



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

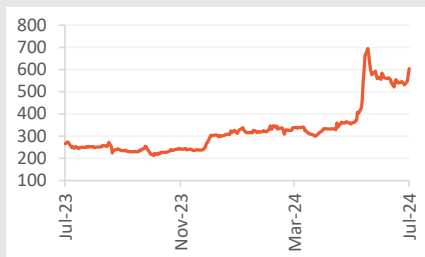
Company details

Market cap:	Rs. 5,599 cr
52-week high/low:	Rs. 728/209
NSE volume: (No of shares)	14.6 lakh
BSE code:	519552
NSE code:	HERITGFOOD
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters*	41.3
FII	4.6
DII	3.9
Others	50.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	80.9	84.3	127.1
Relative to Sensex	0.7	73.1	70.9	106.4

Sharekhan Research, Bloomberg

Consumer Goods

Sharekhan code: HERITGFOOD

Reco/View: Positive

CMP: Rs. 603

Upside potential: 20%

Upgrade ↔ Maintain ↓ Downgrade

Summary

- Heritage Foods Ltd's (HFL's) Q1FY2025 numbers beat expectations on strong margin performance with PAT growing by 3.3x to Rs. 60 crore, and OPM improving by 472 bps y-o-y to 9.1% driven by moderated dairy prices.
- The company targets high-teens revenue growth driven by double digit volume growth of 12-13% and realisation growth of 5-6% over FY24-28.
- Expects OPM to remain at ~8% in FY25. Increase in contribution of VAP and operating efficiencies will drive margins in medium to long run.
- Stock has corrected by 17% from its recent high and trades at 29x/22x its FY2025E/26E earnings, respectively. We stay positive on the stock with an upside of 20% in 12 months.

HFL's Q1FY2025 numbers were strong, beating our estimates on the back of strong improvement in the operating margins (OPM). Revenue grew by 11.8% y-o-y to Rs. 1,033 crore (versus expectation of Rs. 1,083 crore) with a strong 19% y-o-y growth in VAP segment (volumes grew in double digit) and 50% growth in fat products. VAP's contribution (excluding ghee and butter) to dairy revenue rose to 37.4% versus 35.3% in Q1FY2024. Milk sales grew ~5% y-o-y. Gross margins improved by 634 bps y-o-y to 25.5%, while OPM increased by 472 bps y-o-y to 9.1%, better than our expectation of 5.5%. Operating profit increased by 2.3x y-o-y to Rs. 94 crore, while adjusted PAT grew by 3.3x y-o-y to Rs. 60 crore, higher than our expectation of Rs. 33 crore.

Key positives

- VAP sales rose 19% y-o-y driven by double digit volume growth; VAP contribution to dairy revenue rose to 37.4% versus 35.3% in Q1FY2024.
- Average milk procurement prices fell by 7.75% to 1.62 million litres per day (MLPD).
- Gross margins improved by 634 bps y-o-y to 25.5%.
- Heritage Nutrivet, a subsidiary, registered topline growth of 29% y-o-y to Rs. 42.2 crore.

Key negatives

- Milk realisations stood flat y-o-y at Rs. 54.8/litre due to moderation in dairy prices led by excess supply.

Management Commentary

- Milk procurement prices to remain stable for 3-4 months due to excess supply.
- HFL expects core milk segment to grow in mid to high single digit in the coming years. Expansion in new markets will add to the sales volume.
- VAP contribution rose to 30% in FY2024 and management expects it to increase to 33% in FY2025. It targets the share to reach 40% over the next two years.
- The company aims to achieve revenue growth CAGR of 17-18% over the four years with volumes growing by 12-13% and realization growing by 5-6%.
- Lower procurement prices will help OPM to remain high in the coming quarters. In the environment of stable dairy prices, rise in contribution of VAP and operating efficiencies will help margins to improve consistently.
- Capex is partially allocated towards replacement capex for automation and cost reduction process. Operating cost fell by Rs. 0.50 per litre in FY2024 and it is expected to further reduce in the coming years.
- HFL follows omni-channel distribution model. Around 70% of milk sold through traditional channels. It also sells its products through 300 Heritage happiness centers. Further it has tie-up with 400 product distributors (FMCG distributors) for distribution of products through general trade. It also sells its products through key modern trade retail outlets and e-Commerce.

**Revision in estimates** – We have increased estimates for FY2025 and FY2026 to factor in better than expected OPM. With milk prices expected to remain lower, OPM will remain high in the quarters ahead.

Our Call

**View – Stay Positive; expect upside of 20%:** The management has maintained its focus on transforming itself into a value play, focusing on diversified product portfolio and leveraging on procurement and distribution efficiencies in the coming years. The company has a leadership position in its core markets. With strategies in place, the company is expected to achieve a revenue and PAT CAGR of 12% and 51% respectively over FY2024-26E. The stock has corrected by 17% from its highs and trades at valuation of 29x/22x its FY2025E/FY2026E earnings, respectively. We stay Positive on the stock and expect an upside of 20% over the next 12 months.

Key Risks

Any volatility in dairy prices or a slowdown in VAP sales will act as a key risk to our earnings estimates.

Valuation (consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	3,241	3,794	4,178	4,761
OPM (%)	4.3	5.5	7.6	8.2
Adjusted PAT	66	113	199	256
Adjusted EPS (Rs.)	6.2	11.5	20.9	27.1
P/E (x)	96.5	52.5	28.9	22.3
P/B (x)	7.7	6.9	5.7	4.5
EV/EBIDTA (x)	41.4	26.8	17.7	14.3
RoNW (%)	9.6	14.7	22.1	23.1
RoCE (%)	11.5	16.9	25.7	27.9

Source: Company; Sharekhan estimates

## Strong Q1FY2025 with strong margin expansion

HFL's consolidated revenues grew by 12% y-o-y to Rs. 1,038 crore, lower than our expectation of Rs. 1,083 crore on back of strong 19% growth in VAP segment while the core milk segment registered 5% y-o-y growth. Gross margins improved by 634 bps y-o-y to 25.5%. OPM rose by 472 bps y-o-y to 9.1%. OPM came way ahead of our expectation of 5.5%. Operating profit increased by 2.3x y-o-y to Rs. 94 crore. This led to a strong 3.2x y-o-y growth in the reported PAT to Rs. 60 crore, ahead of our expectation of Rs. 33 crore. Summer launches included 3 new variants of Lassi – Sweet, Mango & Strawberry and 3 new variants of ball ice-creams under the Alpenvie brand – Cotton Candy, Banana Strawberry and Bubble Gum. HFL also launched long shelf-life milk in UHT cartons of various sizes.

## Segmental performance

- ♦ **Milk:** Revenues grew by 4.7% y-o-y to Rs. 562.1 crore (contribution to dairy revenue at 55.0%), with a 0.4% y-o-y rise in realisations to Rs. 54.81/litre and milk sales volume growth of 4.3% y-o-y to 1.11 million litres per day (MLPD). Average milk procurement was at 1.59 MLPD, registering 4.26% y-o-y growth, while average milk procurement prices dropped by 7.75% y-o-y to Rs. 41.3/litre.
- ♦ **VAP:** Revenue of the segment registered a 19% y-o-y growth to Rs. 382.3 crore, with VAP contribution (excluding fat products) rising to 37.4% of dairy revenues in Q1FY2025, versus 35.4% in Q1FY2024.
- ♦ **Fat products:** Revenues grew by 49% y-o-y to Rs. 46.8 crore. Bulk fat losses stood very minimal in Q1FY2025.
- ♦ **Ice cream:** This segment grew by 20% y-o-y to Rs.31.2crore, with contribution to dairy sales improving to 3.1% in Q1FY2025 versus 2.8% in Q1FY2024.

## Results (Consolidated)

Particulars	Rs cr				
	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
<b>Net revenue</b>	<b>1,032.7</b>	<b>923.7</b>	<b>11.8</b>	<b>950.6</b>	<b>8.6</b>
Raw materials	769.4	746.8	3.0	722.3	6.5
Employee costs	75.3	58.6	28.6	70.5	6.8
Other expenditure	94.1	78.0	20.6	87.0	8.2
Total expenditure	938.9	883.4	6.3	879.7	6.7
<b>Operating profit</b>	<b>93.8</b>	<b>40.3</b>	-	<b>70.9</b>	<b>32.4</b>
Other income	5.6	2.6	-	4.5	23.1
Interest expenses	3.4	3.1	9.6	2.6	29.6
Depreciation	16.6	14.6	13.6	16.3	2.0
<b>Profit Before Tax</b>	<b>79.3</b>	<b>25.2</b>	-	<b>56.5</b>	<b>40.5</b>
Tax	19.3	6.8	-	14.3	35.0
<b>Adjusted PAT</b>	<b>60.0</b>	<b>18.4</b>	-	<b>42.1</b>	<b>42.4</b>
Share of profit from associates	-1.6	-1.7	-6.9	-1.6	-2.9
<b>Reported PAT</b>	<b>58.4</b>	<b>16.7</b>	-	<b>40.5</b>	<b>44.2</b>
Adjusted EPS (Rs)	6.5	2.0	-	4.5	42.4
			bps		bps
GPM (%)	25.5	19.2	634	24.0	147
OPM (%)	9.1	4.4	472	7.5	163
NPM (%)	5.8	2.0	382	4.4	138
Tax rate (%)	24.4	27.0	-256	25.4	-99

Source: Company, Sharekhan Research

## Segmental performance

Particulars	Rs cr				
	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Milk	562.1	536.9	4.7	553.4	1.6
Value added products (VAP)	382.3	322.1	18.7	281.8	35.7
Fat products	46.8	31.3	49.5	71.1	-34.2
Ice-cream	31.2	26.0	20.0	19.9	56.8
<b>Total dairy</b>	<b>1022.4</b>	<b>912.9</b>	<b>12.0</b>	<b>935.6</b>	<b>9.3</b>
Renewable energy	2.4	2.4	-1.0	2.0	22.5
Others	7.9	8.3	-5.6	13.0	-39.4
<b>Consolidated revenue</b>	<b>1032.7</b>	<b>923.7</b>	<b>11.8</b>	<b>950.6</b>	<b>8.6</b>

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Traction in value added products to drive growth ahead

India is world's the largest producer of dairy products and ranks first in terms of milk production, contributing 23% of the global milk production. The Indian dairy industry is projected to achieve a market size of Rs. 3,100 crore by 2028, showcasing a CAGR of 13.2% during 2023 to 2028. Growth would be largely driven by increasing health awareness, pick-up in demand of value-added products (VAP), steady sales of liquid milk and rising retail rates. Continued innovation and adoption of advanced technologies to enhance productivity, quality and reduced cost would aid in improving the profitability in the coming years.

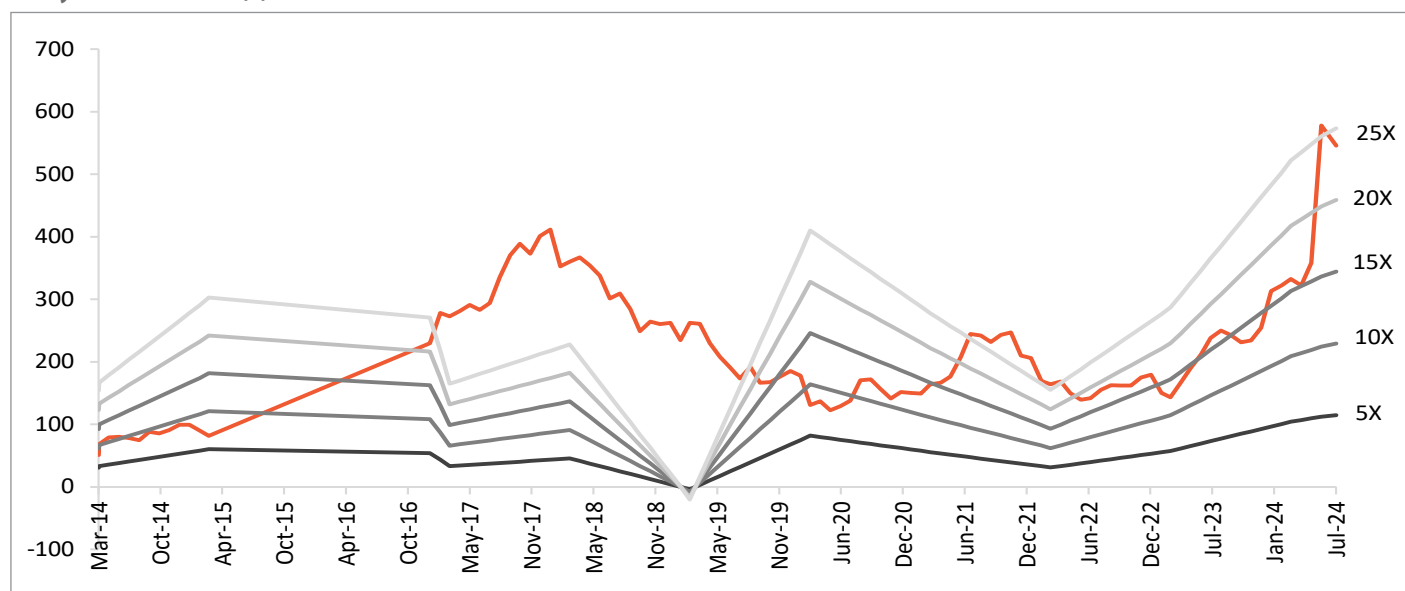
### ■ Company outlook - Strategies in place to achieve strong earnings growth

HFL's Q1FY2025 performance was strong on the back of strong improvement in the OPM. Milk supply has improved in the recent past and prices have started softening from peaks. The company eyes double-digit revenue growth over the next few years driven by wider distribution expansion, higher share of VAP and scale-up of new launches. Going ahead, an increased contribution of value-added products and operating efficiencies would help the OPM to reach 7-8% from 5.5% in FY2024. Overall, the company is well-poised to achieve strong double-digit earnings growth in 3-4 years.

### ■ Valuation - Retain Positive stance with an upside of 20%

The management has maintained its focus on transforming itself into a value play, focusing on diversified product portfolio and leveraging on procurement and distribution efficiencies in the coming years. The company has a leadership position in its core markets. With strategies in place, the company is expected to achieve a revenue and PAT CAGR of 12% and 51% respectively over FY2024-26E. The stock has corrected by 17% from its highs and trades at valuation of 29x/22x its FY2025E/FY2026E earnings, respectively. We stay Positive on the stock and expect an upside of 20% over the next 12 months.

### One-year forward P/E (x) Band



Source: Sharekhan Research

### Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Hatsun Agro Products	99.8	64.4	48.7	32.4	24.6	21.3	10.2	13.8	19.2
Heritage Foods	52.6	28.9	22.3	26.8	17.7	14.3	16.9	25.7	27.9

Source: Company; Sharekhan Research

## About company

Founded in 1992, Heritage Foods is a pivotal player in the Indian dairy sector, with a wide portfolio of dairy products comprising of milk, value added products (curd, buttermilk, flavoured milk, sweet lassi, milk shakes, cold coffee, paneer, cheese, etc), fat products (ghee, butter, cream), ice-cream and frozen desserts, yogurt and animal nutrition. The company has emerged as one of the largest private dairies in South India and its influence extends to select North Indian states as well. The company has a strong distribution network with omni-channel presence and serves 1.5+ million households daily. The company has 18 State-of-the-art milk processing facilities with a total processing capacity of 2.78 million litres per day (MLPD), and 203 chilling units with 2.36 MLPD milk chilling capacity. The company's portfolio not only encompasses dairy products but also extends to cattle feed and renewable energy.

## Investment theme

Heritage Foods (HFL) is one of the leading dairy companies in India with a diversified product portfolio, which includes milk and milk-based value-added products. The company has leading position of no.1/no.2 in core markets of Telangana, Andhra Pradesh, Tamil Nadu and Karnataka. It is leveraging on strong leadership position in key markets, expanded distribution reach and diversified portfolio to achieve consistent revenue and PAT growth of 12% and 51% over FY2024-26E with OPM improving to ~8%. Return profile to consistently improve with RoE/RoCE improving to 23%/28% by FY2026. It is likely to generate cumulative free cash flow (FCF) of ~Rs. 290 crore over FY2025E-26E.

## Key Risks

- ◆ **Slowdown in the demand environment:** Any slowdown in demand would affect sales of key categories, resulting in moderation of sales volume growth.
- ◆ **Higher input prices:** Any significant increase in the prices of some key raw materials would affect profitability and earnings growth.

## Additional Data

### Key management personnel

N Bhuvaneswari	Vice-Chairman
A Prabhakara Naidu	Chief Financial Officer
Srideep Nair Kesavan	Chief Executive Officer
Umakanta Barik	Company Secretary & Compliance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nirvana KK	11.76
2	DSP Investment Managers Pvt Ltd	4.00
3	Kotak Mahindra AMC Ltd	3.43
4	Dimensional Fund Advisors	0.81
5	Aditya Birla Sun Life AMC Ltd	0.39
6	IDFC Mutual Fund	0.38
7	Sundaram AMC Ltd	0.12
8	Motilal Oswal Asset Management Co Ltd	0.08
9	State Street Corp	0.02
10	Manulife Financial Corp	0.01

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan

by BNP PARIBAS

## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. 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. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022-41523200/022 - 33054600