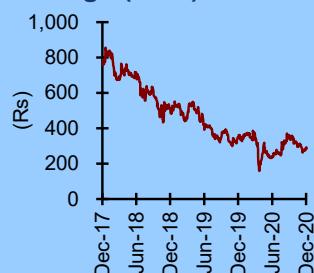
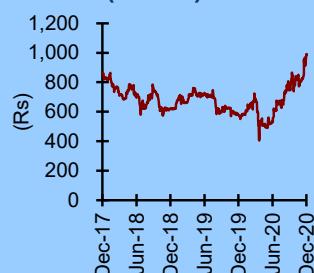


Sector update

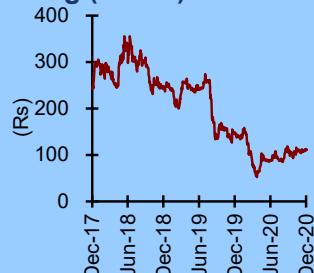
Heritage (BUY)



Hatsun (HOLD)



Parag (HOLD)



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Dairy

Lower milk procurement prices; rising fodder prices

Wholesale milk prices have risen in Nov'20 YoY (flattish since Jun'20) in-spite of lower milk procurement prices. Key reasons for higher wholesale prices: (1) supply chain disruption and (2) price hikes of c.5% in Feb'20 by dairy companies. Milk procurement prices have continued to remain at lower levels as (1) the demand from HoReCa, value added products is still lower and (2) commencement of flush season. However, we believe there is risk of higher fodder prices with rising inflationary pressure. Dairy companies have not raised prices post Feb'20 and we model them to raise prices post Q1FY22. However, they also have not reduced prices as consumers still prefer branded packaged products. We have a BUY rating on Heritage Foods with a TP of Rs400 (12x FY22E) and HOLD on Hatsun Agro with a TP of Rs830 (49x FY22E).

- ▶ **Wholesale milk prices continue to remain at elevated levels:** The wholesale milk prices remained at elevated levels and have risen in Nov'20 YoY. However, they have remained flattish over Jun'20 to Nov'20. Key reasons for higher wholesale prices (YoY) are (1) supply chain disruption post covid and (2) Price hikes (c.5%) by dairy companies in Feb'20.
- ▶ **Milk procurement prices are stable at lower levels:** Milk procurement prices continue to remain at lower levels with (1) lower demand for value added product and lower off-take by HoReCa, and (2) increased productivity during flush season. However, we believe the opening up of economy and increase in demand from institutions may lead to higher milk prices post Feb-Mar'21.
- ▶ **Possibility of higher fodder prices:** With higher inflationary pressures, we believe there is high probability of steep inflation in fodder prices over next two quarters. Rising demand for poultry and fish feed will raise prices of raw materials for fodder.
- ▶ **Global SMP prices moving upwards:** The global SMP prices had corrected from US\$3,036/MT in Jan'20 to US\$2,238/MT in April'20. But, SMP prices have increased again to US\$2,799/MT in Nov'20. We had expected correction in global SMP prices to lead to correction in SMP / milk prices in India. However, (1) INR depreciation and (2) upward trajectory in SMP prices will arrest any such benefit.
- ▶ **No pricing action by dairy companies:** We do not expect dairy companies to raise prices due to (1) deflation in milk procurement prices and (2) weaker economic outlook post lockdown. Companies have also not reduced selling prices as they are not facing competition pressure from unorganised players with consumers still preferring branded packaged products due to hygiene concerns.
- ▶ **Impact on companies:** We expect all dairy companies to benefit due to lower milk procurement prices. As Hatsun and Heritage generate 60%+ revenues from liquid milk they will benefit more.

Table 1: Wholesale milk prices

(Rs/ltr)	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
North zone	44.01	43.82	43.93	43.70	44.03	44.04
West zone	42.06	41.84	41.72	41.58	42.24	42.54
East zone	40.06	40.19	40.24	40.04	39.73	39.64
North-East zone	59.91	60.92	61.31	60.27	59.49	60.93
South zone	44.46	45.20	44.73	44.82	44.65	44.66
Pan India	44.02	44.38	44.27	44.07	44.09	44.24
Growth rates (% YoY)						
North zone	5.0	4.9	4.5	4.5	5.5	4.5
West zone	5.9	4.6	4.9	4.1	4.8	5.6
East zone	7.4	7.0	7.6	6.1	5.5	5.0
North-East zone	11.3	11.9	16.3	12.1	4.4	8.7
South zone	14.0	16.0	10.9	6.8	5.9	7.1
Pan India	7.5	8.4	7.6	6.1	5.2	5.6

Source: Department of consumer prices, I-Sec research

Chart 1: Milk prices in West India

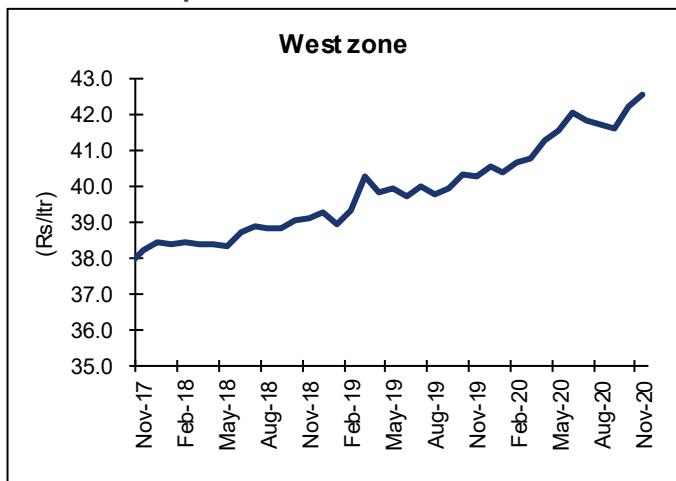


Chart 2: Milk prices in South India

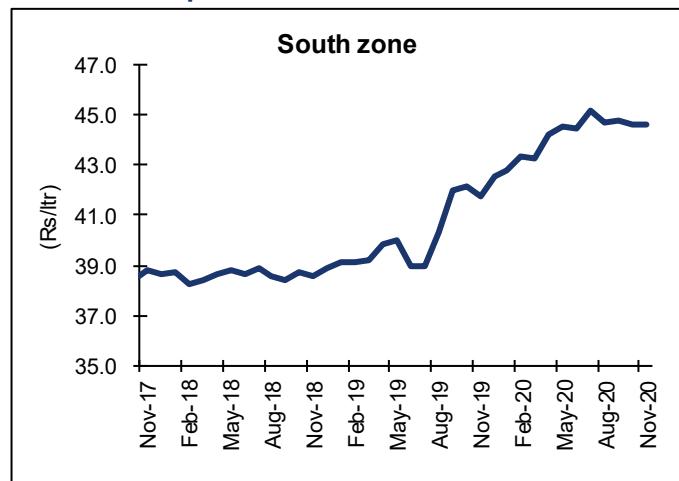


Chart 3: Milk prices - pan India

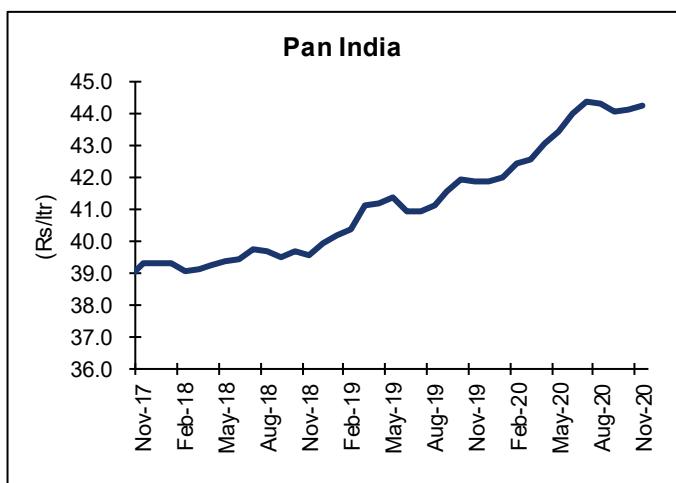


Chart 4: Milk prices in North-East

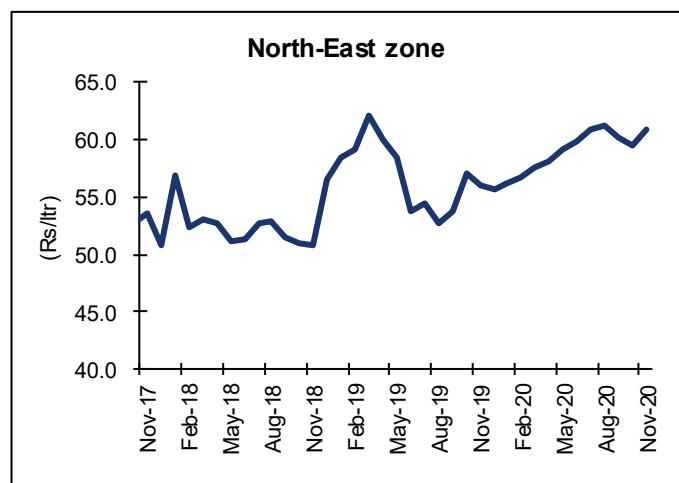


Chart 5: Milk prices in North India

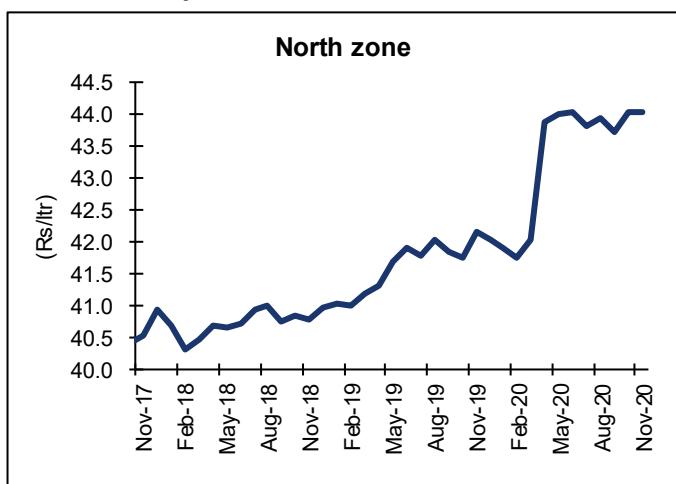
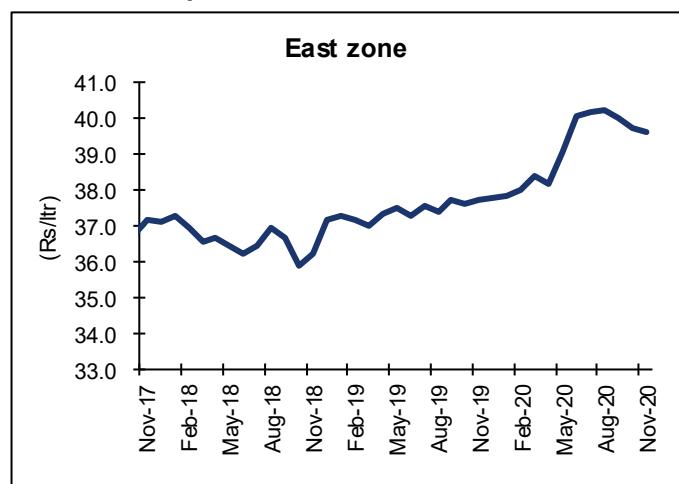
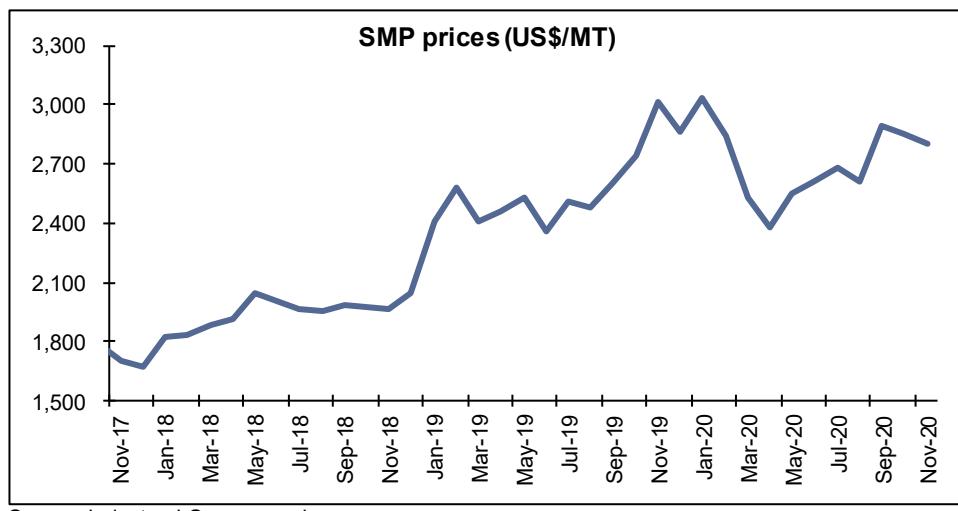


Chart 6: Milk prices in East India



Source: Department of consumer prices, I-Sec research

Chart 7: Skimmed milk powder (SMP) prices



Source: Industry, I-Sec research

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