurement volumes (30% each, with AP being ~40%), but the company is expanding its footprint in terms of procurement. Current procurement capabilities can meet milk requirements for the next 3-4 years, and they are growing procurement volumes in high teens. They have entered Odisha and are expanding procurement in Western UP. Volumes are growing rapidly in North India but their contribution is small in terms of absolute size.

Cost efficiencies at play

The company is working on improving certain structural efficiencies with energy by bringing in more efficient equipment and reformulating some products, fuel, and man force productivity to reduce opex which will be a huge contributor to margin expansion. Currently, about 20% of the cost saving initiatives have been completed.

Increasing VAP contribution to improve the margin profile

Value Added Products have higher margins compared to milk and comprise ~25% of sales. Since VAP sales bring stability to margins, the company is aiming to consistently increase its overall revenue share to 40% in the next 4 years. The GM of VAPs is rough 2x that of milk products. It should provide a 5% benefit to Gross Margins on a weighted average basis. All categories of VAP are clocking in growth in the high teens as a result of value creation initiatives. Increasing prices of VAP and milk were key to maintaining margins in FY23. As raw milk prices continue to correct, the company realizations will improve substantially in FY24.

During FY23, raw milk prices were up 11.3% out of which 9.7% was passed on to consumers via VAP sales and price increases which greatly compensated for its negative impact.

In FY23, they launched Several new products : GlucoShakti, a whey-based instant energy drink; a premium curd variant called Creamilicious Curd, new flavours of milkshakes (Chocolate Caramel and Cookie & Cream); A-One Spiced Buttermilk in cartons; and 2 new desi flavours of ice-lollies viz. Golgappa and Kalakhatta. Matka kulfi, mawa kulfi, chocolate doodh peda to the VAP product mix. Curd is ~75% of all VAP sales and is the fastest-growing product. They also are looking to further expand their presence into RTC/ RTE products. As a result of all the new launches every quarter and aggressive branding, in FY23 VAPs contributed to ~29% of revenues.

Ice cream as a category is growing extremely fast, and the company is focused on deepening its presence in existing markets, expanding across channels, and continuous innovation. They target 10% of future growth to come from new products, with a large percentage coming from ice creams and drinkables. Most of the sales are concentrated in retail outlets and some specialty channels like colleges and institutions. We expect the company to cross INR 100 cr in ice cream sales with a GM of 33- 35% in the medium term. They have both milk-based and vegetable oil-based ice cream.

Cheese as a category has also grown multifold but remains a miniscule portion of revenues.

Based on increasing disposable income, demand for convenient products and growing consumer preference for branded alternatives. They are a primary growth driver for the company. VAP market is under-penetrated. It has tremendous scope for the growth and is expected to grow at much faster rate as compared with the commodity market.

Leveraging distribution strength to cement existing geographies

Another key strength of the company is its wide distribution network across India. Its products are sold across 11 States, through 6,500+ milk distributors who can deliver to doorsteps (they have also added 190 product/ FMCG distributors that also serve reputed players like Unilever, P&G, etc.), 147 Heritage Distribution Centers across 9 states, 130,000+ Retail Outlets (to be increased to 300,000 going forward), 27 modern retail chains, 11,300+ Milk Procurement Representatives, 2,100+ distribution vehicles, and 859 Heritage Parlors. It also has a strong presence across 16 e-com websites. They have a very small D2C business. Heritage is working toward improving relationships with B2B customers in the Horeca segment.

They are leveraging the strong distribution network to entering in new geographies and more so strengthen the existing ones through brand building initiatives. They are focused on deepening penetration in existing states where they are new entrants (Maharashtra, Odisha, Delhi, Haryana, Uttarakhand and Uttar Pradesh), especially across tier 2 and 3 cities. Currently, these cities majorly just have milk sales and help de-risk the business. These are also incredibly fast growing markets.

Heritage TUCH is an app that was launched to provide safe and hassle-free home delivery to customers in Hyderabad, which is their key market.

Heritage Parlours and Heritage Happiness Centers are directly serviced by the company, and contribute to ~22% of their business, and their expansion is currently a focus area.

Heritage TUCH app improving D2C reach in key market



Source: Company

Successful JVs entering high growth phase

The Heritage Novandie JV's sales are improving, and the company expects better numbers in FY24. This JV produces premium yogurt products available only in a few states currently, but they are expanding to other markets. Volumes are increasing with its growing presence across modern retail and e-commerce.

Capex and Facility expansion

Capex upward of INR 100-125 Cr per year for the next 3 years is planned. They are investing in villages and setting up collection and cooling infrastructure- in line with their goal to increase village-level milk collection and strengthen processing facilities. The company currently has 18 processing facilities with a processing capacity of 2.65 MLPD, 198 Bulk Coolers, and Mini Chilling & Chilling Units with 2.08 MLPD capacity. Capex in the ice cream business will be around INR 50 Cr. Additionally, there will also be new lines added for paneer, UHT milk, and milkshakes at existing locations. These will get commissioned in the next couple of quarters.

Capex incurred worth INR 83.10 Cr during FY23, mainly for procurement Chilling Capacity expansion and executing value creation initiatives. This is all part of the continuous initiative to Increase Milk Procurement by investing prudently in village level milk collection infrastructure, bulk coolers, chilling centers. They are also expanding product lines to manufacture more VAPs, alongside investing in procurement.

Marketing initiatives play on customer centricity

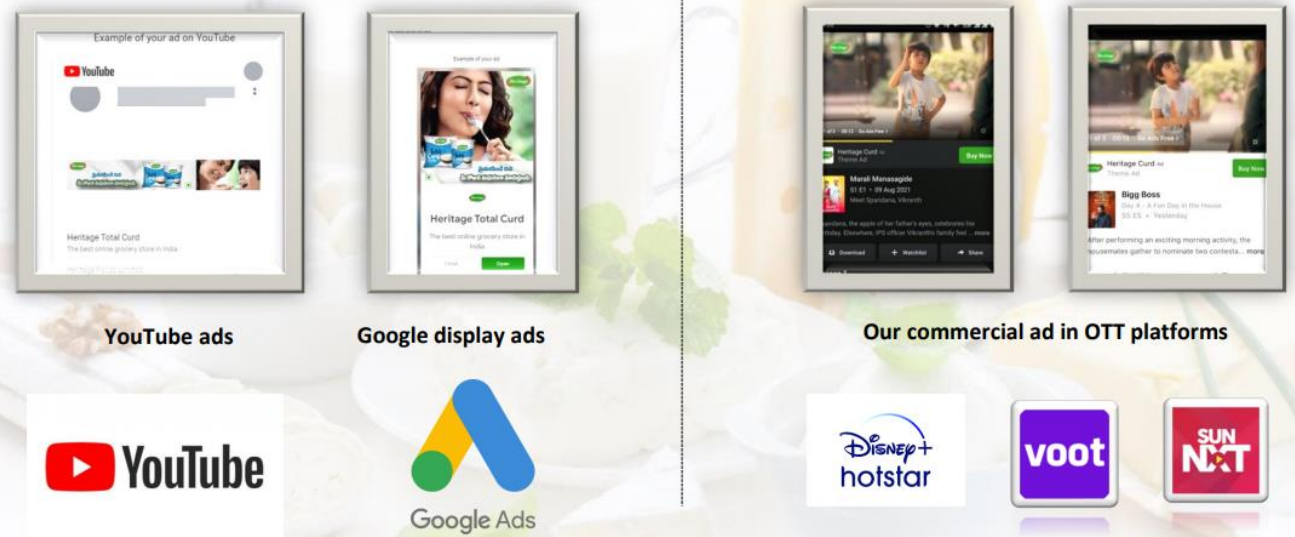
A continued consumer-centric approach in innovations and marketing strategies allows for a focused take on priority products that gives them a competitive edge. Many initiatives are being taken to build brand recognition after extensive customer testing.

In FY23 the biggest 360 degree IMC Campaign was launched for Heritage Total Curd, the campaign theme being 'Heritage Curd Makes Your Day'. For the first time, Heritage brand was on air and created impact through leading TV Channels in AP and Telangana viz. Star Maa, ETV Telugu & Gemini etc. Primetime slots were taken in most popular serials & reality shows as in- program integrations helped build brand impact. Campaigns were also promoted successfully on Digital via. YouTube/ Google Display Ads. Further ads in the digital space also supplemented with aggressive presence on leading OTT platforms like Hotstar, Voot and Sun Next.

Visibility was driven through impactful Outdoor media viz. Bus shelter, Metro Branding and On ground activations as well.

To build quick awareness a bumper ad was specially run for Heritage cheese on YouTube. To drive trials Heritage Cheese sampling was done across key MT Chains viz. Vijetha, Ratnadeep and Reliance for 4 weeks across Chennai and Hyderabad wherein 13,000+ customer contacts were done. To build quick awareness for newly launched Creamilicious Curd they tied up with mom influencers. Heritage successfully garnered ~ 7.5 million views through this activity and were able to achieve high impact at low cost.

Visibility across OTT and digital platforms



Source: Company

On- ground activations for brand building



Outdoor hoarding and Bus shelters in Hyderabad, Chennai and Bangalore



Metro train interior branding in Chennai

Metro train Wrap branding in Hyderabad Metro to build impact

Door to Door Curd Sampling in Bangalore

Source: Company

Bumper ads and instagram influencers

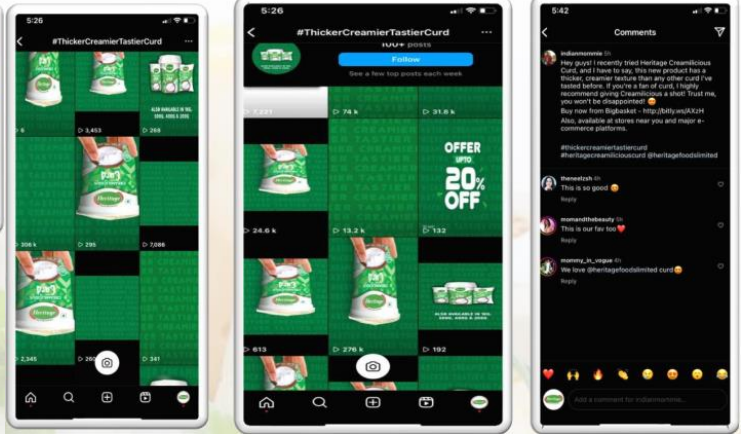
Building preference for Heritage Cheese



Bumper ad on Social media



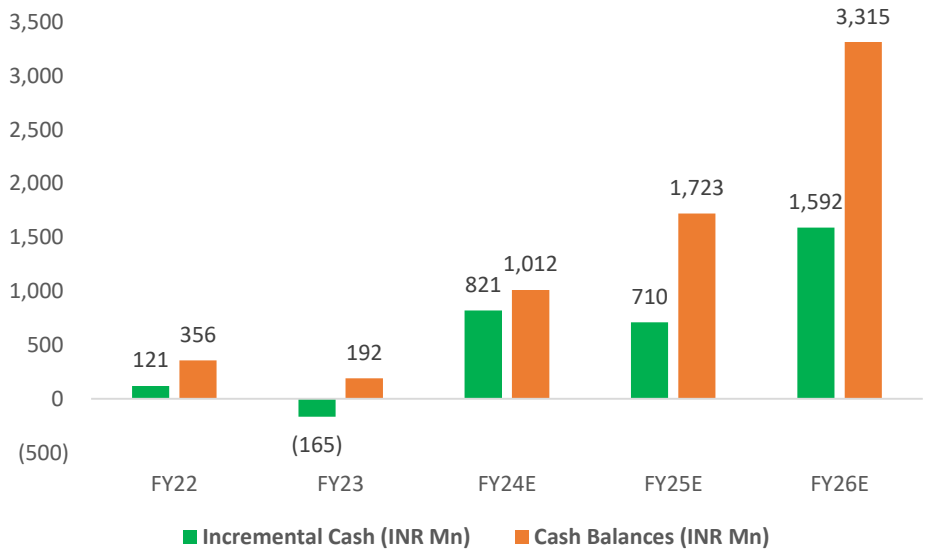
Build quick awareness for Cremilicious Curd



Source: Company

Healthy cash position

The company enjoys net debt free status through prudent cash management, healthy operating cash generation. Cash is deployed toward regular capex requirements.



Source: Company, Aриhant Research

Valuation and Outlook:

Heritage has already displayed aggressive growth ahead of the industry despite the trials and tribulations presented by the pandemic. We believe that industry recovery will work well for their profitability considering all the aggressive brand building (marketing) and value addition initiatives the company has undertaken. Heritage does not shy away from investing heavily in marketing as well as physical capacities as intangible assets are also a key driver for product growth.

Volumes will return as harvests improve (and consequently milk availability), and the higher VAP sales will drastically improve realizations and margin profile going ahead. The numerous cost saving initiatives will also aid in margin expansion in coming quarters as they get fully implemented. Going forward, VAP sales and new product developments will be huge drivers for growth

Their constant endeavor to keep farmer wellbeing as a core focus will greatly strengthen their procurement capabilities which is key for any dairy company. On the flip side, their wide distribution network across 11 states is being further penetrated which establishes Heritage as a key player in those respective markets

We assign a TP of INR 448 valued at a P/E multiple of 20x the FY26E EPS of INR 22.4, indicating a 88% upside, and a BUY rating.

Key Financials

Income Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,813	32,407	37,797	45,841	56,349
Growth (%)	8.4	20.9	16.6	21.3	22.9
Operating expenses	-24,901	-31,022	-35,837	-42,902	-52,593
Operating profit	1,912	1,385	1,960	2,939	3,756
Other operating income					
EBITDA	1,912	1,385	1,960	2,939	3,756
Growth (%)	(29.5)	(27.6)	41.6	49.9	27.8
Depreciation	-526	-564	-697	-775	-853
Other income	113	121	127	133	140
EBIT	1,499	942	1,390	2,297	3,042
Finance cost	-40	-39	-289	-263	-273
Exceptional & extraordinary					
Profit before tax	1,459	903	1,100	2,033	2,769
Tax (current + deferred)	-342	-238	-277	-508	-692
P / L form discontinuing operations					
Profit / (Loss) for the period	1,117	665	823	1,525	2,077
P/L of Associates, Min Int, Pref Div					
Reported Profit / (Loss)	1,117	665	823	1,525	2,077
Adjusted net profit	1,117	665	823	1,525	2,077
Growth (%)	-27	-40	24	85	36

Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Share capital	232	464	464	464	464
Reserves & surplus	6,344	6,795	7,600	9,009	10,969
Shareholders' funds	6,576	7,259	8,064	9,473	11,433
Minority Interests and others	0				
Non-current liabilities	624	846	842	838	815
Long-term borrowings	80	45	50	55	40
Other non-current liabilities	545	801	792	783	775
Current liabilities	1,826	3,146	2,711	2,994	3,583
ST borrowings, Curr maturity	66	1,348	1,000	900	950
Other current liabilities	1,760	1,798	1,711	2,094	2,633
Total (Equity and Liabilities)	9,026	11,250	11,616	13,305	15,831
Non-current assets	6,118	6,717	7,527	8,059	8,522
Fixed assets (Net block)	5,873	6,417	7,180	7,657	8,056
Non-current Investments	174	144	159	174	192
Long-term loans and advances	67	107	133	167	208
Other non-current assets	4	50	55	60	66
Current assets	2,908	4,533	4,089	5,246	7,308
Cash & current investment	356	192	1,012	1,723	3,315
Other current assets	2,551	4,341	3,077	3,524	3,993
Total (Assets)	9,026	11,250	11,616	13,305	15,831
Total debt	145	1,393	1,050	955	990
Capital employed	7,266	9,452	9,905	11,211	13,197

Cash Flow Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,459	903	1,100	2,033	2,769
Depreciation	526	564	697	775	853
Change in working capital	-443	-1,775	1,141	-105	20
Total tax paid	-344	-229	-277	-508	-692
Others	40	39	289	263	273
Cash flow from oper. (a)	1,238	-499	2,951	2,458	3,222
Capital expenditure	-418	-1,107	-1,461	-1,252	-1,252
Change in investments	-42	30	-14	-16	-17
Others	19	-46	-5	-5	-6
Cash flow from inv. (b)	-441	-1,123	-1,480	-1,273	-1,275
Free cash flow (a+b)	797	-1,622	1,471	1,185	1,947
Equity raised/(repaid)		232			
Debt raised/(repaid)	-214	1,247	-343	-95	35
Dividend (incl. tax)	-280	-116	-116	-116	-116
Others	-182	94	-191	-263	-274
Cash flow from fin. (c)	-676	1,458	-650	-474	-355
Net chg in cash (a+b+c)	121	-165	821	710	1,592

Source: Arihant Research, Company Filings

Key Ratios

Key ratios

Key ratios (%)	FY22	FY23	FY24E	FY25E	FY26E
Adjusted EPS (Rs)	24.1	7.2	8.9	16.4	22.4
Growth	(27.4)	(70.2)	23.8	85.2	36.2
CEPS (Rs)	35.4	13.2	16.4	24.8	31.6
Book NAV/share (Rs)	141.7	78.2	86.9	102.1	123.2
Dividend/share (Rs)	5.0	1.3	1.3	1.3	1.3
Dividend payout ratio	25.0	17.4	14.1	7.6	5.6
EBITDA margin	7.1	4.3	5.2	6.4	6.7
EBIT margin	5.6	2.9	3.7	5.0	5.4
Tax rate	23.5	26.3	25.2	25.0	25.0
RoCE	21.4	11.3	14.4	21.8	24.9
Total debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
Net debt/Equity (x)	(0.0)	0.2	0.0	(0.1)	(0.2)
Du Pont Analysis - ROE					
Net margin	4.2	2.1	2.2	3.3	3.7
Asset turnover (x)	3.0	3.2	3.3	3.7	3.9
Leverage factor (x)	1.4	1.5	1.5	1.4	1.4
Return on equity	17.8	9.6	10.7	17.4	19.9

Valuations

Valuations (x)	FY22	FY23	FY24E	FY25E	FY26E
PER	13.7	24.1	19.5	10.5	13.1
PCE	9.3	13.1	10.6	7.0	9.3
Price/Book	2.3	2.2	2.0	1.7	2.4
Yield (%)	1.5	0.7	0.7	0.7	0.4
EV/EBITDA	7.9	12.5	8.2	5.2	6.6

Source: Arihant Research, Company Filings

High growth niche segments will pave the way to brighter times

CMP: INR 136

Rating: BUY

Target Price: INR 450

Stock Info

BSE	539889
NSE	PARAGMILK
Bloomberg	PARAG:IN
Reuters	EQUITASB.BO
Sector	Dairy Products
Face Value (INR)	10
Equity Capital (INR Cr)	117
Mkt Cap (INR Cr)	1,684
52w H/L (INR)	149 / 68
Avg Daily Vol (in 000')	622

Shareholding Pattern %

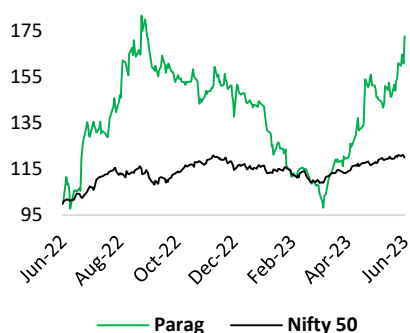
(As on June 2023)

Promoters	41.63
FII	10.23
DII	3.84
Public & Others	44.21

Stock Performance (%)

	1m	6m	12m
Parag Milk	24.11	42.27	52.97
Nifty 50	5.67	10.29	20.35

Parag Milk vs Nifty 50



Parag Milk Foods Ltd (PMFL), founded in 1992 is involved in the development and promotion of 100% fresh cow's milk and milk products under international brand names with a diverse portfolio in over 10 product categories. They operate under the brands: Gowardhan, Go, Pride of Cows, and Avvatar. Today, it is one of India's leading private dairies. As of FY23, the company has a 20% market share in ghee, and a 35% market share in cheese which are their core categories. Additionally, they have a premium presence in health supplements with the brand Avvatar, and in premium dairy with the brand Pride of Cows, both of which have grown multifold since their introduction, and are an important pillar of growth. PMFL has one of the largest VAP dairy portfolios (that constitutes ~70% of revenues) amongst dairies in India and is the first to launch a B2C made-in-India whey protein. It is also pioneered the concept of farm-to-home premium dairy with Pride of Cows. They boast one of the largest and advanced cow farms in India backed by state-of-the-art infrastructure with end-to-end integration that has scale to boot.

Strong and growing VAP presence leading to margin expansion: PMFL's presence in VAP and premium products is cemented, and is growing in leaps and bounds. Ever since the pandemic gripped the dairy industry, the company has shifted its focus toward aggressively pushing the VAP portfolio which has grown 31% in FY23 which resulted in significant margin improvement as well. This is a major headwind for Parag.

Market leadership: They are market leaders in their core categories of ghee and cheese with a 20% and 35% market share respectively with the brands 'GO' and 'Gowardhan'.

Procurement and distribution strength: The company has a well rounded procurement network across the country, and it is one of their biggest strengths. They are present across 4.6 lakh retail touch points, have 4,500+ distributors with a 5 lakh+ farmer network. Their reach is one of the largest in the country.

Boosting brand visibility: Growing brand visibility consistent media and advertisement support is one of the most important strategies the company has undertaken. Ad spends have grown 2.5x over the past 2 years in absolute value and this momentum will continue.

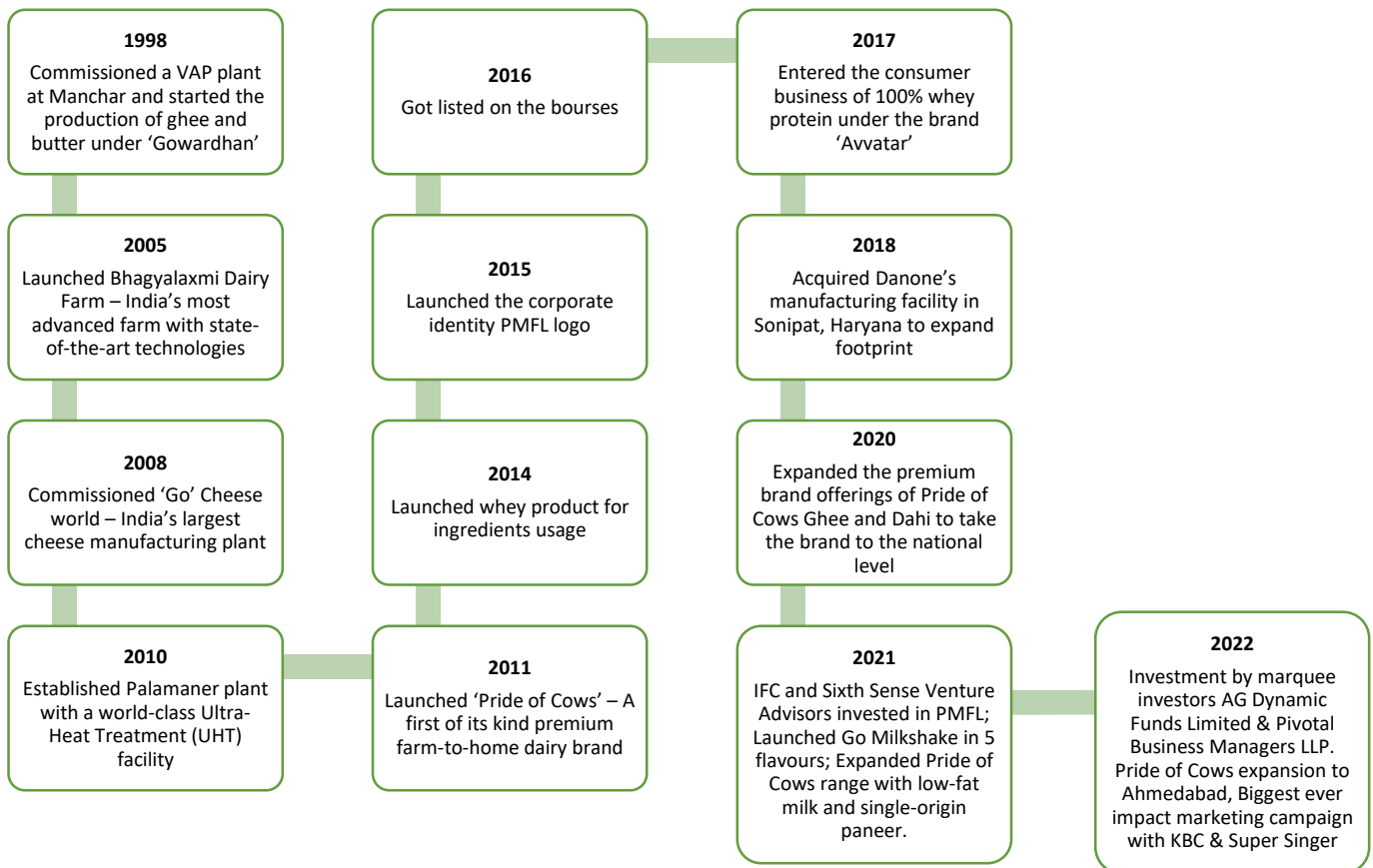
INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	20,718	28,926	34,286	39,925	46,397	54,377
YoY	12.49%	39.62%	18.53%	16.44%	16.21%	17.20%
EBITDA	-4,384	1,329	2,057	2,795	4,176	5,438
EBITDA Margin	-21.16%	4.59%	6.00%	7.00%	9.00%	10.00%
EBIT	-4,711	1,062	1,827	2,583	3,976	5,261
EBIT Margin	-22.51%	3.63%	5.28%	6.41%	8.49%	9.58%
PAT	-5,325	533	962	1,466	2,436	3,314
YoY	-2671.82%	-110.00%	80.56%	52.45%	66.21%	36.01%
EPS (INR)	-56.91	4.92	8.88	13.54	22.51	30.61
YoY	-2407.30%	-108.64%	80.56%	52.45%	66.21%	36.01%
P/E (x)	-2.39	27.64	15.31	10.04	6.04	4.44
P/B (x)	2.35	1.86	1.67	1.45	1.18	0.94
EV/EBITDA (x)	-4.06	16.71	10.14	7.46	4.76	3.26
EV/EBIT (x)	-3.78	20.91	11.41	8.07	5.00	3.37
D/E (x)	1.02	0.79	0.67	0.61	0.57	0.48
RONW	-96.11%	6.59%	10.70%	14.10%	19.07%	20.66%
ROCE	-44.02%	5.22%	9.87%	13.09%	17.51%	19.90%

Source: Company, Arihant Research

About the Company:









Parag Milk Foods Ltd (PMFL), founded in 1992 produces 100% fresh cow’s milk and milk products with a diverse portfolio in over 10 product categories, and is India’s leading private dairy today. They operate under the brands: Gowardhan, Go, Pride of Cows, and Avvatar. As of FY23, the company has a 20% market share in ghee, and a 35% market share in cheese which are their core categories. Additionally, they have a premium presence in health supplements with the brand Avvatar, and in premium dairy with the brand Pride of Cows. PMFL has one of the largest VAP dairy portfolios amongst dairies in India and is the first to launch a B2C made-in-India whey protein. It is also pioneered the concept of farm-to-home premium dairy with Pride of Cows. They boast one of the largest and advanced cow farms in India backed by state-of-the-art infrastructure with end-to-end integration that has scale to boot.

Key Milestones:



Source: Company, Aриhant Research

Brand Offerings:

Brand	Offerings
<p>Gowardhan: Initially milk and ghee, has now expanded to include the whole nine yards</p> 	 <p>Gowardhan Tea Star: Formulated to enhance frothing in tea and coffee</p> <p>Gowardhan Gold and Gowardhan Pure: Full-fat milk</p> <p>Gowardhan Fresh: Toned milk</p> <p>Gowardhan Vital: Homogenised and pasteurised milk</p> <p>Gowardhan Fit N Lite and Gowardhan Skimmed Milk Powder: Low in fat content</p> <p>Gowardhan Ghee: Our flagship product</p> <p>Gowardhan Paneer: Available as cubes and blocks with a shelf life of 75 days</p> <p>Gowardhan Dahl and Gowardhan Buttermilk: Contains probiotics for good gut health and digestion</p> <p>Swarna Ghee: Especially caters to the South Indian market</p> <p>Gowardhan Gultab Jamun Mix: A ready-to-cook mix to prepare soft and delicious Indian delicacy, gultab jamun</p> <p>Gowardhan Topp up: A healthier and tastier alternative to oesated drinks with distinct flavours such as rose, mango, elaichi, strawberry, butterscotch, pista and badam</p> <p>Gowardhan Butter: Light in taste, soft and easy to spread</p> <p>Gowardhan Buttermilk: Light in taste, soft and easy to spread</p>
<p>GO: Convenience to urban dwellers, HORECA, and QSR</p> 	 <p>UHT Milk: Variants of Supremo, Double Toned Milk and Slim Milk contains 3.5%, 1.5% and less than 0.2% fat, respectively</p> <p>Go Fresh Cream: Has a shelf life of 4 months, yet is preservative-free and has moderate fat</p> <p>Go Colo Power: Made from Colostrum, the first milk of cows, Go Colo Power is a 100% natural immunity booster rich in immunoglobulins and probiotics. Available in powdered form</p> <p>Go RAPID: A first in the category of affordable whey, Go RAPID is a whey-based drink</p> <p>Go Buttermilk and Go Lassi: Grab-and-go beverages – our buttermilk comes in flavours of masala and southern spice, while our lassi is available in rose and mango flavours</p> <p>Go Cheese: We pack cheese in different flavours, sizes, shapes, and formats like slices, wedges, cream, block, shredded etc. We also offer gourmet cheese such as Gouda, Monterey Jack, Colby and Orange Cheddar.</p> <p>Go Milkshakes: Thick-to-licious shakes available in the five flavours of vanilla, coffee, chocolate, strawberry and mango</p> <p>Go Badam Milk: Mixed with saffron and almonds, offers health, nutrition and delight</p>
<p>Pride of Cows: The brand offers supreme quality farm-to-home products that are ultra-hygienic and rich. It is a subscription-based model through the dedicated mobile app that delivers to consumers in Mumbai, Pune, Surat and Delhi.</p> 	 <p>Pride of Cows Whole Milk: Preservative-free and creamy with a low bacterial count, this milk is produced in a fully automated dairy. It is bottled fresh at 4 degrees Celsius till it is delivered to consumers' doorsteps</p> <p>Pride of Cows Fat-Free Milk: Pride of cows fat-free milk is an offering to consumers looking for low-fat products. This is 98% fat-free</p> <p>Pride of Cows Ghee: Rich in healthy fats, antioxidants, vitamins and anti-inflammatory properties; the only single-origin ghee produced from Pride of Cows milk in our farms.</p> <p>Pride of Cows Curd: Thick, fresh and unadulterated curd made by fermenting our Pride of Cows milk; rich in calcium and protein without any additives, also called perfect curd</p>
<p>Avvatar: India's first 100% vegetarian whey protein (and other supplements). It offers 6 variants, all free of sugar, gluten and soy.</p> 	 <p>Isorich: 100% whey isolate, rich in protein, ideal for lactose-intolerant individuals and those on a calorie-deficit diet</p> <p>Whey Protein: Mixture of whey protein and whey concentrate, which aids in muscle repair, digestion, metabolism, strength-building and bone health</p> <p>Rapid: Rich in vitamin C and an immediate source of energy; provides nutrients to replace electrolytes lost due to sweating and prevents cramps and fatigue from intense training</p> <p>Alpha Whey: Contains casein protein that gives energy throughout the day</p> <p>Mass Gainer: With a blend of carbs and protein, helps meet the ideal carb-protein ratio of 3:1 and gain mass</p> <p>Muscle Gainer: Has a carb-protein ratio of 1:1 and helps to build lean muscles</p>

Source: Company, Arihant Research

Manufacturing/ Processing Capabilities:

PMFL has an automated unit to produce high shelf life paneer, state-of-the-art UHT technology, a fully integrated cheese-to-whey plant, and specialized lines for traditional ghee and curd manufacturing.

Manchar, Pune: Established in 1992, the facility collects milk from farmers to manufacture ghee, paneer, curd, cheese etc.

Palamaner, Chittoor: Set up in 2010 with state-of-the-art UHT facilities. It manufactures tetrapack milk, beverages, curd, ghee, etc.

Sonipat, Haryana: Acquired from Danone, the plant commenced in 2018 to expand its product offerings and distribution in the North and Eastern parts of India. It specializes in curd, paneer and milk.

Lactose plant, Manchar: Commissioned in 2020, the plant produces lactose from whey permeates, a by-product of the cheese manufacturing process. The addition of lactose products expands the health and nutrition portfolio.

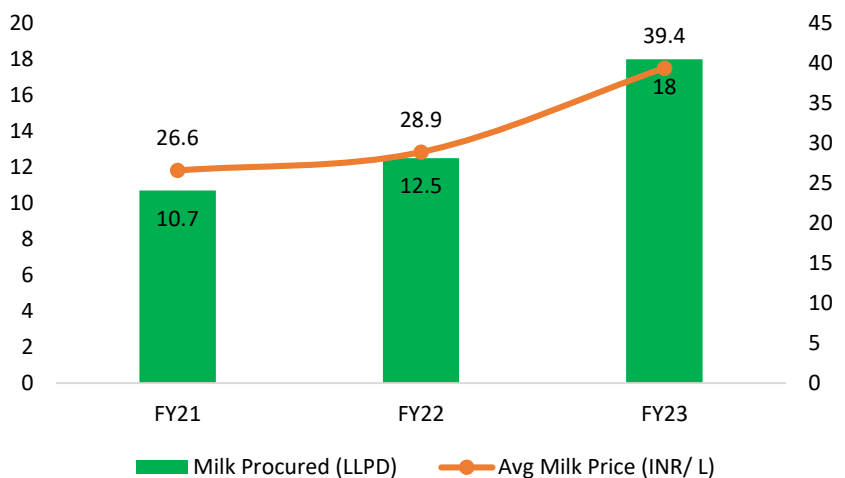
Bhagalaxmi Dairy Farm, Pune: Pride of Cows products are manufactured here. Spread over 35 acres, it is the country's most advanced, fully integrated dairy farm. The milking of ~3,000 cows is fully automated. It also houses an R&D unit and laboratory to improve cattle yield. Waste matter is converted into manure. The facility has a biogas plant with 600 m3 power generation capacity for captive consumption. The average amount of milk produced by the cows of this Farm is ~24 liters per day, which is 4x higher compared to the average Indian cow. This plant uses Holstein cows.

Product	Capacity
Cheese	110 MT/ Day
Ghee	110 MT/ Day
Paneer	20 MT/ Day
Lactose	40 MT/ Day
Whey	10 LLPD
Milk	3.4 MLPD

Source: Company, Arihant Research

Procurement strength and Distribution Network:

PMFL has relationships with over 5 lakh+ farmers, 4.6 lakh+ retail outlets, 4,500+ distributors, 500+ super stockists, and 29 depots. The dairy farming business with Bhagalaxmi Dairy Farm has 3,000+ cows and services 1 lakh+ households through direct reach.



Source: Company, Arihant Research

Key personnel

Position	Personnel	Relevant Experience
Chairman	Mr. Devendra Shah	PMFL has grown consistently under his leadership.
Managing Director	Mr. Pritam Shah	Execution strategy of the company and consolidation of company's market presence, fall under his purview.
Executive Director	Ms. Akshali Shah	She has more than a decade experience with the company and is instrumental for growth of the high value product business: Pride of Cows, Avvatar (whey protein), and beverages business. She has played an instrumental role in the transformation from being a Dairy to a leading FMCG company with product innovation in health & nutrition.
Independent Director	Mr. Narendra Ambwani	He was the MD of Johnson & Johnson's India consumer group. He has 39 years of experience in the consumer product industry and works as a strategic partner advising the top management in developing business strategy.
Independent Director	Mr. Nitin Dhavalikar	He is responsible for rendering financial advisory. He has over 20 years of experience in the business and corporate finance advisory
Independent Director	Dr. Dnyanesh V. Darshane	He has more than 37 years of global experience across Asia, North America & Europe. He has been associated with The Coca-Cola Company, Nicolas Piramal, Pepsi Foods, Tata Pharmaceuticals, U.S. Vitamins Pharmaceutical, etc.
Independent Director	Ms. Radhika Dudhat	A Partner with Shardul Amarchand Mangaldas & Co. She has worked on a wide range of transactional, regulatory and legal risk management advisory. She is the Chairperson of the Corporate Law and Governance Sub Committee of the I MC Chamber of Commerce & Industry.
Non- Executive Director	Mr. Nikhil Vora	The Founder and CEO of Sixth Sense Ventures with 28 years of experience in financial markets and the consumer domain. He was earlier the Managing Director and Head of Research at IDFC Securities and has evolved a strategic road map for Hindustan Unilever, Aditya Birla Group, Marico, Godrej, etc.

Source: Company, Arihant Research

Investment Rationale

Strong and growing VAP presence leading to margin expansion:

The company has made the decision to focus on growing the highly profitable VAP category as it has massive growth opportunity in India. An increase in marketing spends has been undertaken over the past few quarters to further drive VAP growth home. Compared to its peers, PMFL has a huge VAP portfolio and presence as most of the company's revenues come from products other than liquid milk vis-a-vis other private dairy players which do the opposite. Major VAP growth drivers will be: Ghee, Cheese, Paneer, Pride of cows, and Avvatar.

Increasing Out of Home consumption will encourage the HoReCa and QSR industry which are major consumers of VAP products. There is also an element of health conscious individuals on the rise which provides an excellent opportunity for the brand Avvatar to grow its currently small base. The growing middle class and per capita income is also a factor.

In FY23, the core category of Ghee grew 48% with an underlying volume growth of 25%, Cheese grew by 38% YoY with an underlying volume growth of 19%, and the Brand Avvatar grew by 123% YoY with an underlying volume growth of 69%. The overall protein business grew 2x YoY.

The 3 year industry growth for ghee, cheese, and whey protein is estimated to be INR 76,000 Cr to INR 1,23,000 Cr (1.62x), INR 5,700 Cr to INR 20,000 Cr (3.51x), and INR 660 Cr to INR 2,000 Cr (3.03x) respectively.

Parag is also the only Indian company to whey protein in the country with the brand Avvatar. Whey is expected to grow 20.2% over FY19-27. The category is facing a structural uptrend. 50%+ of the population aged 15-49 is digitally connected with global trends and looking to improve their lifestyle. ~40%+ of the category sells digitally on marketplaces, D2C sites and health stores. The protein business contributes to ~7% of sales, and has grown 8x over the past 8 quarters.

SOR	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Milk	9.5%	9.4%	9.5%	9.4%	9.3%	9.1%
VAPs: ghee, curd, cheese, flavored milk, etc.	68.0%	69.3%	70.2%	70.5%	71.0%	71.5%
New Age Products: Health Supplements and D2C premium offerings	3.0%	3.3%	3.6%	4.0%	4.5%	5.0%
SMP	19.0%	18.0%	16.7%	16.1%	15.2%	14.4%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Arihant Research

Revenue	FY22	FY23	FY24E	FY25E	FY26E	FY27E
INR Mn						
Milk	2,072	2,719	3,263	3,752	4,315	4,962
	12%	31%	20%	15%	15%	15%
VAPs: ghee, curd, cheese, flavored milk, etc.	14,088	20,046	24,055	28,144	32,929	38,856
	5%	42%	20%	17%	17%	18%
New Age Products: Health Supplements and D2C premium offerings	622	955	1,241	1,613	2,097	2,726
	69%	54%	30%	30%	30%	30%
SMP	3,936	5,207	5,727	6,415	7,056	7,832
	42%	32%	10%	12%	10%	11%
Total	20,718	28,926	34,286	39,925	46,397	54,377
Growth	12%	40%	19%	16%	16%	17%

Source: Company, Arihant Research

Growing advertisement and marketing spend boosting brand visibility

Consistent media support is key to pushing core value added products like cheese, paneer, and ghee that contribute to 55-60% of revenues. In this regard, the company has been taking brand building efforts very seriously through consistent media support. Ad spends in 2023 are 2.5x the amount in 2019.

All-in-all, 1-3% of revenues are dedicated toward brand building activities by creating awareness on various platforms like s television, social media, outdoor, in-shop promotions, events and exhibitions, etc. The company has a dedicated sales and marketing team of over 800 personnel.

Continuous investment in digital marketing, collaborating with online celebrities and influencers is being undertaken to target the ‘New Age’ consumers.

Brand Campaigns this year: Gowardhan



Source: Company, Arihant Research

Participation in the popular shows like "Kaun Banega Crorepati" helped gain wider reach in tier 1 and tier 2 towns and cities

Brand Campaigns this year: Go Cheese



Source: Company, Arihant Research

Content led impact marketing campaign by participating in the most popular fiction show "Anupama" enabled strengthening customer connect

Robust procurement and distribution network as the backbone

PMFL has a robust milk procurement network of local farmers from Maharashtra, Karnataka, Tamil Nadu, and Andhra Pradesh. It has established relationship with more than 5 lakh farmers. In FY23 they procured 18 LLPD of Milk which is targeted to grow to 20 LLPD in FY24. Having a strong procurement network is key for any dairy company as it assures availability of milk. This allowed the company to post a industry leading revenue growth of 40% despite the tailwinds faced in FY23- namely supply side shortages from lumpy skin disease, and falling stocks of MSP faced by the whole industry.

Parag has also established strong pan- India distribution network. The Company now has a network of 500 Super stockists, 4,500+ distributors (~800 added in FY23) and more than 4.6 lakh Pan India retail touch points, and the company is aiming to touch 13-15 lakh retail touch points by FY27 (3x from now). They have 29 depots. Over the last 2 years the distribution network has grown 2x of FY21 levels. This was due to a focus on increasing distribution dominance in < 1 lakh towns, Building Depots and infrastructure across India, and Aggressive outlet expansion- a strategy which will carry forward in the years to come.

General Trade: In FY23, the total billed outlets in GT grew 55%.

Modern Trade: In FY23, the MT business grew 42%. This business contributes to higher portion of revenues.

E-Commerce: In FY23, this business grew 2x owing to brand visibility initiatives.

The company also has many strong tie-ups in the B2B space with various HoReCa companies (for Cheese) and consumer companies like Cadbury, Nestle, etc. (for Whey derivatives). This business grew 35% in FY23 with a 12% underlying volume growth.

Both the strong (and growing) procurement network and well established customer base are driving factors of growth and security for the company and help effectively de- risk the business.

Valuation and Outlook:

Parag Milk Foods is a good play in the private dairy space, considering its heightened focus on and market dominance in the value added product and premium space. It is well cemented as an industry leader for decades, in a segment where most other dairy players are scrambling to gain market share. We expect it to grow in the high teens.

The improving industry conditions will also support volume growth and lead to margin expansion as procurement prices continue to soften.

We believe that its aggressive work on this portfolio along with impressive progress seen on the more niche super premium end with Avvatar supplements and Pride of cows is noteworthy as they are pioneers in these markets. Even though the overall size of the super premium and protein supplement market is small in India, Parag is in a good place to grow the industry.

The company will leverage its market leadership in existing categories to expand its reach in the new products as well. The aggressive advertising spends will lead to stronger brand recall.

We assign a TP of INR 450 valued at a P/E multiple of 20x the FY26E EPS of INR 22.5, indicating an upside of 231% and a BUY rating.

Key Financials

Income Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue from operations	20,718	28,926	34,286	39,925	46,397	54,377
Cost of materials consumed	20,805	23,232	26,058	29,544	33,406	38,608
Employee benefit expenses	837	981	1,029	1,597	1,856	2,175
Other expenses	3,460	3,385	5,143	5,989	6,960	8,157
EBITDA	-4,383.91	1,328.95	2,057.17	2,794.72	4,175.77	5,437.72
EBITDA Margin	-21.16%	4.59%	6.00%	7.00%	9.00%	10.00%
Depreciation & amortisation expense	537	573	573	610	664	720
Finance Cost	510	552	545	629	728	843
Other income	210	306	343	399	464	544
PBT after exceptional Items	-5,221	511	1,282	1,954	3,248	4,418
Cash Tax	104	-22	321	489	812	1,105
PAT	-5,325	533	962	1,466	2,436	3,314
EPS after exceptional items:						
Basic (INR)	-56.91	4.92	8.88	13.54	22.51	30.61
Diluted (INR)	-55.54	4.82	8.70	13.26	22.04	29.97

Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Equity Share Capital	952	1,172	1,172	1,172	1,172	1,172
Other Equity	4,588	6,908	7,814	9,225	11,606	14,864
Net Worth	5,540	8,080	8,986	10,397	12,778	16,036
Total debt	5,640	6,408	6,060	6,290	7,278	7,667
Deferred tax liability (net)	40	19	19	19	19	19
Other non current liabilities	28	39	34	40	46	54
Total Liabilities	5,708	6,465	6,113	6,349	7,343	7,740
Net Block	4,083	3,754	4,057	3,952	3,996	4,029
CWIP	96	447	305	407	354	288
Other intangible assets	4	2	2	3	3	4
Biological assets other than bearer plants	506	605	727	872	1,046	1,255
Investments	112	508	686	798	928	1,088
Other non current assets	175	213	343	399	464	544
Net Working Capital:	5,476	8,878	7,835	8,937	10,006	10,669
Inventories	4,787	5,736	6,288	5,197	7,616	6,134
Trade receivables	1,253	1,682	1,699	2,457	2,119	2,946
Cash and cash equivalents	797	138	1,145	1,378	3,324	5,900
Bank Balances	43	15	16	18	20	22
Other current assets	2,094	3,576	3,429	3,992	4,640	5,438
Trade payables	2,259	1,526	2,983	2,103	3,754	3,227
Other current liabilities	443	605	615	625	635	645
Total assets	11,249	14,545	15,100	16,746	20,121	23,777

Cash Flow

INR Mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit before tax	-5,221	511	1,282	1,954	3,248	4,418
Depreciation & amortization	537	573	573	610	664	720
Tax paid	104	-22	321	489	812	1,105
Working capital Δ	-3,035	3,402	-1,043	1,102	1,069	663
Operating cash flow	-1,753	-2,297	2,577	974	2,031	3,371
Capital expenditure	375	595	734	607	654	688
Free cash flow	-2,128	-2,891	1,843	367	1,377	2,683
Equity raised	113	2,004	-	-	-	-
Investments made	-21	396	177	113	129	160
Other asset purchases	223	136	252	202	240	290
Debt financing	1,417	767	-348	230	987	389
Dividends & other appropriations	-1,467	-	59	59	59	59
Other items	62	-7	-1	9	10	11
Net Δ in cash	727	-659	1,007	233	1,947	2,575
Opening cash balance	69	797	138	1,145	1,378	3,324
Ending cash balance	797	138	1,145	1,378	3,324	5,900

Source: Arihant Research, Company Filings

Key Ratios

Ratios	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Growth Matrix (%)						
Revenue	12.49%	39.62%	18.53%	16.44%	16.21%	17.20%
EBITDA	-460.47%	-130.31%	54.80%	35.85%	49.42%	30.22%
EBIT	-644.63%	-122.55%	72.05%	41.37%	53.91%	32.32%
PBT	-1381.93%	-109.78%	151.08%	52.45%	66.21%	36.01%
PAT	-2671.82%	-110.00%	80.56%	52.45%	66.21%	36.01%
PAT after OCI	-2599.62%	-110.07%	80.05%	52.26%	66.06%	35.96%
Profitability (%)						
EBITDA Margin	-21.16%	4.59%	6.00%	7.00%	9.00%	10.00%
EBIT Margin	-23.52%	2.59%	4.29%	5.42%	7.49%	8.59%
Net Profit Margin	-25.44%	1.82%	2.78%	3.64%	5.20%	6.03%
Net Profit Margin after OCI	-25.42%	1.83%	2.79%	3.64%	5.21%	6.04%
RoCE	-44.02%	5.22%	9.87%	13.09%	17.51%	19.90%
RoNW	-96.11%	6.59%	10.70%	14.10%	19.07%	20.66%
RoA	-43.00%	4.13%	6.49%	9.21%	13.22%	15.10%
Per Share (INR)						
Basic EPS	-56.91	4.92	8.88	13.54	22.51	30.61
Diluted EPS	-55.54	4.82	8.70	13.26	22.04	29.97
DPS	0.50	0.00	0.50	0.50	0.50	0.50
Basic Cash EPS	-51.17	10.21	14.17	19.18	28.64	37.27
Diluted Cash EPS	-49.94	10.00	13.88	18.78	28.04	36.49
BVPS	57.79	73.09	81.29	94.05	115.58	145.06
Sales	221.43	267.24	316.76	368.85	428.65	502.38
Valuation (x)						
P/E	-2.39	27.64	15.31	10.04	6.04	4.44
P/CEPS	-2.66	13.32	9.60	7.09	4.75	3.65
P/BV	2.35	1.86	1.67	1.45	1.18	0.94
P/Sales	0.61	0.51	0.43	0.37	0.32	0.27
EV/EBITDA	-4.06	16.71	10.14	7.46	4.76	3.26
EV/EBIT	-3.78	20.91	11.41	8.07	5.00	3.37
EV/Sales	0.86	0.77	0.61	0.52	0.43	0.33
Dividend Yield	0.00	0.00	0.00	0.00	0.00	0.00
Liquidity (x)						
Current Ratio	3.32	5.23	3.50	4.78	4.04	5.28
Quick Ratio	1.55	2.54	1.75	2.88	2.30	3.70
Defensive Interval Ratio	60.89	71.57	71.22	77.13	87.34	106.70
Cash Ratio	0.29	0.06	0.32	0.51	0.76	1.52
Activity (x)						
Receivables turnover	14.58	19.71	20.28	19.21	20.28	21.47
Inventory turnover	3.55	4.42	4.33	5.14	5.21	5.62
Payables turnover	7.85	12.28	11.56	11.62	11.41	11.06
Total asset turnover	1.67	2.24	2.31	2.51	2.52	2.48
Fixed asset turnover	4.38	6.09	6.93	7.73	8.73	9.91
Working capital turnover	3.78	3.26	4.38	4.47	4.64	5.10
Days						
Receivable days	25.04	18.52	18.00	19.00	18.00	17.00
Inventory days	102.94	82.66	84.21	70.95	70.00	65.00
Cash Conversion cycle	127.98	101.18	102.21	89.95	88.00	82.00
Payable days	46.49	29.73	31.58	31.42	32.00	33.00
Operating cycle	81.49	71.45	70.63	58.53	56.00	49.00
Leverage (x)						
Interest Coverage	-9.24	1.93	3.35	4.11	5.46	6.24
Debt Equity	1.02	0.79	0.67	0.61	0.57	0.48
Net Debt Equity	0.87	0.78	0.55	0.47	0.31	0.11
Assets to Equity	2.23	1.60	1.65	1.53	1.44	1.37
Du Pont						
Tax burden	1.02	1.04	0.75	0.75	0.75	0.75
Interest burden	1.11	0.48	0.70	0.76	0.82	0.84
EBIT Margin	-0.23	0.04	0.05	0.06	0.09	0.10
Asset turnover	1.67	2.24	2.31	2.51	2.52	2.48
Leverage	2.23	1.60	1.65	1.53	1.44	1.37
ROE	-96%	7%	11%	14%	19%	21%

Source: Arianth Research, Company Filings

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880