

HERITAGE FOODS

RESULT FLASH



KEY DATA

Rating	BUY
Sector relative	Growth
Price (INR)	306
12 month price target (INR)	454
Market cap (INR bn/USD bn)	14/0.2
Free float/Foreign ownership (%)	60.1/5.1

QUICK TAKE

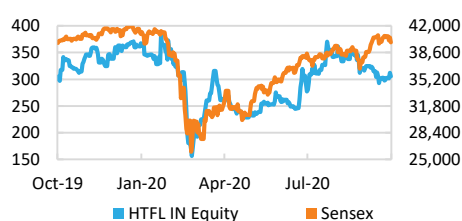
	Above	In line	Below
Profit			●
Margins	●		
Revenue Growth			●
Overall			●

FINANCIALS

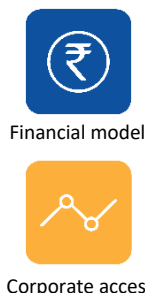
(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	27,259	26,422	29,371	32,094
EBITDA	1,293	1,686	2,087	2,387
Adjusted profit	2,096	854	1,116	1,300
Diluted EPS (INR)	22.6	9.2	12.0	14.0
EPS growth (%)	156.2	(59.3)	30.7	16.5
RoAE (%)	(1.2)	17.2	19.2	19.0
P/E (x)	13.5	33.2	25.4	21.8
EV/EBITDA (x)	23.5	17.7	14.1	12.1
Dividend yield (%)	0.4	0.5	0.7	0.7

PRICE PERFORMANCE



Explore:



Stellar EBITDA performance

Heritage Foods (HTFL) reported a strong beat on EBITDA (up 296% YoY), 81% ahead of estimates. This was led by gross margin expansion of ~1,205 bps YoY, 654 bps QoQ, as benefits of lower milk prices flowed, leading to EBITDA margin expansion of 1,110bps YoY. However sales declined 10% YoY (12% below estimates), while Hatsun Agro showed growth of 4% YoY. As shares of Future Retail declined, the company reported a fair value loss of INR510mn on the same, which along with higher tax rate impacted PAT (down 78% YoY) to INR31mn.

During H1FY21, HTFL repaid debt of INR1.1bn and with a strong performance in Q1FY21 padded up cash reserves to have a net cash position of INR0.8bn at the end of H1FY21.

Bull's eye – How did we fare?

1. Sales was down 10% YoY, 12% below estimates.
2. EBITDA was up 296% YoY and 81% above estimates.
3. PAT declined 78% YoY.

Course Correct – Earnings Implications

We await management commentary on market demand and outlook, to gauge the growth trajectory hereon.

Hello Mr. CEO – what to ask?

- What were the milk procurement and sales prices? What is the impact of the current trend?
- When are the value added product sales expected to pick up?
- What is the outlook on the Future Retail shares? When is the sale of all shares likely to be complete since the liability to hold the shares is over?

360 degree view – What about other companies?

Heritage saw a decline of 11% in the dairy business, while Hatsun reported a 2% YoY growth. We await results of Parag Milk Foods, which is expected to display a 20% YoY decline in sales with pace of HORECA decline reducing compared to last quarter. Gross margin and EBITDA margins displayed strong expansion across companies.

Quick Take:

INR mn	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ	Q2FY21E	Deviation
Net Sales	6,100	6,796	-10.2	6,388	-4.5	6,898	-11.6
EBITDA	876	221	296.1	579	51.2	400	118.9
PAT	31	143	-78.0	964	-96.7	-198	-115.9

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