

24 October 2024

India | Equity Research | Q2FY25 results review

Heritage Foods

Dairy

EBIDA margin expansion led by lower input price; Promotional campaigns led to higher VAP sales

Takeaways: (1) Heritage Foods' VAP sales (excluding ghee and butter) grew 15.5% YoY. Additionally, its contribution to overall sales expanded 280bps YoY to 29.6%. (2) Lower milk procurement prices (down INR 2.94/ltr YoY) and change in product mix have led to EBITDA margin expansion, in our view. We expect milk procurement prices to remain stable in H2FY25. (3) We note, average selling prices are down 0.3% YoY. (4) Inventory levels on balance sheet have reduced to INR 1.7bn at Sep'24, against INR 2.6bn at FY24-end. We believe Heritage may have sold its SMP inventory, which may have resulted in lower inventory on its Sept'24 Balance Sheet. We raise FY25/FY26E earnings by 1%/1.3% to factor in the Q2FY25 result. Retain **ADD** with DCF-based revised TP of INR 625 (earlier: INR610; implied P/E of 21/17x FY26/FY27E).

Q2FY25 result

Heritage reported revenue/EBITDA/PAT growth of 4.2%/76.8%/117%, YoY. Gross margin expanded 585bps YoY on a favourable base and lower milk procurement prices. EBITDA margins expanded 335bps YoY as benefit of lower input cost was partly offset by higher staff cost and other expenses.

Dairy/cattle feed segments reported 330bps/44bps EBIT margin expansion YoY. EBIT margin contracted 261bps YoY for the renewable energy segment. Average milk procurement price was down INR 2.94/ltr YoY. Also, selling price was down INR 0.17/ltr YoY. Milk procurement remained strong at 1.64mnpd (+11.5% YoY). VAP reported strong revenue growth of 15.5% YoY.

Strong growth traction in VAP sales continues

Contribution of VAP sales (excluding ghee and butter) to total sales stood at 29.6% in Q2FY25 (+280bps YoY). We believe VAP distributor addition and promotional campaigns may have led to strong VAP sales. These concerted efforts taken to improve VAP sales may result in Heritage achieving its long-term target of 40% VAP contribution to total sales, in our view.

Lower milk procurement prices aid margin expansion

We believe the deflationary trend in milk procurement prices has helped boost Heritage's EBITDA margin. Average milk procurement prices have declined INR 2.94/ltr YoY. We expect milk procurement prices to remain stable in the near term and do not model any further decline now.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	37,939	41,403	47,832	55,263
EBITDA	2,102	3,271	4,066	4,697
EBITDA Margin (%)	5.5	7.9	8.5	8.5
Net Profit	1,072	2,064	2,775	3,359
EPS (Rs)	11.6	22.2	29.9	36.2
EPS % Chg YoY	84.3	92.6	34.4	21.0
P/E (x)	51.5	26.7	19.9	16.4
EV/EBITDA (x)	25.8	16.3	12.6	10.3
RoCE (%)	11.8	18.4	19.8	19.0
RoE (%)	14.0	23.1	25.1	24.4

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Market Data

Market Cap (INR)	55bn
Market Cap (USD)	657mn
Bloomberg Code	HTFL IN
Reuters Code	HEFI.BO
52-week Range (INR)	728 /209
Free Float (%)	46.0
ADTV-3M (mn) (USD)	5.0

Price Performance (%)	3m	6m	12m
Absolute	3.3	81.8	173.4
Relative to Sensex	3.8	73.2	149.4

ESG Score	2022	2023	Change
ESG score	50.4	NA	NA
Environment	26.3	NA	NA
Social	36.8	NA	NA
Governance	78.7	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.5)	(5.6)
EBITDA	0.8	0.3
EPS	1.0	1.3

Previous Reports

24-07-2024: [Q1FY25 results review](#)

30-05-2024: [Q4FY24 results review](#)

Promotional schemes to boost sales

Heritage focused on introducing consumer promotions and advertising campaigns to boost its sales ahead of the festive season. We note, this may have led to higher other expenses (Other expenses to sales increased to 8.9%, from 7.7% last year). These campaigns have led to higher VAP sales during the quarter.

Lower inventories hint at liquidation of SMP inventory

We note, the inventory position on Heritage's balance sheet has decreased to INR 1.7bn, at Sep'24, against INR 2.6bn at FY24-end. We believe the company may have partly liquidated its SMP inventory during H1FY25.

Valuation

We model Heritage to report revenue/EBITDA CAGRs of 13.4%/46.3% over FY24-27E. We also model return ratios of Heritage to expand over FY24-27E with higher margins. Retain **ADD** with a DCF-based revised target price of INR 625 (earlier INR 610; implied P/E of 21/17x FY26/FY27E).

Key risks: Higher competitive pressures; and steep inflation in raw material prices.

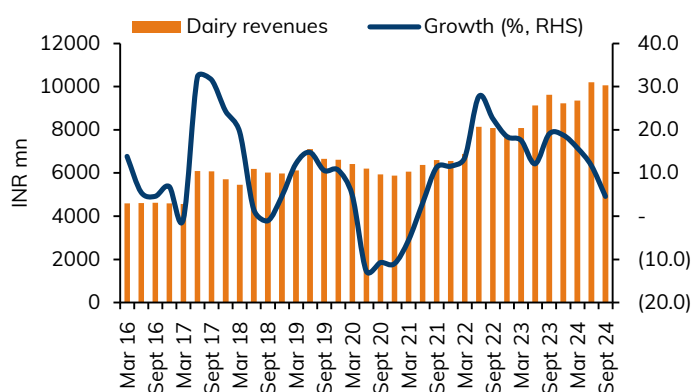
Exhibit 1: Q2FY25 consolidated result performance

Y/e March INR mn	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenue	10,195	9,786	4.2	10,327	(1.3)	20,522	19,022	7.9
Expenditure								
Raw materials	7,672	7,937	(3.3)	7,694	(0.3)	15,367	15,405	(0.2)
% of revenue	75.3	81.1		74.5		74.9	81.0	
Employee cost	781	621	25.8	753	3.8	1,534	1,207	27.1
% of revenue	7.7	6.4		7.3		7.5	6.3	
Other expenditure	909	757	20.2	941	(3.4)	1,851	1,537	20.4
% of revenue	8.9	7.7		9.1		9.0	8.1	
Total expenditure	9,363	9,315	0.5	9,389	(0.3)	18,752	18,149	3.3
EBITDA	832	471	76.8	938	(11.3)	1,770	873	102.7
EBITDA margin	8.2	4.8		9.1		8.6	4.6	
Other income	75	18	314.4	56	34.0	130	44	192.7
PBDIT	907	489	85.5	994	(8.7)	1,901	918	107.1
Depreciation	173	150	15.4	166	4.3	340	296	14.7
PBIT	733	339	116.6	827	(11.4)	1,561	622	151.1
Interest	39	15	150.9	34	13.5	73	46	56.5
PBT	695	323	115.0	793	(12.4)	1,488	575	158.7
Prov. for tax	188	83	128.0	193	(2.6)	382	151	153.7
% of PBT	27.1	25.6		24.4		25.7	26.2	
PAT before MI/share of associates	506	241	110.5	600	(15.6)	1,106	425	160.5
Minority interest/Profit from associates	20	16	22.1	15.5	28.9	36	33	7.5
Adjusted PAT	486	224	117.0	584	(16.8)	1,071	392	173.4
Extra ordinary items	(3)	(1)	-	(3)	-	(5)	(1)	-
Reported PAT	484	223	116.4	582	(16.9)	1,065	390	173.1

Source: Company data, I-Sec research

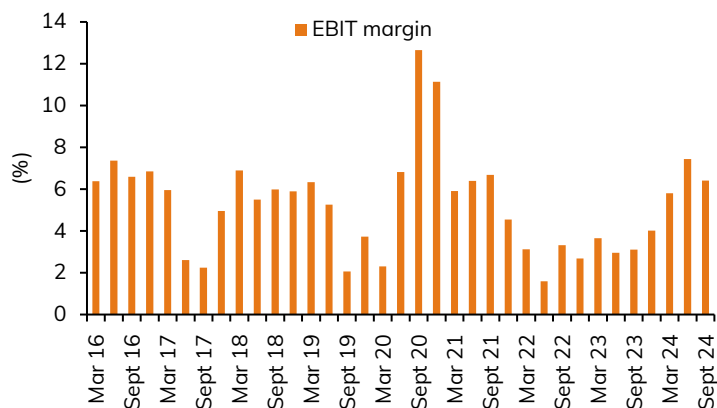
Key performance highlights

Exhibit 2: Revenue and revenue growth



Source: Company data, I-Sec research

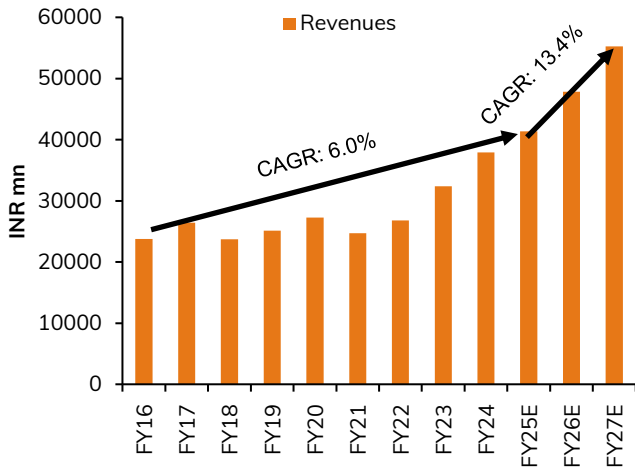
Exhibit 3: EBIT margin of dairy segment



Source: Company data, I-Sec research

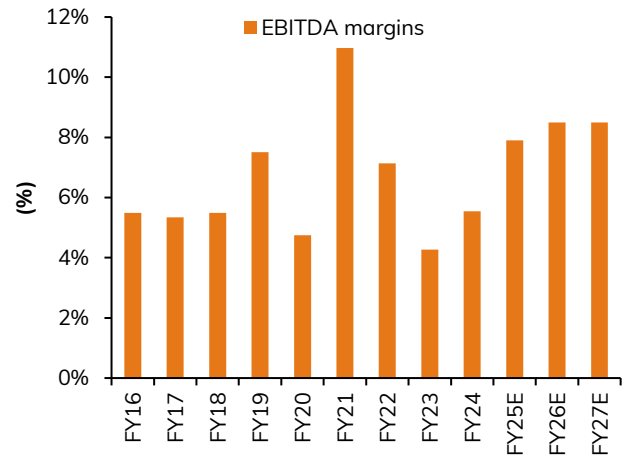
Key indicators – Annual

Exhibit 4: Revenue growth



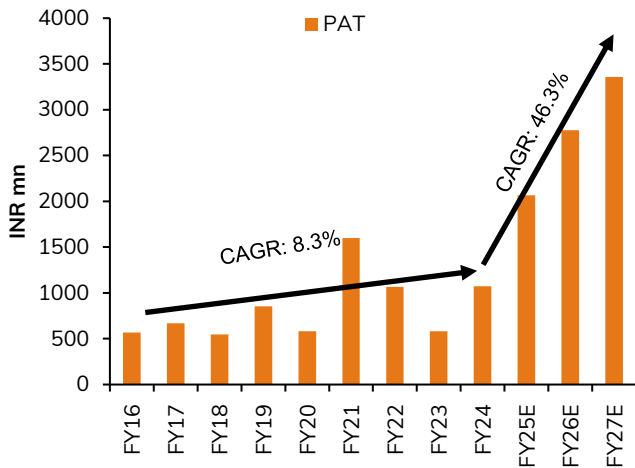
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin



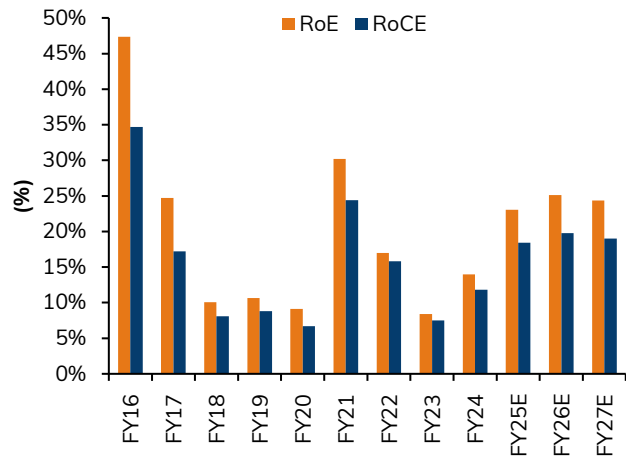
Source: Company data, I-Sec research

Exhibit 6: PAT growth



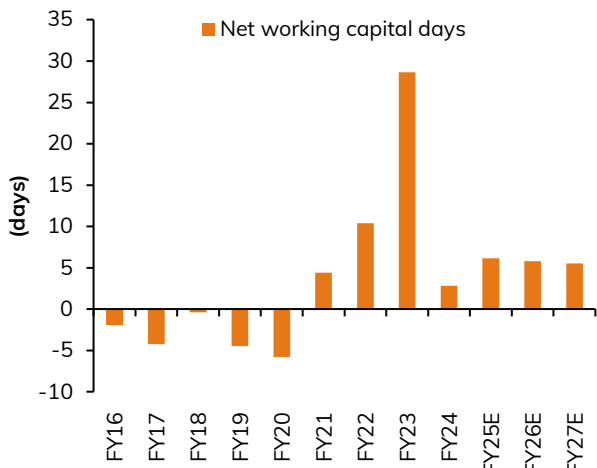
Source: Company data, I-Sec research

Exhibit 7: RoE and RoCE



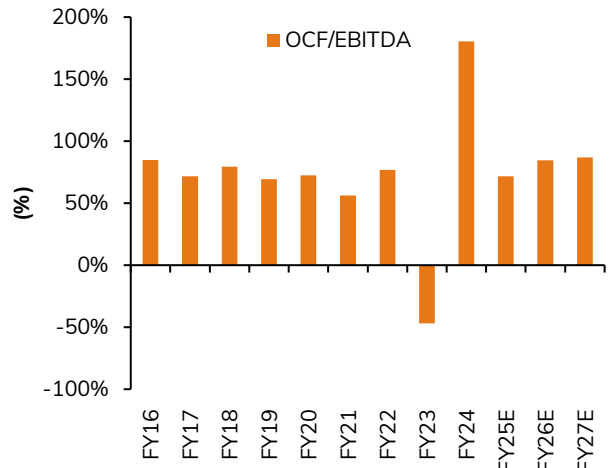
Source: Company data, I-Sec research

Exhibit 8: Net working capital days



Source: Company data, I-Sec research

Exhibit 9: OCF/EBITDA



Source: Company data, I-Sec research

Valuation and risks

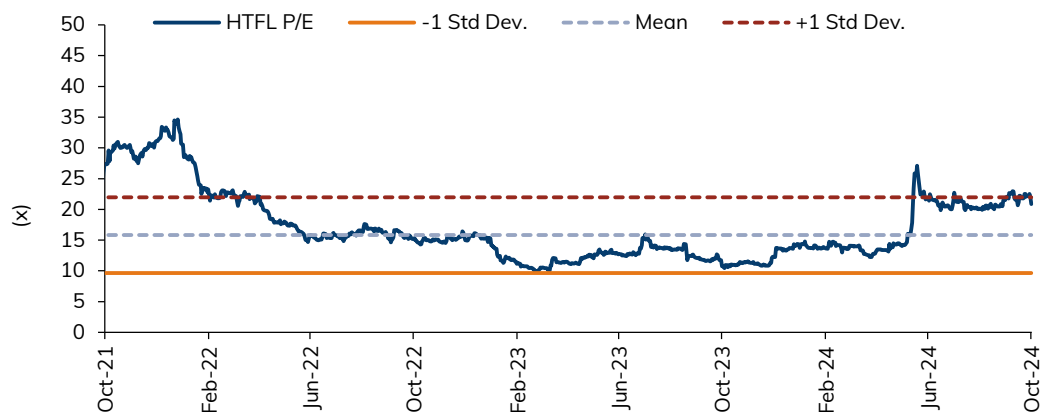
We model Heritage to report revenue and PAT CAGRs of 13.4% and 46.3%, respectively, over FY24-27E, and RoCE of 19.0% in FY27E. Retain **ADD** with DCF-based revised TP of INR 625 (earlier: INR 610; implied P/E 21/17x FY26/FY27E EPS).

Exhibit 10: DCF valuation

Particulars	
Cost of Equity (%)	11.3%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	23,103
Discounted terminal value (INR mn)	34,894
Total equity value (INR mn)	57,998
Value per share (INR)	625

Source: Company data, I-Sec research

Exhibit 11: Mean PE (x) and standard deviations



Source: Company Data, I-Sec research, Bloomberg

Risks

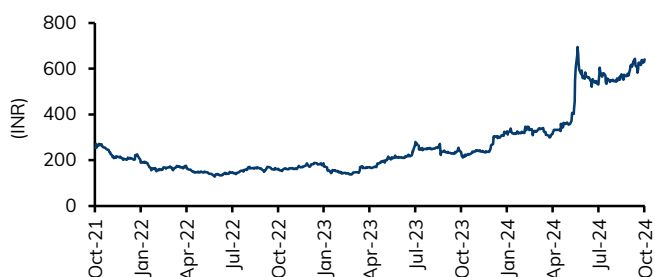
Sharp increase in input prices and/or competition: Any major increase in commodity prices and/or competitive intensity may result in a downside to our estimates.

Exhibit 12: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	41.3	41.3	41.3
Institutional investors	13.8	7.0	12.1
MFs and others	11.6	3.7	3.5
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIIs	2.2	3.3	8.6
Others	45.0	51.7	46.6

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	37,939	41,403	47,832	55,263
Operating Expenses	35,837	38,132	43,766	50,566
EBITDA	2,102	3,271	4,066	4,697
EBITDA Margin (%)	5.5	7.9	8.5	8.5
Depreciation & Amortization	608	680	732	797
EBIT	1,494	2,590	3,334	3,901
Interest expenditure	91	102	102	102
Other Non-operating Income	120	285	492	706
Recurring PBT	1,523	2,773	3,724	4,504
Profit / (Loss) from Associates	(65)	(10)	(10)	(10)
Less: Taxes	385	699	938	1,135
PAT	1,138	2,074	2,785	3,369
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(17)	-	-	-
Net Income (Reported)	1,055	2,064	2,775	3,359
Net Income (Adjusted)	1,072	2,064	2,775	3,359

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	4,028	4,652	4,484	5,036
of which cash & cash eqv.	838	1,056	374	331
Total Current Liabilities & Provisions	2,894	2,898	3,348	3,868
Net Current Assets	1,134	1,754	1,136	1,167
Investments	1,614	2,414	5,214	8,014
Net Fixed Assets	6,968	7,489	7,757	7,960
ROU Assets	-	-	-	-
Capital Work-in-Progress	201	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	9,917	11,657	14,107	17,142
Liabilities				
Borrowings	1,574	1,574	1,574	1,574
Deferred Tax Liability	261	261	261	261
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	464	464	464	464
Reserves & Surplus	7,618	9,357	11,808	14,842
Total Net Worth	8,082	9,821	12,272	15,306
Minority Interest	-	-	-	-
Total Liabilities	9,917	11,657	14,107	17,142

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Dec'23	Mar'24	Jun'24	Sep'24
Net Sales	9,411	9,506	10,327	10,195
% growth (YOY)	19.7	16.3	11.8	4.2
EBITDA	520	709	938	832
Margin %	5.5	7.5	9.1	8.2
Other Income	30	45	56	75
Extraordinaries	(1)	(15)	(3)	(3)
Adjusted Net Profit	269	411	584	486

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	3,792	2,343	3,443	4,081
Working Capital Changes	2,141	(402)	(64)	(74)
Capital Commitments	(1,233)	(1,000)	(1,000)	(1,000)
Free Cashflow	2,559	1,343	2,443	3,081
Other investing cashflow	(1,262)	(800)	(2,800)	(2,800)
Cashflow from Investing Activities	(2,495)	(1,800)	(3,800)	(3,800)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(403)	-	-	-
Dividend paid	(232)	(325)	(325)	(325)
Others	-	-	-	-
Cash flow from Financing Activities	(635)	(325)	(325)	(325)
Chg. in Cash & Bank balance	661	218	(682)	(43)
Closing cash & balance	825	1,056	374	331

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	11.6	22.2	29.9	36.2
Adjusted EPS (Diluted)	11.6	22.2	29.9	36.2
Cash EPS	18.1	29.6	37.8	44.8
Dividend per share (DPS)	2.5	3.5	3.5	3.5
Book Value per share (BV)	87.1	105.8	132.2	164.9
Dividend Payout (%)	21.6	15.7	11.7	9.7
Growth (%)				
Net Sales	17.1	9.1	15.5	15.5
EBITDA	51.8	55.6	24.3	15.5
EPS (INR)	84.3	92.6	34.4	21.0
Valuation Ratios (x)				
P/E	51.5	26.7	19.9	16.4
P/CEPS	32.8	20.1	15.7	13.3
P/BV	6.8	5.6	4.5	3.6
EV / EBITDA	25.8	16.3	12.6	10.3
P / Sales	1.5	1.3	1.2	1.0
Dividend Yield (%)	0.4	0.6	0.6	0.6
Operating Ratios				
Gross Profit Margins (%)	20.7	21.9	22.4	22.4
EBITDA Margins (%)	5.5	7.9	8.5	8.5
Effective Tax Rate (%)	25.3	25.2	25.2	25.2
Net Profit Margins (%)	3.0	5.0	5.8	6.1
NWC / Total Assets (%)	3.0	6.0	5.4	4.9
Net Debt / Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Net Debt / EBITDA (x)	(0.4)	(0.6)	(1.0)	(1.4)
Profitability Ratios				
RoCE (%)	11.8	18.4	19.8	19.0
RoE (%)	14.0	23.1	25.1	24.4
RoIC (%)	14.1	25.6	30.8	34.8
Fixed Asset Turnover (x)	4.2	4.1	4.2	4.5
Inventory Turnover Days	27	27	27	27
Receivables Days	3	4	4	4
Payables Days	29	25	25	25

Source Company data, I-Sec research

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