

| Industry | LTP    | Recommendation  | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|----------|--------|---|----------------------|----------------------|--------------|
| Dairy    | Rs 599 | Buy in Rs 588-614 band and add on dips in Rs 525-550 band | Rs 655               | Rs. 707              | 2-3 quarters |

|                           |            |
|---------------------------|------------|
| HDFC Scrip Code           | HERFOOEQNR |
| BSE Code                  | 519552     |
| NSE Code                  | HERITGFOOD |
| Bloomberg                 | HTFL IN    |
| CMP Sep 20, 2024          | 599        |
| Equity Capital (Rs Cr)    | 46.4       |
| Face Value (Rs)           | 5.0        |
| Equity Share O/S (Cr)     | 9.3        |
| Market Cap (Rs Cr)        | 5,555      |
| Book Value (Rs)           | 87.1       |
| Avg. 52 Wk Volumes ('000) | 1,067      |
| 52 Week High              | 727        |
| 52 Week Low               | 209        |

| Share holding Pattern % (Jun, 2024) |       |
|-------------------------------------|-------|
| Promoters                           | 41.3  |
| Institutions                        | 7.2   |
| Non Institutions                    | 51.5  |
| Total                               | 100.0 |



\* Refer at the end for explanation on Risk Ratings

**Fundamental Research Analyst Darshil Shah**  
[darshil.shah@hdfcsec.com](mailto:darshil.shah@hdfcsec.com)

### Our Take:

#### **Betting big on the Value added products strategy, announces expansion in the ice cream business**

Over the last few years, Heritage Foods has identified a clear strategy to drive growth in its Value Added Products (VAP) (26.1% CAGR FY22-24) business to achieve its target of Rs 6000 cr in topline within the next 3 years and to sustain EBITDA margins in the high single digits by continuing to increasing VAP contribution in the overall mix (29.2% in FY24 v. 26.0% in FY22).

In line with this strategy, the company recently announced **expansion in the relatively under penetrated ice cream segment** by setting up a new ice cream manufacturing facility in its existing unit at Shamirpet, Telangana with a capital outlay of approximately Rs 204 cr. The facility has a revenue potential of around Rs 650 – Rs 700 cr and it will take around 5-6 years to achieve full capacity utilization. The company has already kick started proceedings on setting up the facility and expects to commission it by November 2025. The capex is expected to be funded by a mix of debt and internal accruals.

The company has initially forayed in the ice cream space in 2009 and the segment contributed around 9% to its value added dairy segment in Q1FY25. Heritage clocked Rs 31 cr in ice cream revenue, at a run rate of Rs 110 – 120 cr annually. The company's current facility has run out of capacity and hence it aims to grab a bigger piece of the ever-growing ice cream market in India. The ice cream market is relatively underpenetrated in India as compared to the overall Impulse retail space (Ice cream's distribution outlets are only 10% of the overall Impulse retail distribution). With the increase in per capita income in the country, consumers are expected to increase discretionary spending, resulting in a rapid growth in impulse spending and hence driving sales in the categories such as ice cream and other value added dairies. The company has launched several innovative products in the space and with the expansion in the ice cream space, it is well placed to capitalize on this growth potential. However, in recent times there has been rapid rise in competition in the ice cream category with Heritage's peers also aggressively expanding in the space. We believe that the company needs to get its marketing and branding correct to grab market share.

Overall, we expect the company to register mid-teens growth in the topline, in line with the management's target, on the back of a good flush season and a normal monsoon. Benign raw material price environment is expected to keep gross margins stable. Expectation of a good festive season is expected to provide traction to its new launches under the 'Heritage Truly Good' brand.

We had issued a [stock note](#) on Heritage Foods on January 08, 2024 and both our target were achieved within the investment horizon.