



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Hindustan Foods Q3FY23 consolidated revenues came in at ₹679 Cr, up 29% YoY and 2.4% QoQ.
- PBIDT for Q3FY23 stood at ₹44 Cr, up 52% YoY and 2.2% QoQ.
- PBIDTM for Q3FY23 came at 6.5%, 100 bps YoY and 13 bps QoQ.
- PAT for Q3FY23 stood at ₹17 Cr, up 42% YoY and down 10.5% QoQ.

2. MANAGEMENT COMMENTARY:

- Favourable macro factors such as Make-in-India, e-commerce, and increasing rural incomes are aiding FMCG and the outsourcing of FMCG manufacturing.
- After the expansion of the ice-cream project in Lucknow, which is slated to start commercial production in March '23, the company will be amongst the largest manufacturers of ice-cream in the country are exploring other opportunities in the manufacturing of ice-cream.
- The management is confident of achieving target of 4000 crores revenue by FY25.
- Foray into colour cosmetics with the AeroCare acquisition and likely future capex (funded by debt and internal accruals).

3. CONCALL SUMMARY

- Revenue stood at ₹ 679 crores, a growth over 29% over last year, while the EBITDA for the quarter witnessed a growth of 50% yearly basis. The PAT has also correspondingly grown by more than 45%.
- Acquisition of a pharmaceutical, nonpharmaceutical and wellness product factory from Reckitt Benckiser in Baddi, Himachal Pradesh manufactures a vast variety of pharma and non-pharma products like OTC medicines, ointments and cream, strips, liquids, syrups, tablets, liquid handwash, plaster. It's a scale of the art facility with modern machinery and also have certification of US FDA and MHRA.
- Quarterly growth was muted as all the existing factories were performing at the stable capacity, while the ice-cream and the beverage facility had a lean season.

4. CAPEX UPDATE:

- The Phase 1 of the Uttar Pradesh Ice Cream Project has commenced commercial production. The Rs 75 crore expansion is expected to be commercialized by beginning of FY24. Production from the unit is expected to be ramped up to 20,000,000 liters of ice cream by the early FY24.

5. VALUATION AND OUTLOOK:

The company is aiming to double revenue in the next 3years (i.e. by FY25) through organic and in-organic expansion. Any investment of >Rs300m toward shared manufacturing is barred by the Board. However, investment for dedicated units has no set upper limits, thus, making judicious use of scarce capital resource.

With a strong growth outlook, we initiate a “BUY” rating on the stock and value the stock at 85x FY24 EPS to arrive at the target of 600.

RECOMMENDATION - BUY

CMP – 504

TARGET – 600(+19%)

Industry	Consumer Food
NSE CODE	HNDFDS
BSE CODE	519126
Market Cap (₹ Cr)	5,692
Shares Outstanding (in Cr)	11.27
52 wk High/Low (₹)	749/329
P/E	90.2
P/BV	16.0
Face Value (₹)	2.00
Book Value (₹)	31.5
EPS (FY22) (₹)	3.96
Dividend Yield (%)	0.00
Debt / Equity	1.08
Interest Coverage	4.63

SHAREHOLDING PATTERN

	Dec 22	Sep 22	Jun 22
Promoters	64.85	64.85	64.85
MF/ DII	0.00	0.00	0.00
FII/FPI	6.57	6.04	6.04
Retail & Others	22.03	22.56	22.59
Promoter	0.00	0.00	0.00
Pledging			

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022	2023E	2024E
Crore			
Sales	2,040	2,636	3,739
Sales Gr. (%)	47.16	29	25
EBITDA	114.97	173	214
EBITDA %	5.82	6.5	6.5
PAT	44.66	70	81
EPS (₹)	3.96	6.2	7.2
EPS Gr. (%)	22.07	55	16
Ratios			
RoE (%)	17.88	18.2	18.5
RoCE (%)	17.60	17.8	18.0
Valuation			
P/E (x)	90.5	88	85

Historical & Industrial Val Ratios

Historical P/E	94.85
Industry P/E	54.83
Historical P/B	16.87
Industry P/B	13.14

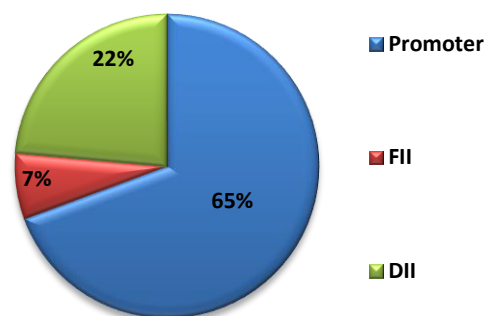


REVENUE SPLIT (Q1 FY23)

Segments

Food and Beverages	Healthcare and Wellness
Home Care & Personal Care	Leather and Sports Shoes
Beauty and Makeup	Pest Control

Shareholding Pattern (Q3 FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

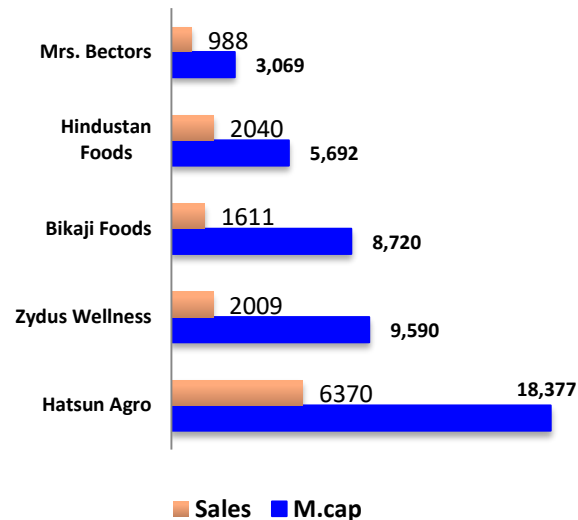
Y/E March	FY22				FY23				FY22	FY23E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
Net sales	457	471	527	581	598	662	679	698	2,040	2,636
YoY change (%)	126.4	47.9	37.3	18.5	30.9	40.5	28.8	20	45	29
Total Expenditures	432	443	498	551	560	620	635	649	1927	2,463
EBITDA	29	28	29	30	38	42	44	49	113	173
Margins (%)	6	6	6	5	6	6	6	7	6	6.5
Depreciation	5	6	6	7	9	10	10	11	25	39
Interest	5	5	5	5	7	9	10	10	20	36
Other income	1	1	1	1	1	2	1	1	4	5
PBT	16	18	18	20	23	25	25	28	71	101
Rate (%)	37	38	37	38	35	25	33	33	38	32
Adjusted PAT	10	11	12	12	15	19	17	19	45	70
EPS in Rs	0.96	1.03	1.10	1.09	1.32	1.68	1.51	1.65	3.96	6.2

Source: Company, Hem Securities Research.

INDUSTRY OVERVIEW

- Contract manufacturing companies can help food manufacturers bridge the gap between trends and their offerings while protecting the bottom line.
- Additionally, due to the rise in health awareness among consumers, food industries are developing immunity-boosting products and other food products having high proteins but low calories, sugar, and fat. Hence food industries are now investing heavily in R&D and adopting high levels of technology.
- The Indian food processing industry is among the largest in the nation in terms of growth, production, consumption and exports.
- The sector is expected that the sector will grow at a compounded annual growth rate (CAGR) of 3% between 2022 and 2030 according to The Agricultural and Processed Food Products Export Development Authority (APEDA).

KEY PLAYERS in Food Processing space



PEER PERFORMANCE

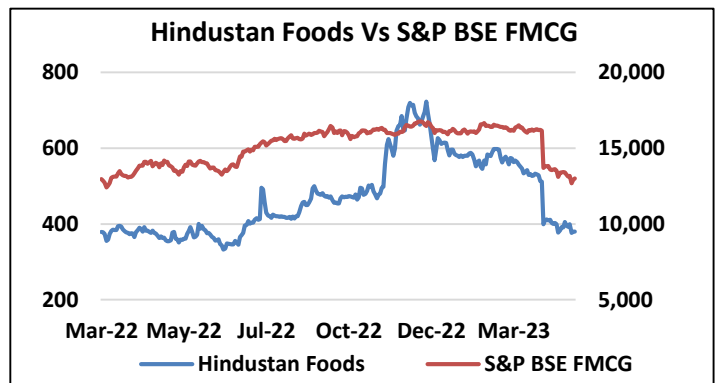
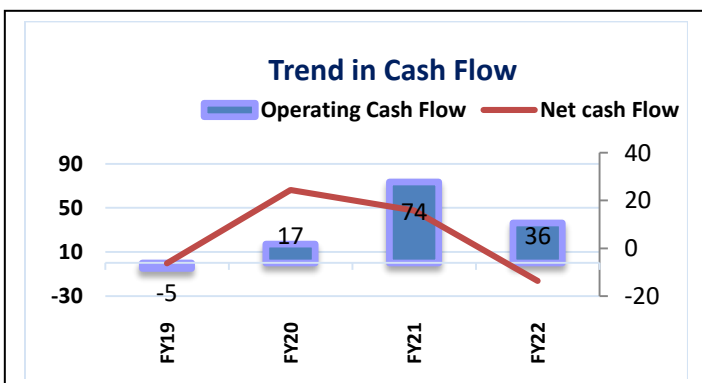
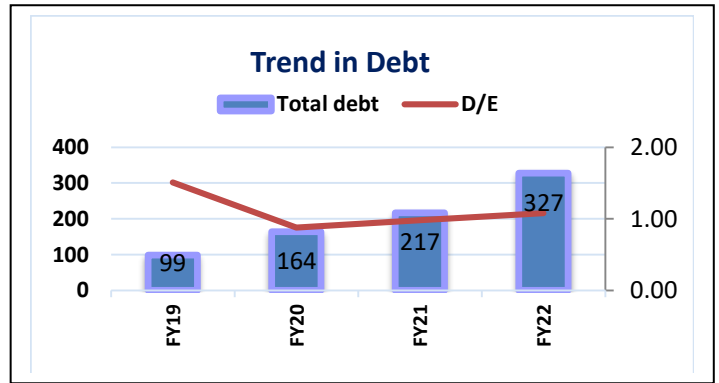
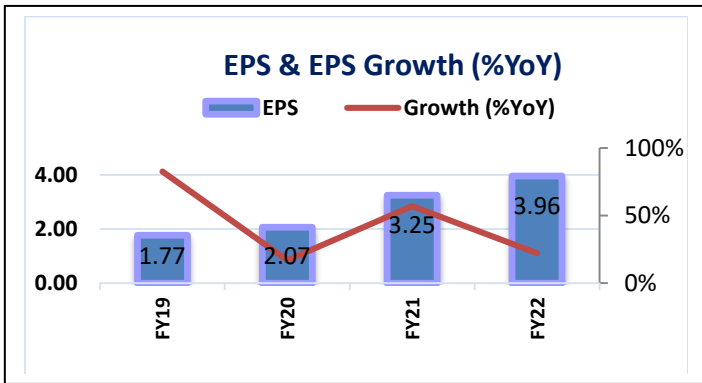
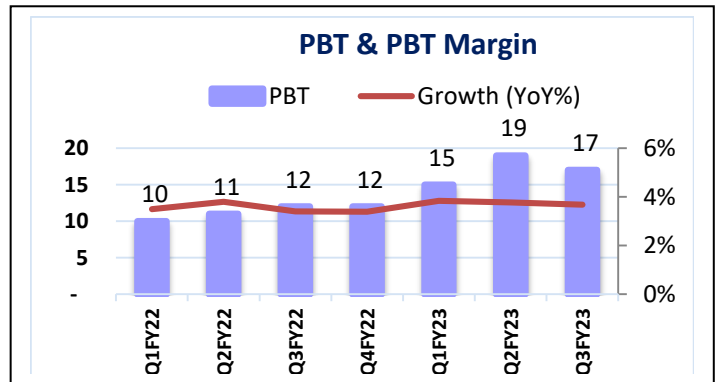
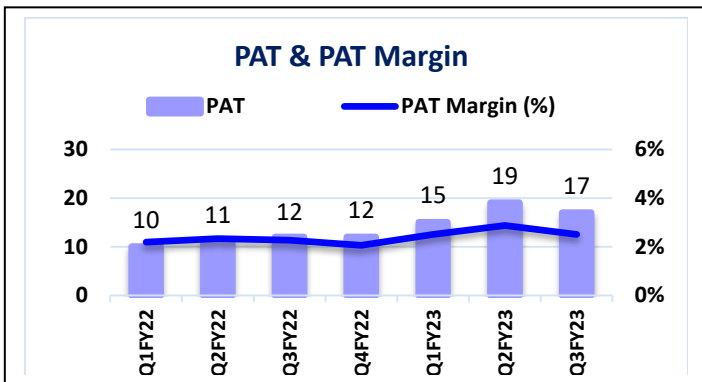
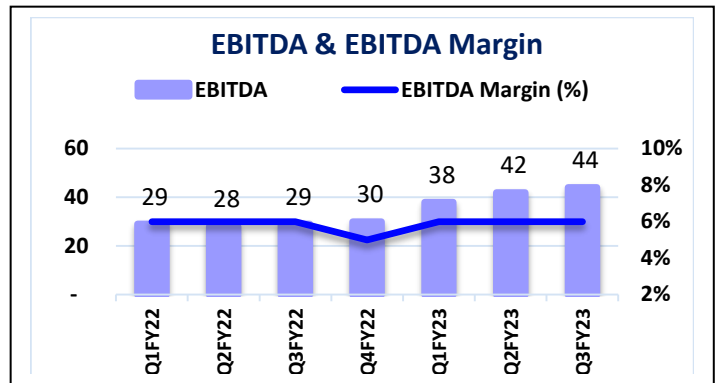
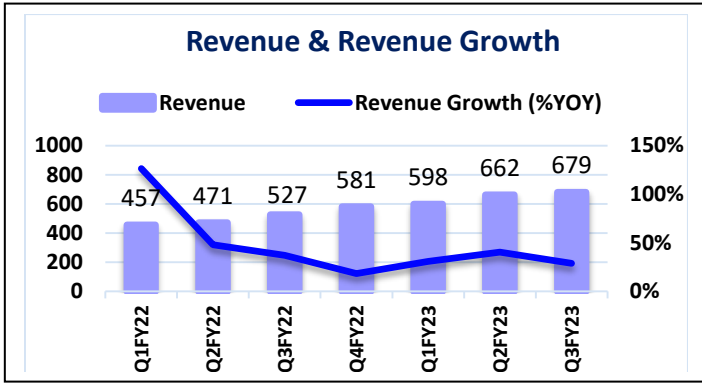
(₹ Cr)

Particulars	Hindustan Foods Ltd.	Hatsun Agro Ltd.	Zydu Wellness Ltd.	Bikaji Foods Ltd.	Mrs. Bectors Food Ltd.
Market Cap	5,692	18,377	9,590	8,720	3,069
Net Sales	2,040	6,370	2,009	1,611	988
EBITDA	115	721	342	140	123
PAT	45	248	309	78	57
EBITDA MARGIN %	5.8	11.5	16.5	9.3	13.1
PAT MARGIN %	2.3	3.9	14.3	4.7	5.8
ROCE %	17.6	16.0	6.4	13.6	14.3
ROE %	17.9	23.3	6.6	10.7	12.7
P/E TTM	90.2	104.5	32.1	112	42.3
P/B TTM	16	12.9	1.9	5	5.9
Current Ratio	1.2	0.5	1.2	1.8	1.8
Dividend Yield %	0.0	0.7	0.3	0.1	0.5
Int Coverage	4.63	2.9	18.7	17.5	7.2
EPS TTM(₹)	4.0	11.3	48.5	3.1	9.7
3 Y Sales CAGR%	61	10	34	-	8

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- The Company recently executed a Business Transfer Agreement for acquisition of a pharmaceutical factory from Reckitt Benckiser further expanding its Health Care, OTC Medicines & Wellness Division.
- The Ice Cream facility in Lucknow, Uttar Pradesh set up by the wholly owned subsidiary of the Company has commenced operations and the expanded capacity is also expected to be operational from early FY24.
- The Company's capex plans for setting up the Soap Bar project continue to progress and is expected to commercialize by Q1FY24.
- State-of-the-art manufacturing plants at various locations to manufacture different products. Further, it is one-stop solution for product development, testing and manufacturing FMCG, which helps it become a preferred partner
- The emphasis on self-reliance and localisation of sourcing by the government should further help generate opportunities.
- The company is looking for opportunities in contract manufacturing capabilities across FMCG products.
- The management said that their near-term and long-term targets for revenue and profitability remain focused on accelerating growth through exploring organic and inorganic opportunities.
- The company aims to achieve INR 4,000 crores turnover by FY '25.

RISK / NEGATIVE FACTORS:

- The company derives 85% of the revenue from dedicated manufacturing model and timely renewal of the contract remains crucial and any failure to renew the contract can have a material impact on the company.

COMPANY RECAP

- Hindustan Foods Limited is an India-based company, which is engaged in contract manufacturing of various FMCG products including food, home care, personal care, beverages etc. They also do manufacturing of leather shoes and accessories.
- Hindustan Foods is not only a contract manufacturer to the FMCG segment but they are also present in contract manufacturing of leather products, detergents, pest control products, beverages, etc. which makes them one of the most diversified contract manufacturing company in India.
- Hindustan Foods has three manufacturing business models – Dedicated, shared, and private label manufacturing.
 1. Dedicated Manufacturing- The company dedicates one plant to the principal company
 2. Shared Manufacturing- The manufacturing facility is shared by various companies for a longer period of the agreement for various companies such as Pepsico, Danone & Marico.
 3. Private Label Manufacturing- Hindustan Foods owns the product formula made for Private Labels and ensures that Customers are provided with complete turnkey private labeling solutions.

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

Y/E March	2019	2020	2021	2022	2023E	2024E	(₹ Cr)
Revenue from operations	492	772	1,386	2040.1	2636	3,295	
Growth YoY (%)	254	56	79.6	47.2	29	25	
Total Expenditure	459	716	1,302	1,925.1	2463	3,081	
(%) of sales	93.4	92.8	94	94.4	93.4	93.5	
EBITDA	32.6	55.8	83.4	115	173	214	
EBITDA Growth (%)	219	71.8	50.9	37.8	50	24	
EBITDA Margin (%)	6.8	7.4	6.2	5.8	6.5	6.5	
Depreciation	7.5	11.3	17.2	24.5	39	55	
EBIT	24.7	45.8	68.9	94.2	134	159	
EBIT Growth (%)	155	77.8	50.5	36.7	42	19	
Net Interest Expenses	7.5	11.3	18.9	20.3	36	40	
Other Income	0.7	1.2	2.7	3.7	5	7	
Earnings before Taxes	18.2	34.6	50.0	73.8	101	119	
EBT Margin (%)	3.7	4.5	3.6	3.6	3.8	3.7	
Tax-Total	6.3	11.9	13.7	26.8	32	38	
Rate of tax (%)	34.6	34.4	27.3	36.3	32	32	
Net Profit	11.9	22.7	36.4	47	70	81	
PAT Growth (%)	89.6	90.8	59.9	29.3	49	16	
PAT Margin (%)	2.4	2.9	2.6	2.3	2.6	2.5	
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted PAT	11.9	21.9	34.4	44.7	70	81	
EPS	1.7	2.1	3.3	4	6.2	7.2	
EPS Growth (%)	82.5	17.1	57	22.1	55	16	

Balance Sheet

Y/E March	2019	2020	2021	2022
Share Capital	15	23	23	24
Reserves	51	165	232	281
Net Worth	66	188	255	305
Borrowings	98	164	216	351
Other Liabilities	104	189	267	333
Total Liabilities & Equity	266	539	737	986
Fixed Assets	133	250	308	427
CWIP	0	26	53	87
Investments	0	2	0	0
Other Assets	133	261	375	472
Total Assets	266	539	737	986

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR))	2019	2020	2021	2022
Profitability and return ratios				
Net profit margin (%)	2.4	2.9	2.6	2.3
EBITDA margin (%)	6.8	7.4	6.2	5.8
EBIT margin (%)	5.2	5.9	5.0	4.6
ROE (%)	18.3	18.0	17.8	17.9
ROCE (%)	15.7	17.8	17.5	17.6
Working Capital & liquidity ratios				
Payables (Days)	84.7	72.5	61.1	57.4
Inventory (Days)	36.4	37.5	36.7	36.4
Receivables (Days)	31.6	18.9	11.5	10.9
Current Ratio (x)	1.0	1.3	1.3	1.2
Valuations Ratios				
EV/sales (x)	1.3	1.7	3.3	2.2
EV/EBITDA (x)	19.1	23.1	53.8	37.1
P/E (x)	45.3	54.4	130	92.3
P/BV (x)	8.3	6.4	20.2	13.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return on Assets (%)	4.5	5.7	5.9	5.6
Leverage Ratio				
Debt/Equity (x)	1.5	0.9	1.0	1.1

Cash Flow Statement

Y/E March	2019	2020	2021	2022
CF from Operating activities (A)	-5	17	74	36
CF from Investing Activities (B)	-44	-145	-92	-140
CF from Financing Activities (C)	43	153	34	91
Net Cash Flow	-6	25	16	-14
Add: Opening Bal.	7	4	29	45
Closing Balance	4	29	45	31

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
29/3/23	BUY	600 (++)19%

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