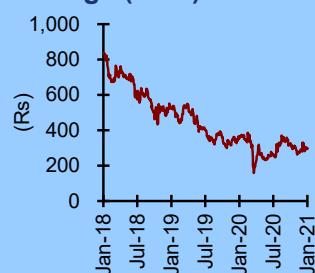
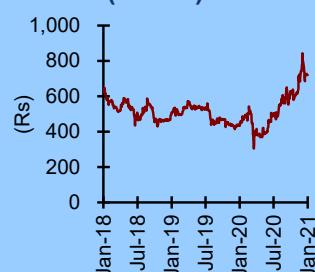


Sector update

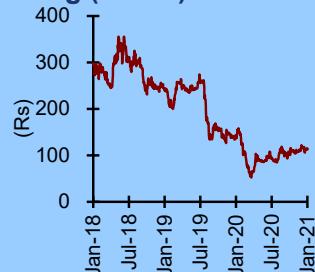
Heritage (BUY)



Hatsun (HOLD)



Parag (HOLD)



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Dairy

Spread between milk procurement prices and selling prices remains high

Wholesale milk prices have remained flat MoM in Dec'20. As dairy companies have not raised milk prices post Feb'20, wholesale milk prices have remained flat from Jun'20 to Dec'20. Milk procurement prices have continued to remain at lower levels as (1) demand from HoReCa and value-added products is still lower, (2) commencement of flush season and (3) lower fodder prices and availability of green fodder. Our channel checks suggest minor increase in milk procurement prices in Dec'20 MoM. Dairy companies have not raised prices post Feb'20 and we do not model them to raise prices till Q1FY22. However, they have also 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 remain flat MoM:** Wholesale milk prices remained flat at elevated levels. Wholesale milk prices have remained largely similar over Jun'20-Dec'20. Key reason is no price hike by dairy companies after Feb'20.
- ▶ **Global SMP prices moving up:** Global SMP prices had corrected from US\$3,036/MT in Jan'20 to US\$2,380/MT in April'20. But, SMP prices have increased again to US\$2,930/MT in Dec'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.
- ▶ **Exports of Indian SMP:** We believe with rising global SMP prices, Indian companies will be able to export the excess SMP inventory. This will reduce supply pressures in India and may result in higher milk prices in next 2-3 quarters.
- ▶ **Milk procurement prices are stable at lower levels:** Milk procurement prices continue to remain at lower levels with (1) lower demand for value-added products, (2) lower off-take by HoReCa, and (3) increased productivity during flush season. From our channel checks, we note there is a minor increase in milk procurement prices in Dec'20, MoM.
- ▶ **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 the lockdowns. Companies have also not reduced selling prices as they are not facing competitive pressure from unorganised players with consumers still preferring branded packaged products due to health and 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)	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
North zone	43.82	43.93	43.70	44.03	44.04	44.26
West zone	41.84	41.72	41.58	42.24	42.54	42.42
East zone	40.19	40.24	40.04	39.73	39.64	40.78
North-East zone	60.92	61.31	60.27	59.49	60.93	60.91
South zone	45.20	44.73	44.82	44.65	44.66	44.67
Pan India	44.38	44.27	44.07	44.09	44.24	44.30
Growth rates (% YoY)						
North zone	4.9	4.5	4.5	5.5	4.5	5.3
West zone	4.6	4.9	4.1	4.8	5.6	4.7
East zone	7.0	7.6	6.1	5.5	5.0	7.8
North-East zone	11.9	16.3	12.1	4.4	8.7	9.5
South zone	16.0	10.9	6.8	5.9	7.1	4.9
Pan India	8.4	7.6	6.1	5.2	5.6	5.8

Source: Department of consumer prices, I-Sec research

Chart 1: Milk prices in West India

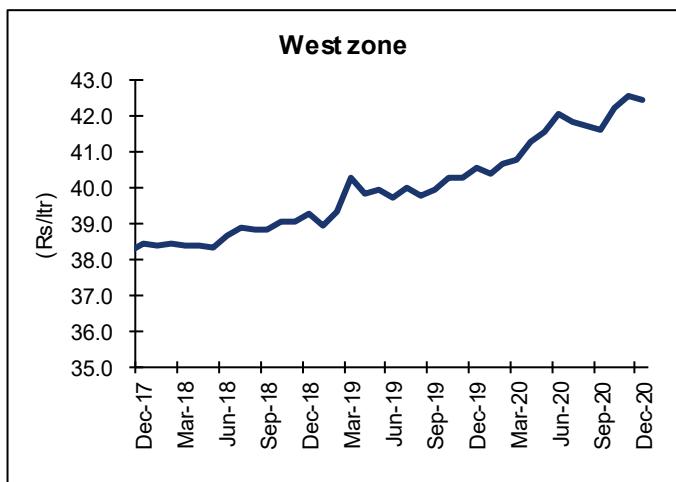


Chart 2: Milk prices in South India

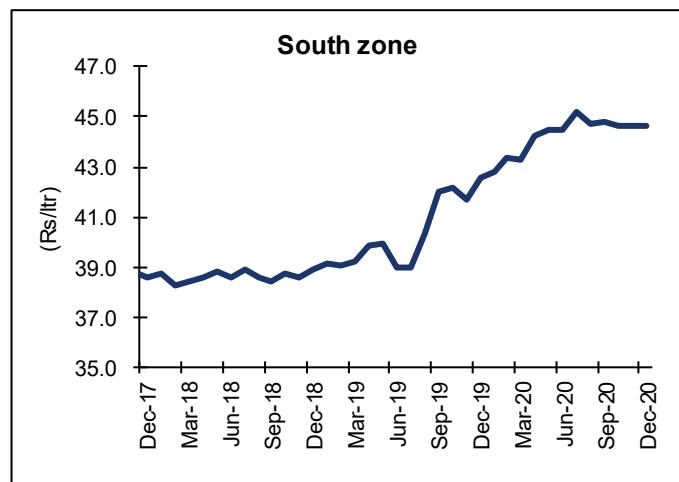


Chart 3: Milk prices - pan-India

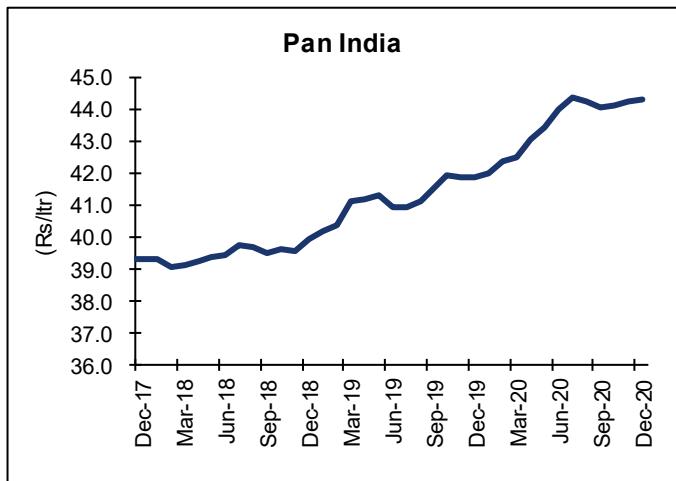


Chart 4: Milk prices in North-East

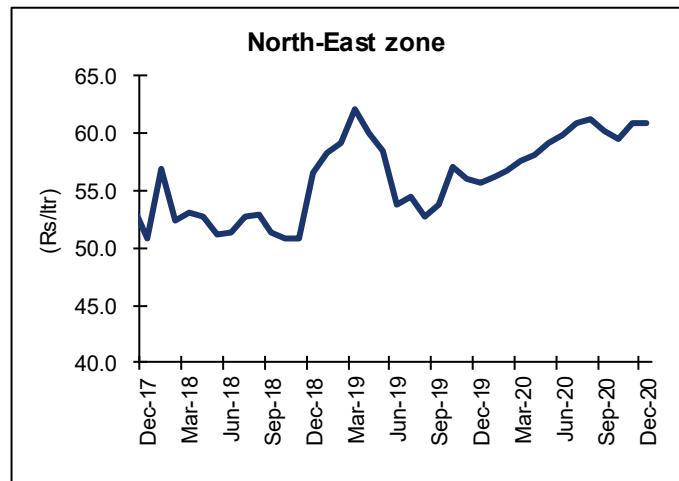


Chart 5: Milk prices in North India

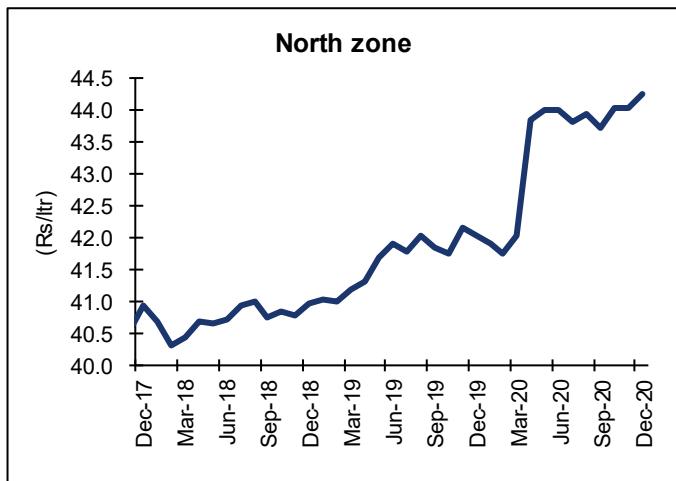
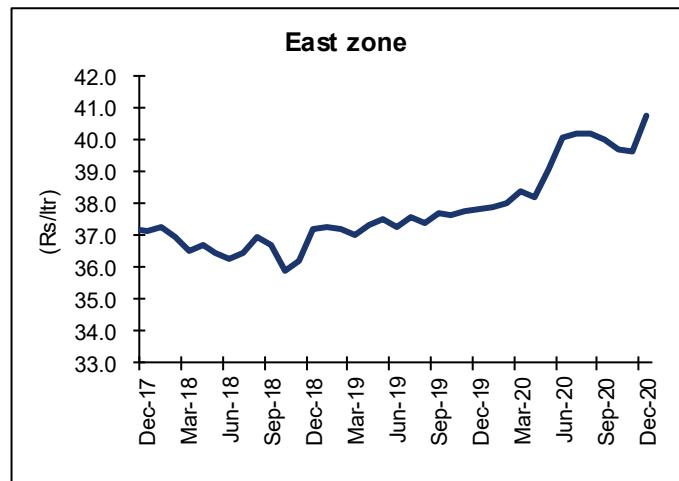
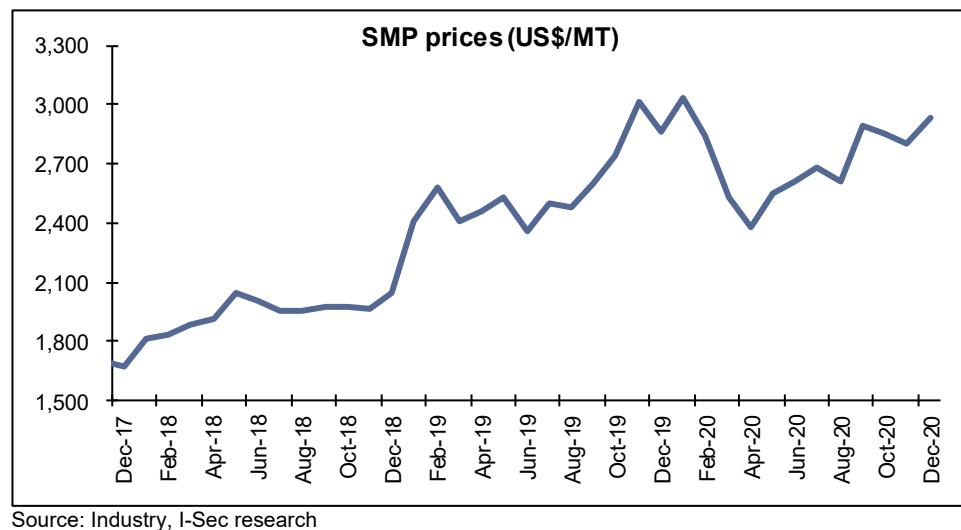


Chart 6: Milk prices in East India



Source: Department of consumer prices, I-Sec research

Chart 7: Skimmed milk powder (SMP) prices



Source: Industry, I-Sec research

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