



Stock Update

Heritage Foods Limited

September 23, 2024



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

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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.

Valuation & Recommendation:

In Q1FY25, the company continued on its trajectory of improving its topline with increasing share of VAP (41.5% of revenue) and benefitted from moderation in procurement prices after unprecedented increase in the previous year. Margins improved on the back of improving operating leverage and positive product mix. We believe that the company's well-diversified product portfolio, deeply entrenched distribution network, strong long-term relationships with farmers and focus on providing high quality premium products, enables it to capitalize on the growing dairy industry in India.

The company has a strong balance sheet with low debt, improving margins and operating cash flows. While the EBITDA margins are marginally lower than its closest peers, we believe that the stability in milk procurement prices on account of a normal monsoon and expectation of a good flush season should help the company sustain margins in the liquid milk segment. This coupled with an increasing share of the margin accretive value-added products, should drive margin expansion, going forward. Management has a long-term target of Rs. 6,000 cr in revenue, with the share of VAP trending close to 35% - 40%. Also, it believes that it can sustain EBITDA margin in the range of 8-9%.

We believe investors can buy the stock in Rs 588-614 band (23.0x FY26E EPS) and add on dips in Rs 525-550 (20.5x FY26E EPS) band for a base case fair value of Rs 655 (25.0x FY26E EPS) and bull case fair value of Rs 707 (27.0x FY26E EPS) over the next 2-3 quarters.

Financial Summary:

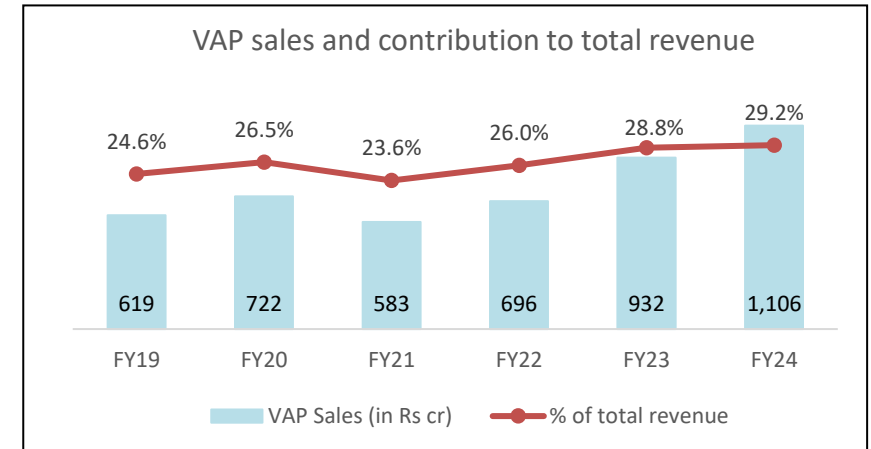
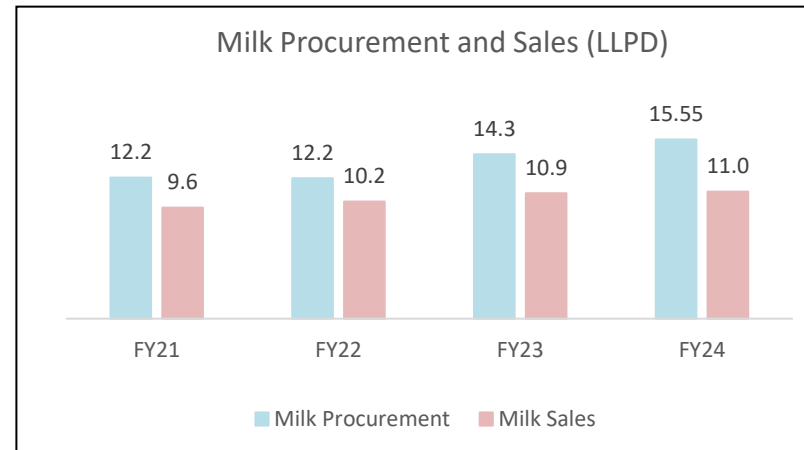
Particulars (in Rs Cr)	Q1FY25	Q1FY24	YoY-%	Q4FY24	QoQ-%	FY22	FY23	FY24	FY25E	FY26E
Operating Income	1033	924	12%	951	9%	2,681	3,241	3,794	4,306	4,952
EBITDA	94	40	133%	71	32%	191	138	210	332	396
APAT	58	17	249%	40	44%	96	58	107	198	243
Diluted EPS (Rs)	6.3	1.8	250%	4.4	44%	10.6	6.3	11.5	21.3	26.2
RoE-%						15.4	8.4	13.9	22.2	22.5
P/E (x)						56.6	94.6	52.1	28.1	22.9
EV/EBITDA						28.6	40.7	25.8	16.4	13.6

(Source: Company, HDFC sec)

Charts in Focus

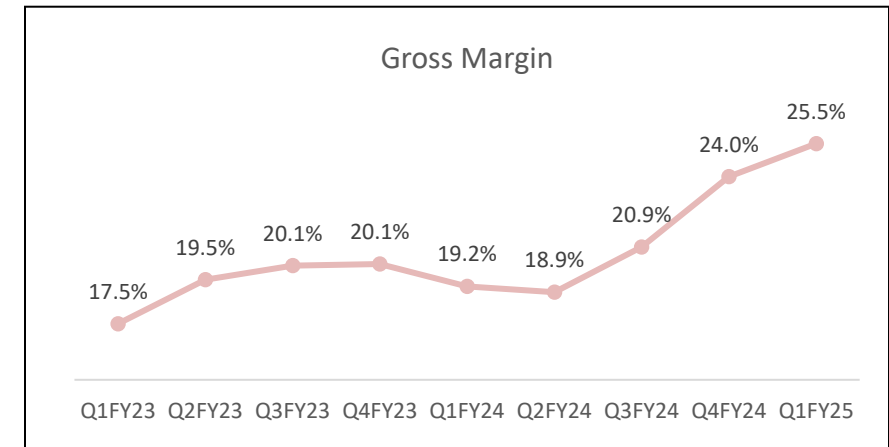
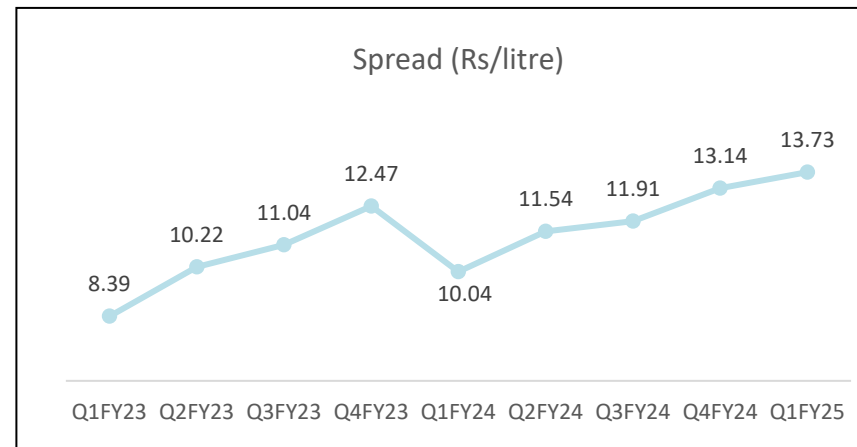
Gradual improvement in milk procurement and milk sales' volume

High return VAP business to also augment margin profile



With milk procurement costs coming down, spreads have improved

Resulting in improving gross margins



(Source: Company, HDFC sec)

Q1FY25 Result Update

Heritage Foods delivered another stellar quarter of results with revenue from operations increasing by 11.8% YoY in Q1FY25. The ongoing moderation in milk procurement prices from the last 4 quarters, after peaking in Q1FY24, resulted in 634 bps YoY improvement in gross margins to 25.5% as compared to 19.2% in Q1FY24. EBITDA grew by 132.8% YoY on the back of increased sales and improving operating leverage. APAT improved by 249.1% YoY to Rs 58.4 cr during the quarter. Milk/VAP/Fat products revenue grew by 4.7%/18.7%/49.5% YoY, respectively.

Milk Sales in Q1FY25 grew by 4.6% YoY in volume terms to 1.13 MLPD as against 1.08 MLPD in Q1FY24. Procurement grew by 6.6% YoY to 1.62 MLPD as against 1.52 MLPD in Q1FY24. Milk prices continued to moderate after hitting a peak of Rs 44.55/ltr in Q1FY24 to Rs 41.10/ltr in Q1FY25. Resultantly, spread improved by ~369 bps in Q1FY25. Selling prices were flat YoY.

Within VAP, ice cream was the fastest growing product growing by 20.0% YoY growth in revenue backed by a strong 18%-19% growth in terms of volumes due to intense summer heat. However, the southern part of India witnessed exceptionally high levels of rainfall in the second part of Q1, which impacted the ice-cream sales growth marginally. Curd witnessed 13% YoY increase in volumes during the quarter. Overall VAP contribution to the company's revenues improved 41.5% as compared to 38.6% in Q1FY24. Excluding ghee and butter, share of VAP stood at 37.5% in Q1FY25 as against 35.3% in Q1FY24.

Summer launches included 3 new variants of Lassi – Sweet, Mango & Strawberry and 3 new variants of ball ice-creams under Alpenvie brand – Cotton Candy, Banana Strawberry and Bubble Gum. Heritage also launched long shelf-life milk in UHT cartons of various sizes. Ahead of festive season, the company launched a range of healthy, yet indulgent range of Laddus under 'Heritage Truly Good' brand in 3 variants – Ghee Besan, Ghee Jawar & Ghee Millet Laddu.

Heritage Nutrivet Limited, the Wholly Owned Subsidiary Company had a robust top-line growth of 29% YoY to Rs 42.2 cr and a growth of 363% YoY in bottom line to Rs. 2.92 cr. Heritage Novandie Foods Private Limited, the Joint Venture Company reduced its losses by Rs. 0.23 cr YoY (Rs. 3.34 cr to Rs. 3.11 cr). The management expects strong growth in revenue and improvement in bottom line for Novadine, going forward.

The management has alluded that the company has witnessed further reduction in procurement prices in Q2 by 0.47 paisa per litre and going forward, it expects procurement prices to remain stable, with the expectation of a good flush season, starting October-November 2024. However, any further benefits in procurement prices in FY25, could likely be off-set by product mix as sales of ice-cream and other such VAP products are expected to moderate during the festive season. Q1 witnessed price hikes from major dairy players like Amul and Mother Dairy, especially in the northern part of the country, where milk prices were relatively subdued. But the southern part of the country has witnessed robust milk production since October 2023. Hence, with adequate milk availability in these regions along with moderation in milk procurement prices, milk prices in these regions have remained stable and the management does not expect any further price hikes in the near term.

Key Drivers

A well-diversified product portfolio with focus on product innovation

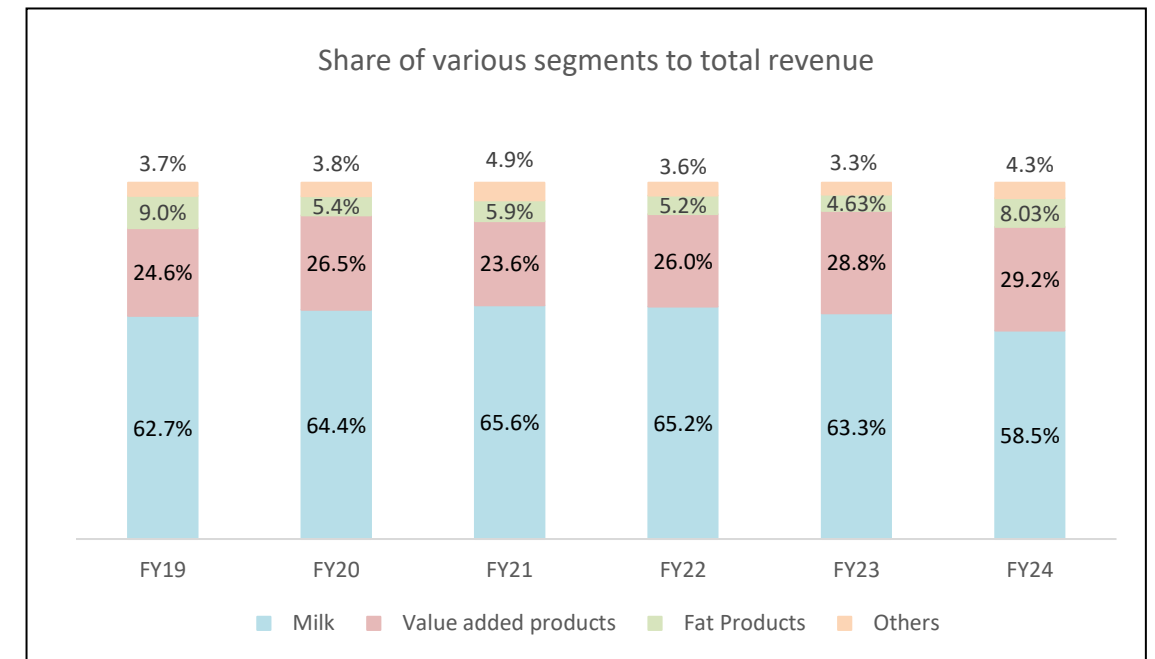
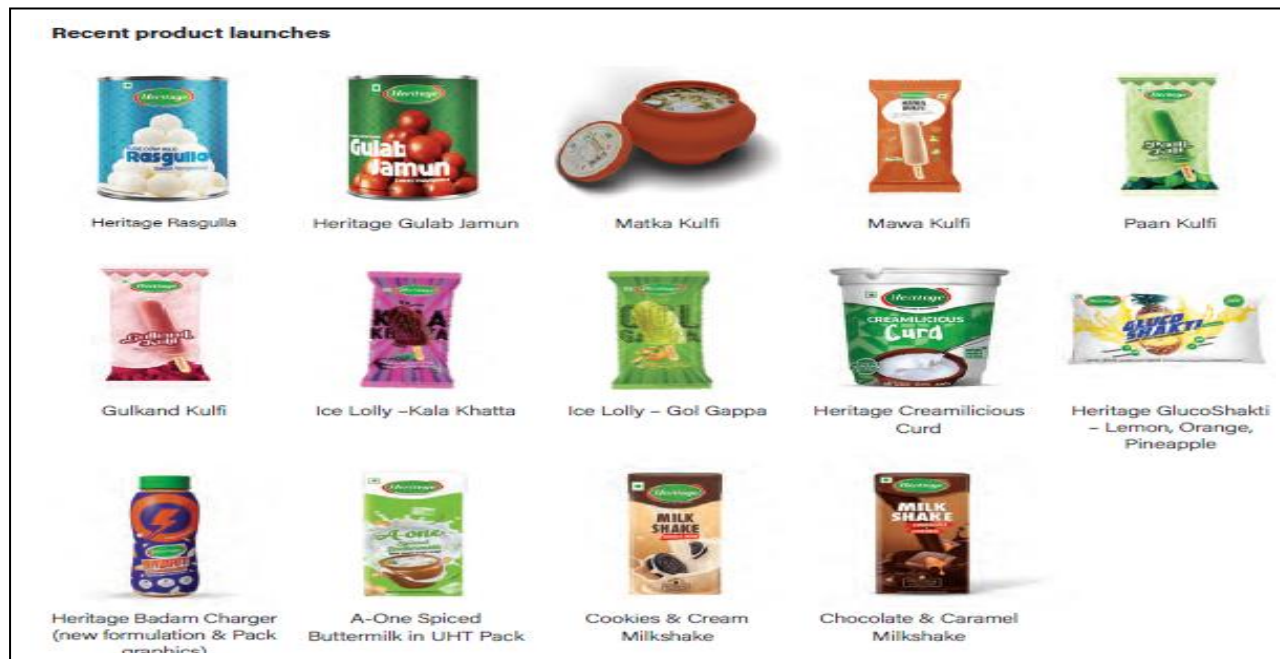
A strong brand in the dairy business, over the years HFL has created a well-diversified product portfolio by entering into various adjacent product categories to achieve its aim of providing high quality dairy products to its consumer. The company's product range now includes different types of milk, curd, buttermilk, butter, ghee, paneer and a variety of other value-added products (VAP). HFL has strategically invested into a technologically advanced R&D infrastructure that focuses on not only stringent quality control measures but also product innovation.

In FY23, the company launched several new products in the 'drinkable and ice cream' category to further enrich its product portfolio. It has also entered into a 50:50 JV with Novadine, France in 2021 and launched a range of French yogurt to cater to the growing demand for fruit-based yogurt consumption in India.

A well-diversified product portfolio has also helped HFL mitigate the demand side fluctuations in the milk segment, resulting from sustained inflationary pressure on milk prices.

Growing AMD segment with a strong foothold in textiles

Diversified yet complimentary businesses resulting in healthy return ratios



(Source: Company, HDFCsec)

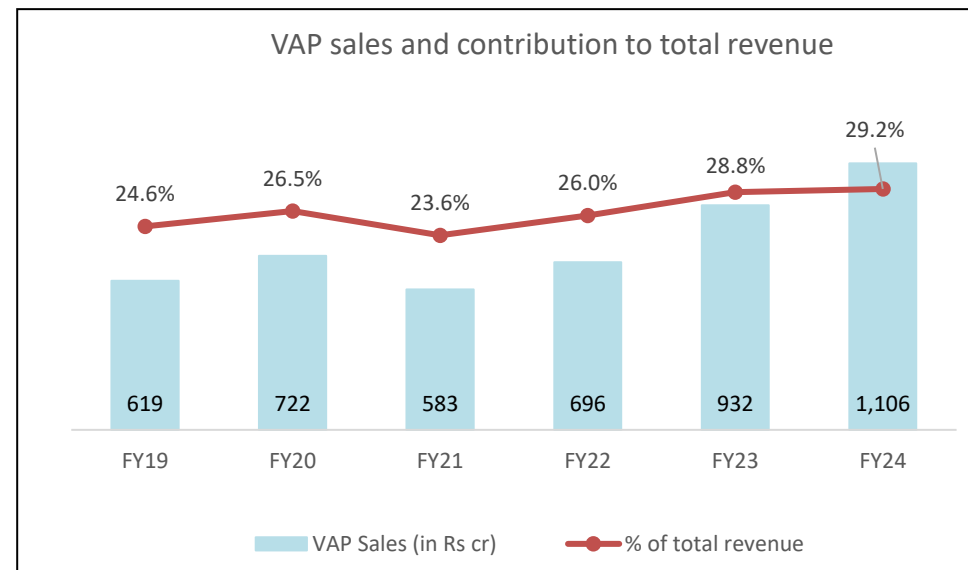
Increasing share of value-added products (VAP) to drive margin expansion:

The contribution of VAP such as curd, paneer, cheese, buttermilk, lassi, flavoured milk and ice cream to the company's top line has increased from 24.6% in FY19 to 28.8% in FY23 further increased to 29.2% in FY24. VAP share stood at 41.5% (including ghee and butter) in Q1FY25. This is one of the fastest growing segments for the company, registering a growth rate of 18.7% YoY in FY24 and further grew by 18.7% YoY in Q1FY25.

Overall, with a rise in consumer spending power, urbanization and increasing focus on health-conscious products, there has been a surge in demand for packaged value added products. These products usually have marginal incremental cost, but much higher perceived value for the consumer, due to the special occasions in which it is consumed, the potential for differentiation and the nutritional benefits it offers the consumers.

Thus, the VAP segment is not only the primary growth driver for the company but has also been margin accretive as these products command better realization as compared to liquid milk. The company already has a strong distribution network and an omni-channel presence to capitalize on the shift of Indian dairy consuming households from unorganized to a relatively organized sector.

Increasing share of high margin VAT to propel future growth



(Source: Company, HDFCsec)

Omni-channel presence across the value chain and long-term relationships gives it a strategic advantage

HFL has created a strong presence across the milk value chain right from cattle feed and animal nutrition to an omni-channel sales network.

Milk Procurement – Raw milk is procured through the procurement operations spread 9 states. 99% of the milk was procured directly from farmers in FY24 as against 90% in FY20. The company has built strong, long-lasting relationships with 3,00,000+ farmers and 11,300+ milk procurement representatives. to increase milk procurement while also investing in village level milk collection infrastructure, bulk coolers, and chilling centres.

Milk Chilling Centres – HFL has continuously invested in increasing its milk chilling capacity from 188 chilling units in FY20 to 203 units in FY24. It boasted 24.0 lakh litre per day (LLPD) milk chilling capacity per day as of June 30, 2024. It intends to increase its penetration in chilling centers, going forward. The raw chilled milk is then transported to the nearest processing plant through tankers for onward processing into retail milk packages or to manufacture dairy based value-added products.

Dairy Processing - The company has 18 State-of-the-art milk processing facilities with a total processing capacity of 27.8 LLPD. The company has a strong R&D strategy and employs cutting-edge technology for processing. The company has introduced fully automated processing lines with the processing infrastructure designed to ensure efficient operations and high product quality standards.

Sale of Dairy & Value-Added Products – The company has adopted an omni-channel strategy and has a well standardized network of 237 Happiness Points, 850+ Parlours, 180,000+ retail trade outlets, 27 modern retail chains and 16 E-commerce platforms. The company has also invested in various digital marketing initiatives to increase its consumer reach and strengthen the 'Heritage' brand.

Expansion into existing and new geographies to fuel growth

While HFL is a prominent player in the Southern Indian markets of Andhra Pradesh, Telangana, Karnataka and Tamil Nadu, it has expanded its sales presence across 12 states in India. The company plans to penetrate deeper into metropolitan cities by expanding into several towns and semi-urban areas. HFL intends to leverage its strong distribution network to enter new geographies and strengthen the existing ones through brand building activities.

Well placed to benefit from increasing demand of dairy products in the country

The rising income levels in India and focus on health consciousness has resulted in increase in demand for organized dairy products in India. The share of organized and branded players' contribution to liquid milk consumption is estimated at around 40% currently which that of curd and paneer is much lower at 9% and 5%, respectively. This share is expected to increase further with the consolidation of unorganized players in the industry.

Financial Summary:

HFL reported an overall strong FY24 with continued sales momentum resulting in 17.1% YoY growth in net sales to Rs 3794 cr in FY24 as compared to Rs 3239 cr in FY23. Share of milk/VAP/Fat products in net sales stood at 58.5%/29.2%/8.0%, respectively. VAP sales witnessed a strong growth of 18.7% on a year-on-year basis. Value-added products contribution including consumer packed ghee and

butter stood at 33.5% for FY24 and at 29.63% without ghee in consumer pack and butter in consumer pack. The company continues to focus on increasing the share of higher margin VAP products in its overall revenue mix, which is expected to drive margin expansion, going forward. The company has also strategically focused on its rapidly growing ice-cream business through new product launches and increasing retail presence. HFL newly launched ice-cream variant- 'Vibez's' is a testament to this strategy.

Average milk procurement during the year stood at 15.5 LLPD, whereas average milk sales came in at 11.0 LLPD in FY24. Milk procurement prices continued to decline after peaking at Rs 44.55/liter in Q1FY24 to 41.7/liter in Q4FY24, resulting in improvement in gross margin by 146 bps to 20.7% in FY24. Average milk sales prices also remained robust at Rs 54.8/liter in Q4FY24 as compared to Rs 53.2/liter in Q4FY23. Curd sales during the year grew by 16% YoY to around Rs 820 cr. Owing to a good flush season, the company reported higher mix of fat sales 8.0% in FY24 as compared to 4.6% in FY23. As milk procurement prices continue to decline and due to the company's policy to not speculate on fat prices and sell the entire production, the company witnessed fat losses during the year as it is sold a zero gross margin. However, the management expects limited losses from fat sales in FY25 as it now holds only one more month of fat inventory.

Heritage Nutrivet Ltd, HFL's wholly owned subsidiary company had a robust top-line growth reaching Rs. 160.1 cr in FY24 (+50% YoY), with significant growth in bottom-line from Rs.1.6 cr to 7.4 cr (up 360% YoY). Heritage Novandie Foods Private Limited, the Joint Venture Company has reduced the losses by Rs. 4.0 cr YoY (Rs.17.1 cr to Rs.13.1 cr) in FY24.

Risks & Concerns:

Competition pressure from unorganized players

Dairy sector has many small-scale unorganized players leading to fragmentation and inefficiencies. Non-profit Co-operative societies can sell dairy products including milk and milk products at lower price due to absence of profit motive and subsidy received; hence they pose a competitive risk. However, the company has a strong brand recognition in key markets in South India and its products caters well to the brand and health-conscious customers.

Perishable nature of products may result in logistical issues and supply chain disruptions

Due to their perishable nature, it is extremely difficult to maintain the freshness of dairy products. Milk supply improves in winter and monsoon while demand for curd rises in summer and that of ghee in festive months. Dairy farmers often face logistical hassles that have an impact on the production and transportation of milk products. HFL has developed a wide spread pan-India distribution and procurement network across various channels which helps it to effectively mitigate any temporary supply chain disruptions.

Climate changes induced production and price fluctuations

Unprecedented climate change like rainfall and heat may impact milk production which can result in price fluctuations. The company has actively invested in technology like "Glass-to-Glass", a tech enabled approach to maintain milk purity across the value chain. HFL is also dedicated to providing animal nutrition and farmers awareness to improve milk productivity and mitigate climatic changes.

Inflationary pressure on raw material prices

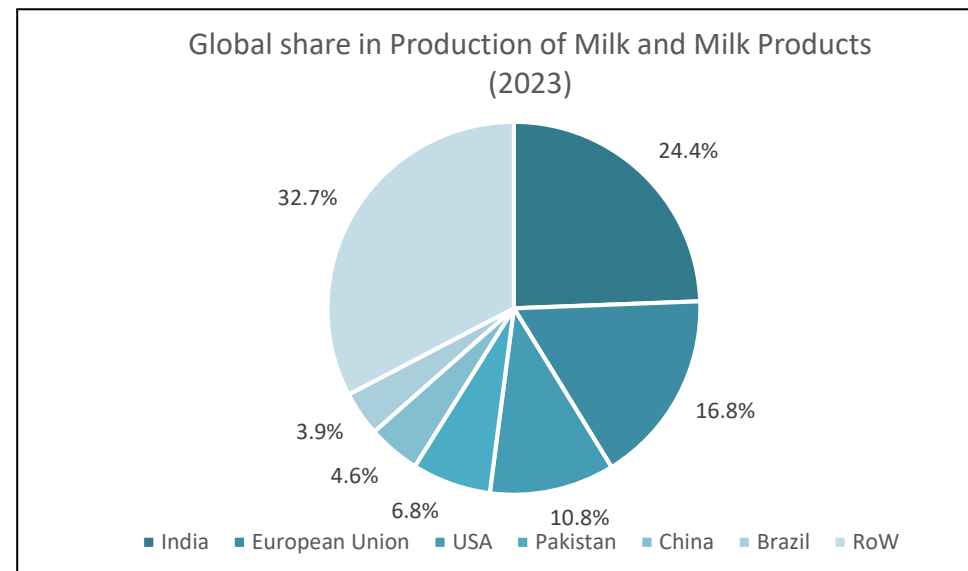
Milk procurement prices have been susceptible to double-digit rise due to high raw milk prices, resulting from increased cost of feed and fodder and supply chain disruptions resulting from global macroeconomic headwinds. The company has taken commensurate price hikes as and when required which has been absorbed by the market given the company's strong brand pull and superior product quality. Skimmed milk powder globally remains volatile impacting export realisations of Indian players.

Industry Overview

Global

The global dairy industry is projected to register a CAGR of 5.79% between 2023-28E. Milk production in the European Union, the second largest milk producer, is projected to at a slower pace when compared to the world average. Despite a slight surge in domestic milk production compared to the previous decade, China is anticipated to remain the world's largest importer of milk products. Over the next decade, the world's per capita consumption of fresh dairy products is expected to grow by 1.4% per annum, slightly faster than the last decade due to higher per capita income growth.

Increasing share of high margin VAT to propel future growth



(Source: Company, HDFCsec)

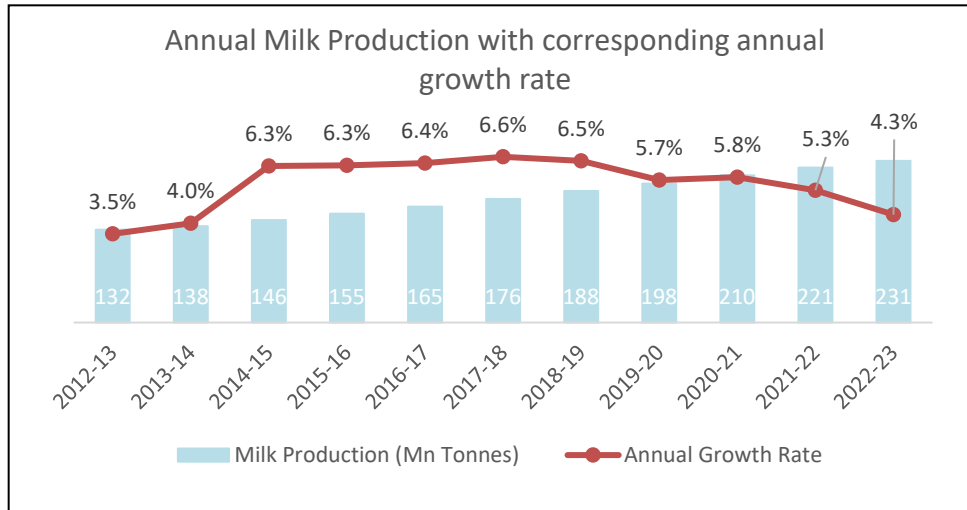
India

India is the largest milk producer in the world, contributing ~24% of global milk production. Milk production in the country is estimated as 230.58 million tonnes during 2022-23 registered a growth of 5.7% CGAR over the last 10 years. Moreover, the per-capita availability of milk has increased from 303 gram/day in 2013-14 to 444 gram/day in 2021-22, nearly 1.5 times increase.

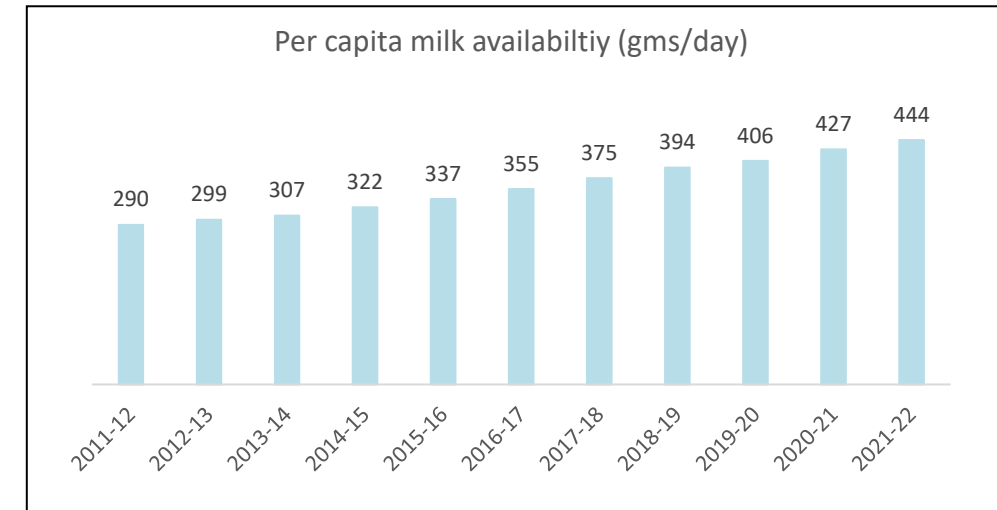
During 2022-23, Uttar Pradesh was the highest milk producing state with a share of 15.72 % of total milk production followed by Rajasthan (14.44 %), Madhya Pradesh (8.73 %), Gujarat (7.49 %), and Andhra Pradesh (6.70 %). In terms of YoY annual growth rate (AGR), the highest AGR recorded by Karnataka (8.76%) followed by West Bengal (8.65%) and Uttar Pradesh (6.99%) over the previous year. The Indian dairy industry is projected to achieve a market size of Rs 31.19 lakh cr, showcasing a CAGR growth rate of 13.2% from 2023 to 2028E.

Within the dairy industry, cheese market is expected to grow at the highest CAGR of 24.06% between 2023-28E, followed by the lassi market at 20.47% CAGR and ice cream market at 17.5% CAGR during the same period. One of the primary factors driving the market is the rapidly increasing population and escalating demand for ready-to-eat (RTE) dairy products, such as butter, frozen desserts, milk powder, and yogurt. Additionally, the increasing awareness among the masses about the health benefits of dairy products is creating a positive market outlook. Due to seasonality, capacities can run at a maximum of 65-70% on an annual basis.

Milk production in India growing at a stable rate



Improving per capita milk availability



(Source: Company, HDFC sec)

Company Background

Founded by Mr. Nara Chandrababu Naidu in 1992, Heritage Foods Limited (HFL) is among the leading dairy companies in India, operating under 2 business divisions – Dairy and Renewable Energy (primarily for captive consumption). With over 3 decades of experience in the dairy industry, the company offers a diverse range of products, including milk, value-added dairy and fat products. The company operates across 18 milk processing facilities with a total processing capacity of 2.78 mn litres per day (MLPD) and has 203 Milk Chilling units with 2.40 MLPD milk chilling capacity.

HFL’s milk and milk products have a wide market presence across 12 states including Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, Maharashtra, and Odisha, among other states. The company has an extensive distribution network spanning across 187 Happiness points, 850+ parlours, 180,000+ general retail trade outlets, 27 organized modern retail chains and 16 E-commerce

platforms, which helps strengthen the brand through its omni-channel presence.

On the procurement side, the company collects milk from more than 3,00,000 farmers, spread across 10,500 villages in 9 states. In FY24, Heritage opened 1,457 new village level milk procurement centres, which brought in nearly 3 lakh+ litres of additional raw milk daily. The company also is also present in Livestock feed and feed supplements through its subsidiary Heritage Nutrivet Limited.

HFL's product portfolio

Milk

The company sells 3 types of milk – fresh milk, A2 milk and ultra-high temperature (UHT) milk. Fresh milk is the most consumed product in India with its demand on the rise in India with increasing health consciousness, dietary needs and living standards in India. A2 milk is 100% buffalo milk with full cream and UHT is can be stored at room temperature and has a long shelf life.

Value added products

The company sells a variety of products under the gambit of 'Value added products' (VAP). These include curd, paneer, cheese, buttermilk, flavoured milk, milk shake, sweets, lassi and ice cream/frozen desserts. Curd contributes majority of the segment revenue whereas ice cream/frozen dessert category has grown the fastest in FY24.

Fat Products

The fat products portfolio of the company consists of Ghee, Butter and Cream. Fat products contributed 8% to the company's revenue in FY24 and ~5% in Q1FY25.

Renewable Energy Vertical

The company generated 11.7 MW of renewable energy in FY24. Of this, 6.3 MW was through wind power plants and 5.4 MW was through solar power plants. The renewable energy generated by the company is primarily for captive consumption.

Ancillary Business Segments – Feed and Yogurt

Heritage Nutravet Limited (HNL)

HNL is a wholly owned subsidiary of HFL, engaged in providing animal nutrition through livestock feed and feed supplements. The products of HNL are designed to serve a variety of animal needs. It offers technical support and raises awareness among dairy farmers about improving milk productivity and profitability.

Heritage Novandie Foods Private Limited (HNFPL)

Incorporated in 2021, HNFPL is a 50:50 JV between HFL and Novadine, France to manufacture and market various types of yoghurt in the country. The company to capture the Indian yogurt market with its fruit-based yogurt and aims to have a strong presence across 8-10 key cities in the next 2 years.

HFL Milk product portfolio



Value added product portfolio

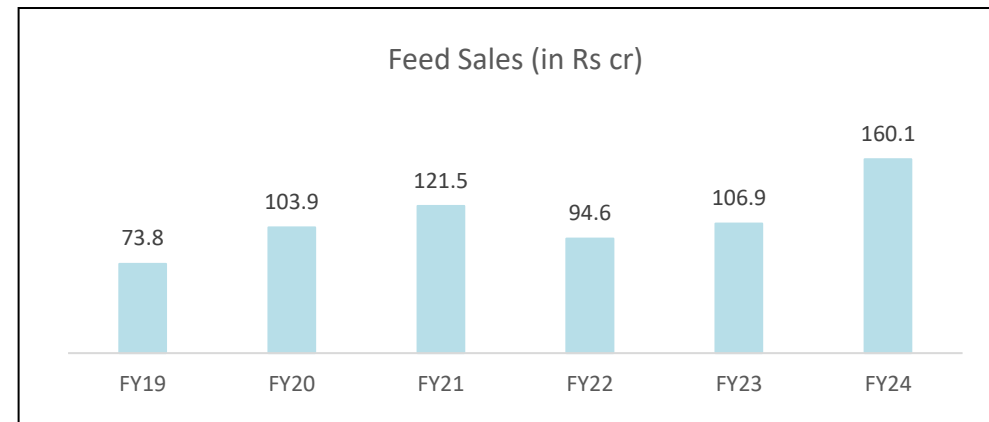


(Source: Company, HDFC sec)

HFL Fat product portfolio



Feed Sales



(Source: Company, HDFC sec)

Management Overview

Management Overview		
Name	Designation	Description
Mrs. Bhuvaneshwari Nara	Vice Chairperson/ Managing Director	She joined the company in 1994 as a Whole-time Director. She has been successfully steering Heritage Foods towards growth and prosperity. She holds a Bachelor's degree in Arts and is a dynamic leader and has extensive experience in the business
Mrs. Brahmani Nara	Executive Director	She joined Heritage Foods in 2011 as Vice President Business Development and since 2013 onwards she is serving as the Executive Director. She holds a Master's degree in Business Administration from Stanford University and a Bachelor's degree in Electrical Engineering from Santa Clara University, California, USA.
Mr. Srideep Kesavan	CEO	Mr. Srideep is a seasoned professional having a diversified and rich experience of more than two decades in Business Leadership roles and has deep domain expertise across Sales & Distribution, Marketing, Category Management, P&L, and General Management in Beverages, Food & Agribusiness Organizations
A. Prabhakara Naidu	CFO	Has been associated with the Heritage Foods since inception. He is a Fellow Member of the Institute of Chartered Accountants of India and has 26 years of experience in finance and accounts

(Source: Company, HDFC sec)

Peer Comparison:

HFL has the lowest margins among the peers as Hatsun is more urban centric and has a large proportion of ice cream sales; Dodla has a higher percent of procurement from Karnataka, where the State Govt gives subsidy on milk procured and Dodla has profitable overseas operations in Africa.

Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				P/E (x)			
		FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Heritage Foods	5555	3241	3794	4306	4952	4.3	5.5	8.0	8.7	58	107	198	243	94.7	52.2	28.1	22.9
Hatsun Agro	26730	7228	7975	9104	10385	9.7	11.1	11.8	11.7	161	247	415	549	163.7	109.3	72.3	55.8
Dodla Dairy	7287	2812	3125	3485	3938	6.8	9.2	9.5	1.0	122	167	199	243	58.8	43.1	36.1	29.6

(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	2681	3241	3794	4306	4952
Growth (%)	8.4	20.9	17.1	13.5	15.0
Operating Expenses	2490	3102	3584	3975	4556
EBITDA	191	138	210	332	396
Growth (%)	-29.5	-27.6	51.8	57.7	19.5
EBITDA Margin (%)	7.1	4.3	5.5	7.7	8.0
Depreciation	52	56	61	67	77
Other Income	11	12	12	15	22
EBIT	150	94	161	279	341
Interest expenses	4	4	9	15	17
PBT	137	90	152	265	325
Tax	34	24	39	67	82
PAT	103	66	113	198	243
Share of Asso./Minority Int.	-6	-9	-7	0	0
Adj. PAT	96	58	107	198	243
Growth (%)	-35.1	-39.8	83.9	85.9	22.5
EPS	10.6	6.3	11.5	21.3	26.2

Balance Sheet

Particulars (in Rs Cr) - As at March	FY22	FY23	FY24	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	23	46.4	46	46	46
Reserves	634	679	762	927	1133
Shareholders' Funds	658	726	808	974	1179
Minority Interest	0	0	0	0	0
Total Debt	19	168	132	172	187
Net Deferred Taxes	24	25	26	26	26
Total Sources of Funds	701	919	966	1172	1393
APPLICATION OF FUNDS					
Net Block & Goodwill	576	617	700	733	856
CWIP	7	20	20	20	20
Investments	22	19	144	174	244
Other Non-Curr. Assets	7	15	14	17	20
Total Non-Current Assets	612	672	878	944	1140
Inventories	206	379	262	389	448
Debtors	18	28	29	35	41
Cash & Equivalents	33	16	79	75	75
Other Current Assets	33	30	34	35	41
Total Current Assets	291	453	403	535	604
Creditors	52	45	145	93	106
Other Current Liab & Provisions	150	162	170	215	245
Total Current Liabilities	202	206	315	307	351
Net Current Assets	89	247	88	228	253
Total Application of Funds	701	919	966	1172	1393

Cash Flow Statement

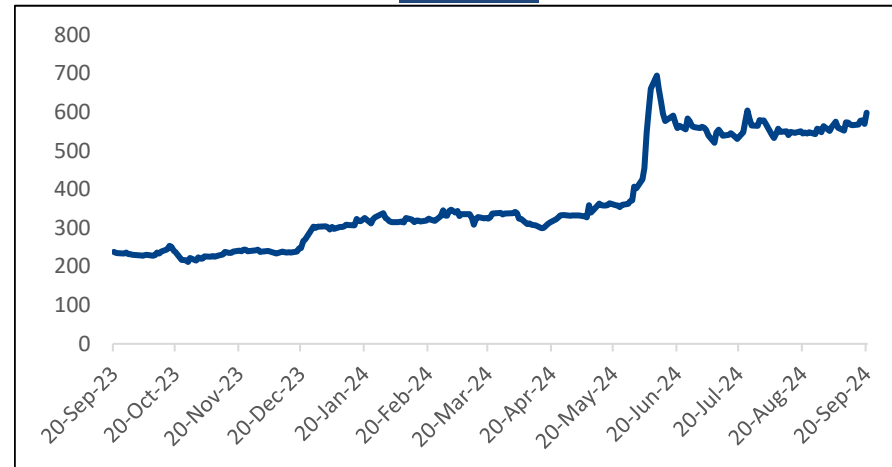
Particulars (in Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	131	82	145	265	325
Non-operating & EO items	4	0	-1	1	-2
Interest Expenses	4	3	8	15	17
Depreciation	52	56	61	67	77
Working Capital Change	-7	-178	214	-147	-26
Tax Paid	-35	-23	-38	-67	-82
OPERATING CASH FLOW (a)	148	-61	390	134	309
Capex	-42	-79	-123	-100	-200
Free Cash Flow	106	-140	267	34	109
Investments	1	3	-128	-30	-70
Non-operating income	-2	-6	0	0	0
INVESTING CASH FLOW (b)	-42	-83	-252	-130	-270
Debt Issuance / (Repaid)	-51	123	-40	40	15
Interest Expenses	-3	-2	-9	-15	-17
FCFE	52	-23	89	29	37
Share Capital Issuance	0	22	0	0	0
Dividend	-35	-12	-23	-32	-37
Others	-4	-5	-3	0	0
FINANCING CASH FLOW (c)	-93	126	-76	-7	-39
NET CASH FLOW (a+b+c)	13	-17	62	-3	0

Key Ratios

Particulars	FY22	FY23	FY24	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	7.1	4.3	5.5	7.7	8.0
EBIT Margin	5.6	2.9	4.3	6.5	6.9
APAT Margin	3.6	1.8	2.8	4.6	4.9
RoE	15.4	8.4	13.9	22.2	22.5
RoCE	22.4	12.0	17.6	26.8	27.2
Solvency Ratio (x)					
Net Debt/EBITDA	-0.1	1.1	0.3	0.3	0.3
Net D/E	0.0	0.2	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	10.6	6.3	11.5	21.3	26.2
CEPS	16.2	12.4	18.0	28.6	34.5
BV	71.9	79.2	87.1	104.9	127.1
Dividend	2.5	2.5	2.5	3.5	4.0
Turnover Ratios (days)					
Debtor days	2	3	3	3	3
Inventory days	28	33	31	28	31
Creditors days	6	5	9	10	7
Valuation (X)					
P/E	56.6	94.6	52.1	28.1	22.9
P/BV	8.3	7.6	6.9	5.7	4.7
EV/EBITDA	28.6	40.7	25.8	16.4	13.6
EV / Revenues	2.0	1.7	1.4	1.3	1.1
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.7
Dividend Payout (%)	23.6	39.5	21.8	16.4	15.3

(Source: Company, HDFC sec)

Price chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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