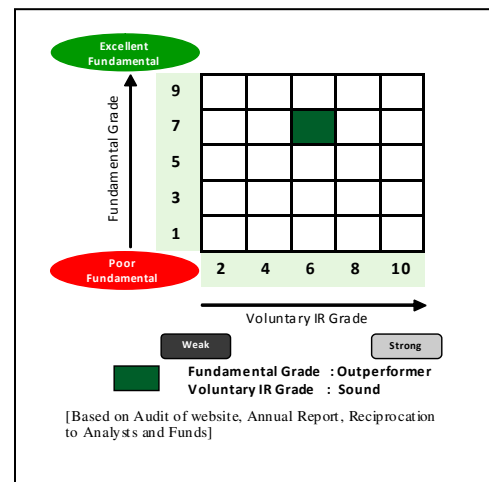




Heritage Foods Limited



Company Background

Heritage Foods Limited is one of the leading private sector players in the dairy segment. Some of its key business verticals include: Dairy, Retail, Agri, Bakery, and Solar. The Dairy sector includes milk and milk based products. The retail segment include chain of retail stores promoted by the Company. The agriculture sector includes monitoring, creating an environment for the farmer's productivity to sell their products. Other subsidiaries include Heritage Foods Retail Limited, SKIL Raigam Power (India) Ltd and Heritage Conpro Limited.

Key Investment Arguments

- Heritage's Dairy business is growing at a CAGR of 21%
- Value-added products are growing at a CAGR of 56%, thriving on sale of curd and ice cream.
- Almost 85% of its milk is directly procured from the farmers . The company has invested sufficient "time" and built "trust" among the farmers community.
- Among other business verticals, the Retail division which has an EBITDA of 6.56% will turnaround by FY16.
- To emerge as "zero debt" company by FY16. Company has repaid Rs 40 crore this year and has equal amount of debt outstanding.

Income Statement



Particulars (Rs in lakhs)	FY11A	FY12A	FY13A	FY14E	FY15E
Revenue	110,089.27	139,661.30	160,601.23	178,267.37	201,442.10
Cost of Goods Sold (COGS)	95,485.51	121,908.05	136,048.47	151,013.81	170,645.60
Sales General & Admin. exp (SG&A)	10,543.40	12,314.52	14,024.92	15,567.66	17,591.46
EBITDA	4,060.36	5,438.73	10,527.84	11,685.90	13,205.04
Depreciation	1,993.98	2,118.65	2,202.03	2,250.00	2,300.00
EBIT	2,066.38	3,320.08	8,325.81	9,435.90	10,905.04
Interest	1,773.90	1,977.28	1,670.20	1,250.00	1,000.00
Extraordinary items	-	-	291.34	-	-
Profit before Tax	292.48	1,342.80	6,364.27	8,185.90	9,905.04
Taxes	182.67	424.24	1,369.17	2,455.77	2,971.51
Tax rates	62.46	31.59	21.51	30.00	30.00
Profit after Tax	109.81	918.56	4,995.10	5,730.13	6,933.53
EPS(*)	0.96	7.97	43.27	24.69	29.88

* post bonus 1:1

CMP : 180

TARGET PRICE : 269

ACCUMULATE

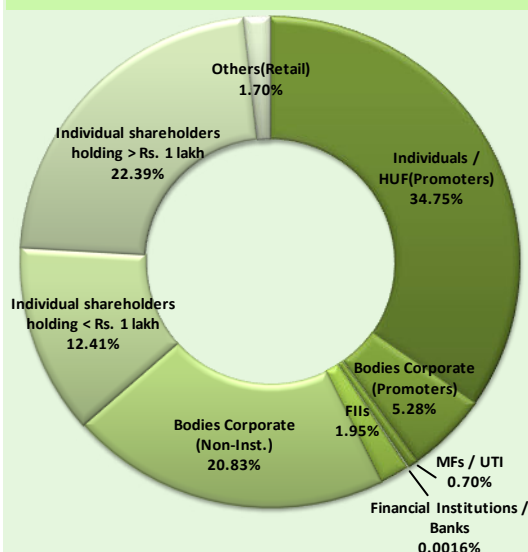
Key Stock Statistics

NIFTY/SENSEX	180.05/180.10
52 week range (Rs.) (H/L) (NIFTY)	283.25/171.20
52 week range (Rs.) (H/L) (SENSEX)	284.88/171.33
Face Value (Rs. per Share)	10
Book Value (Rs.)	61.16
P/B Ratio (x)	2.94
EPS - TTM (Rs.):	22.36
P/E (x)	8.05
Industry P/E (x)	37.28
Latest Dividend (%)	20
Dividend Yield(%)	1.11
Shares Outstanding (mn)	23.20
Market Cap (Rs. in mn)	4,178.10
Beta	1.12

Heritage Foods Ltd vis-à-vis Sensex



Shareholding pattern as on 30th Sept, 2013

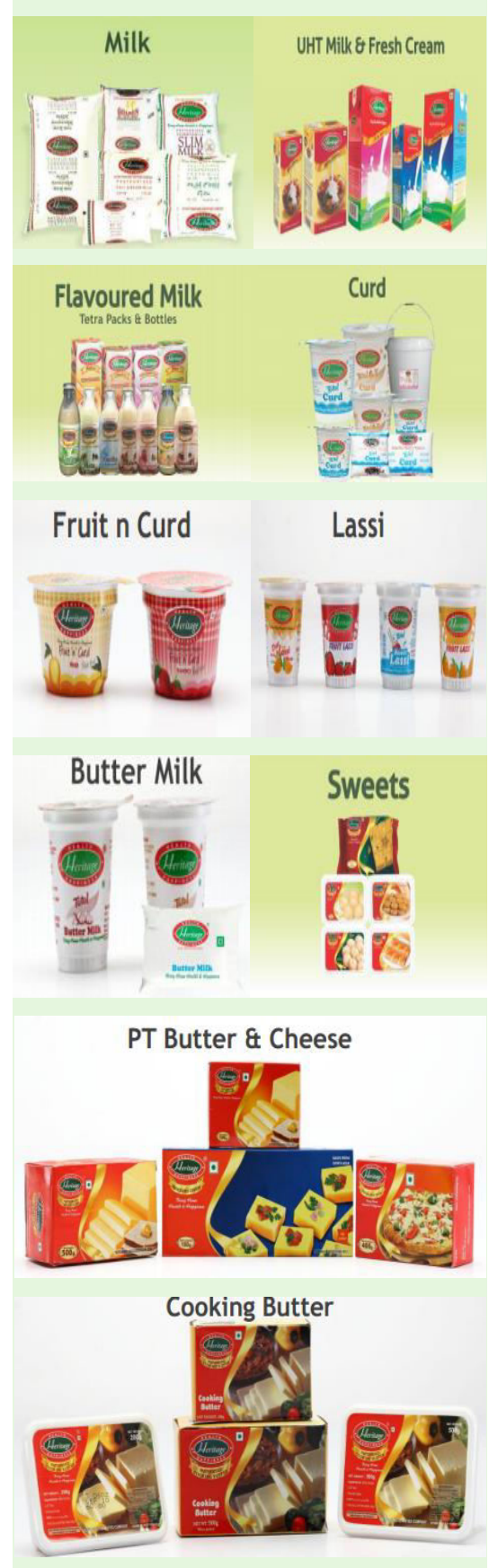




Heritage Foods Limited

Dairy Industry Outlook

- ⇒ The Dairy Industry will thrive as long as the growth in demand for milk matches that of the growth in supply of milk. Currently while the annual growth in the demand for milk is pegged at 10%, the supply growth is only at 4%.
- ⇒ The Indian dairy industry currently pegged at US\$ 70 billion (organized and unorganized) is expected to double by 2020. On the back of a rise in disposable income, and strong demand for dairy products, the Indian dairy industry is all set to experience high growth rates in the next 5 - 6 years.
- ⇒ In order to bridge the gap between the annual growth in demand and annual growth in supply, Government of India has created a corpus fund called "Venture Capital for Dairy and Poultry Sectors" under the stewardship of NABARD.
- ⇒ The Dairy industry in general has witnessed a CAGR of 17% and Value Added Products a CAGR of 24%. The operating margins in Value Added Products is 2X liquid milk business due to changing consumption patterns on account of rapid urbanization.
- ⇒ Milk is the country's biggest agricultural produce, contributing 22% to agricultural GDP. India, overtook the US in 1998 to become the world's leading milk producer, accounts for over 15% of the global output. The Industry which had been a National Heritage is now re-emerging and catching the eye of investors due to its growth potential.
- ⇒ Cashing in on the situation, the private equity deals worth Rs 500 crore have taken place in Dairy industry alone during the last couple of years. The news that created ripples recently is Premji Investments, the \$1.2-billion private and public equity fund of Wipro Chairman Azim Premji, picking 4.7% stake in Heritage Foods.





Heritage Foods Limited

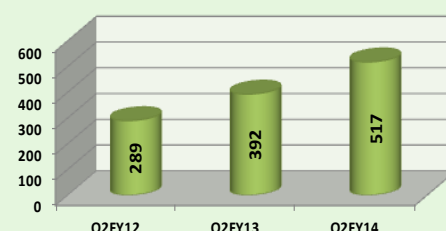
Heritage Riding High on Value Add Products

- Surge in Value Added Products:** The value added product which contribute nearly 3x in terms of operating margins having growing at a CAGR of nearly 50 per cent over the last 7 years. There has been a surge in Value Added Products like Curd, Ice creams, and butter milk in particular contributing to Rs 51.7Mn in Q2FY14 as against Rs 39.2Mn for the same period year before. The number of dairy parlours have increased by 10 per cent during the quarter at 1,222. For FY13, the dairy segment contributed about Rs 12,686Mn, 79% of the total net sales of Rs 16,018Mn. The value added products in the dairy segment constituted about 14%. By FY15 we expect contribution of value added products to cross 20% mark.
- Retail Business Vertical to be hived off in FY16:** The Retail division, currently enjoying an EBITDA of 6.57% in Q2FY14 is likely to be hived off into a separate company by FY16 by which time its expected to turn the corner. The Retail division's losses are coming down at the EBITDA level. For Q2FY14 the EBITDA losses were lower at Rs 34Mn as against Rs 48Mn in Q2FY13. Two stores were opened in Q2FY14 taking the total to 67. The contribution coming from other business verticals like Bakery, Agri and Solar is miniscule at present.
- Penetrating into new geographical areas:** The Company which has substantial presence in South, especially in Andhra Pradesh, is now spreading its wings pan India. Towards this end it has penetrated into New Delhi, Orissa, and West Bengal. Going forward this would prove to be a de-risking strategy too.
- Building brand on Quality and Relationships with Farmers:** The Dairy Industry is prone to pouching of collecting agents especially at the farmers level. Towards this end the Company has invested substantial amount of its time and has won trust of the farmers. it also offers feed supply, medicines, credit facilities through banks, and also apprenticeship training at Company level.

Branded Value Added Products

Year	Sales(Rs. in mn)
Q2FY12	289
Q2FY13	392
Q2FY14	517

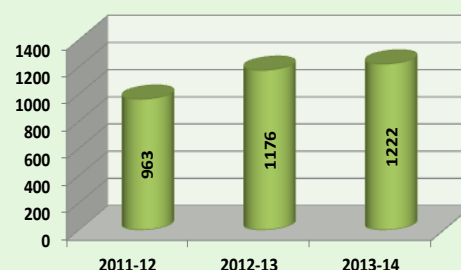
Branded Value Added Products Sales(Rs. in mn)



Year No. of Parlours

Year	No. of Parlours
2011-12	963
2012-13	1,176
2013-14 (till date)	1,222

No. of Parlours





Heritage Foods Limited

Valuations :

Working Capital

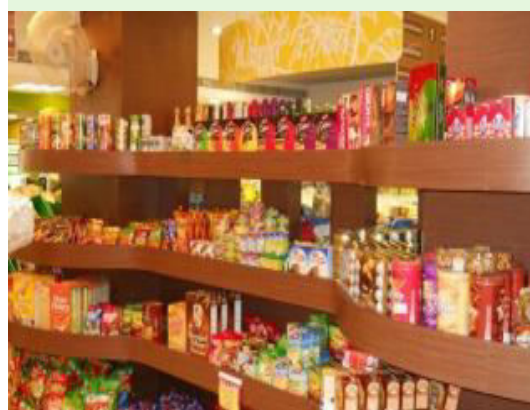
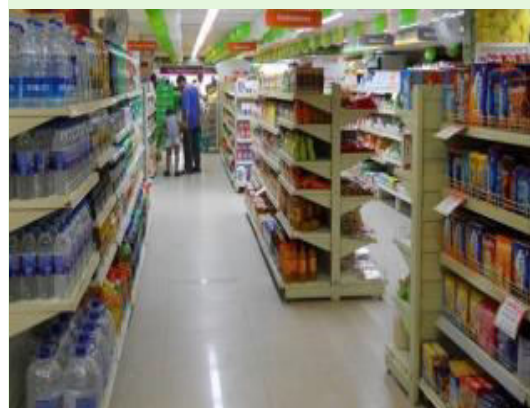
DCF Valuation - Sensitivity Analysis

Particulars (Rs in lakhs)	FY11A	FY12A	FY13A	FY14E	FY15E
Current Assets					
Account Receivable	1,443.86	1,120.27	1,507.26	1,673.06	1,890.56
Inventory	6,606.79	9,344.95	8,209.19	9,112.20	10,296.79
Prepaid Expenses	1,719.73	1,206.70	1,657.88	1,840.25	2,079.48
Cash & Bank	2,933.16	3,012.11	3,306.85	3,670.60	4,147.78
Current Liabilities					
Account Payable	3,846.48	6,523.85	5,681.76	6,306.75	7,126.63
Accrued Expenses	15,271.01	15,308.74	14,369.12	15,949.72	18,023.19
Working Capital	(6,413.95)	(7,148.56)	(5,369.70)	(5,960.37)	(6,735.22)

DCF Valuation Per Share

Particulars (Rs.)	FY14E	FY15E
PAT	5,730.13	6,933.53
Depreciation	2,250.00	2,300.00
Interest	1,250.00	1,000.00
Capex	-	-
Change in NWC	(590.67)	(774.85)
FCF	8,639.46	9,458.68
Terminal Value	-	70,264.46
Discounted Value	7,321.58	6,793.08
Discounted value of Terminal	-	50,462.84
Total Present Value	-	64,577.50

Present value of cash flows	64,577.50
Less Debt	2,100.00
Shareholders Value	62,477.50
Total No of outstanding shares	231.99
Value per share	269.00



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