

## EQUITY RESEARCH

FMCG sector

**CMP: Rs.200.00**  
(As on 14-12- 2009)

14-12-2009

INDIA

Market Cap  
Rs. 2306.00mn

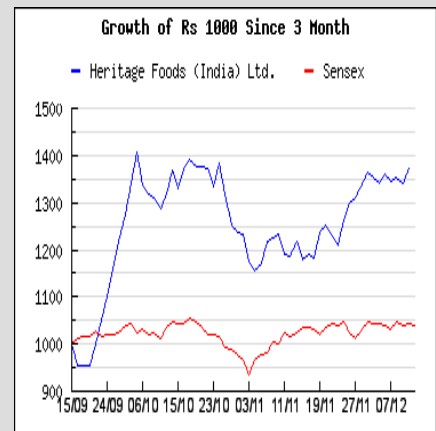
**BUY**

Target Price: Rs.230.00



### Heritage Foods India Ltd

- Heritage is now become the ISO 22000 certified company by maintaining international quality Standards.
- Heritage Foods operates a retail network of 1,515 stores under Heritage Store brand name that primarily offers fast moving consumer goods, as well as operates retail dairy parlours under Heritage Parlour brand name.
- Heritage's milk products have market presence in Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Maharashtra and its retail stores across Bangalore, Chennai and Hyderabad.
- Heritage Foods approves SPV (Special Purpose Vehicle) for generation of Hydro Power.
- The top line of the company is expected to grow at a CAGR of 20% over 2008 to 2011E.



Heritage Foods

BSE SENSEX

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Key Financials	Key Data					
	FY08	FY09	FY10E	FY11E		
Net Sales					Face Value	Rs.10.00
(Rs.mn)	5880.3	7925.5	9035.1	10119.3	Shares Outstanding	11.53 (Millions)
EBIDTA					Exchange	BSE
(Rs.mn)	236.40	34.28	463.06	526.40	52 wk. High/Low(Rs.)	218.00/49.55
Margin %	4.02%	0.43%	5.13%	5.20%	2 wk avg. volume	3645
PAT					BSE Code	519552
(Rs.mn)	9.34	-349.58	70.19	89.33		
Margin %	0.16%	-4.41%	0.78%	0.88%		



## Peer Group comparison

Name of the Company	52week High/Low(Rs)	C.M.P(Rs)*	EPS(Rs)	P/E(x)
Heritage Foods India	218.00/49.55	200.00	-30.32	-6.60
Nestle India	2255.00/1220.00	2619.75	68.78	38.09
Britannia Industries	1890.00/991.25	1631.00	80.89	20.16
Glaxo Smith Consumer	1200.00/480.00	1340.00	55.09	24.32

\* As on 14/12/09

## Company Updates

### 📊 Q2 FY10 Results Update

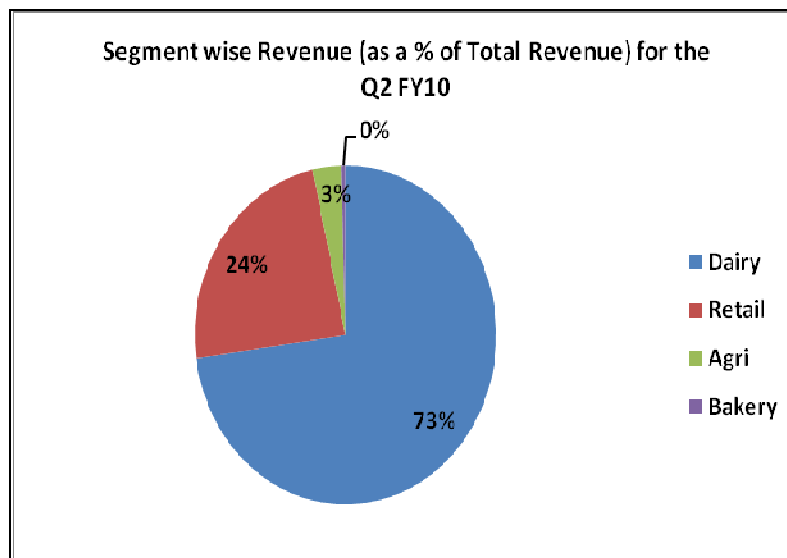
During the quarter ended September 2009, company has witnessed a marginal change in the total revenue. During the quarter, Net sales rose by 3.02% to Rs.2190.26 million from Rs.2126.15 million in the same quarter last year. The Total Profit for the quarter ended September 2009 of Rs.21.75 million grew from Loss of Rs.74.01 million compared to same quarter last year. Operating profit Margin for the quarter ended September 2009 improved to 5.16% as compared to -1.28% of corresponding quarter ended September 2008. The basic EPS of the company is stood at Rs.1.89 for the quarter ended Sep 2009.

Quarterly Results - standalone (Rs in mn)			
As At	Sep-09	Sep-08	%change
<b>Net sales</b>	2190.26	2126.15	3.02
<b>Net profit</b>	21.75	-74.01	-
<b>Basic EPS</b>	1.89	-6.42	-



### Segment Wise Revenue for the Q2 FY10

Particulars (Rs.mn.)	Q2 FY10
Dairy	1652.32
Retail	537.55
Agri	70.38
Bakery	9.30
<b>Total</b>	<b>2269.55</b>



#### **Heritage Foods approves SPV for generation of Hydro Power**

The board of directors of Heritage Foods has approved the special purpose vehicle (SPV) for generation of hydro electric power in Arunachal Pradesh, becomes a subsidiary company of Heritage Foods by virtue of section 4(1)(b)(ii) of the Companies Act, 1956.

#### **Non conversion of warrants**

The Board of Directors of the Heritage Foods India Ltd has allotted 8,00,000 warrants of the Company on preferential allotment basis to the promoter which was approved by the members at their Extra-Ordinary General Meeting for allotment which are to be converted into equity shares with in a maximum period of 18 months from the date of allotment (i.e. February 08, 2008).



## Company Profile

Heritage Group is one of the fastest growing Private Sector Enterprises in India, with three-business division's viz., Dairy, Retail and Agri under its flagship Company Heritage Foods (India) Limited (HFIL). It manufacturing, processing and marketing of milk and milk products. The company was founded in 1992 and is headquartered in Hyderabad, India. As of March 31, 2008, it operated 75 stores under the 'Fresh@' brand name. In addition, Heritage Foods operates a retail network of 1,515 stores under Heritage Store brand name that primarily offers fast moving consumer goods, as well as operates retail dairy parlours under Heritage Parlour brand name. Further, it undertakes custom farming activity directly with farmers for fruits, vegetables, and pulses, as well as establishes two pack houses with cleaning, sorting, grading, ripening, pre-cooling, and cold storage facilities.

## Financials Results

### 12 Month Ended Profit& Loss Accounts (Standalone):

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
<b>Net Sales</b>	<b>5880.34</b>	<b>7925.55</b>	<b>9035.13</b>	<b>10119.34</b>
Other Income	41.38	66.99	97.14	116.56
Total Income	5921.72	7992.54	9132.26	10235.90
Expenditure	-5685.32	-7958.26	-8669.20	-9709.51
<b>Operating Profit</b>	<b>236.40</b>	<b>34.28</b>	<b>463.06</b>	<b>526.40</b>
Interest	-124.33	-145.83	-175.00	-192.50
Gross profit	112.07	-111.55	288.06	333.90
Depreciation	-105.52	-172.24	-198.08	-217.88
Profit Before Tax	6.55	-283.79	89.99	116.02
Tax	2.79	-65.79	-19.80	-26.68
<b>Profit After Tax</b>	<b>9.34</b>	<b>-349.58</b>	<b>70.19</b>	<b>89.33</b>



Equity capital	115.30	115.30	115.30	115.30
Reserves	1041.66	692.40	762.59	851.92
Face value	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>0.81</b>	<b>-30.32</b>	<b>6.09</b>	<b>7.75</b>

**Quarterly Ended Profit & Loss Account (Standalone):**

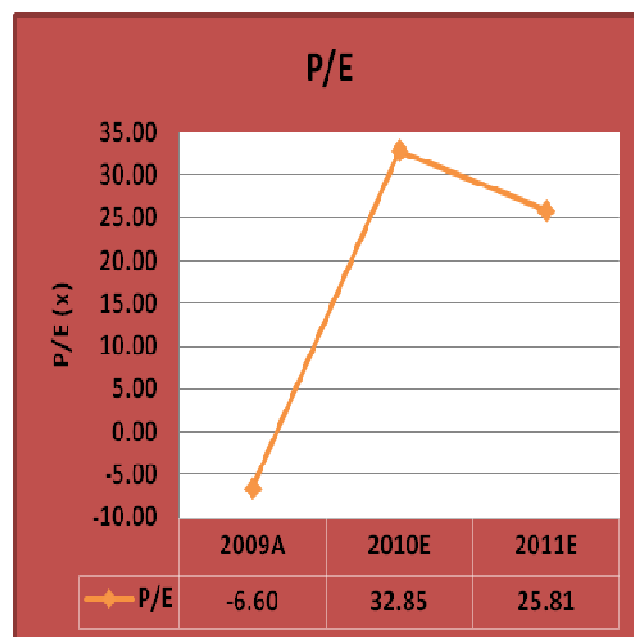
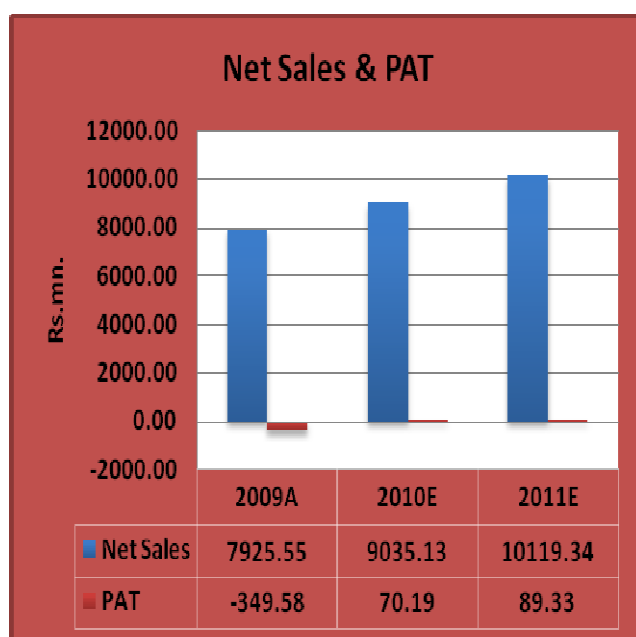
Value(Rs.in.mn)	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09(E)
Description	3m	3m	3m	3m
<b>Net sales</b>	<b>1929.23</b>	<b>2184.77</b>	<b>2190.26</b>	<b>2255.97</b>
Other income	7.70	25.76	22.82	26.42
Total Income	1936.93	2210.53	2213.08	2282.39
Expenditure	-1918.29	-2102.02	-2098.19	-2157.83
<b>Operating profit</b>	<b>18.64</b>	<b>108.51</b>	<b>114.89</b>	<b>124.56</b>
Interest	-40.50	-43.68	-42.37	-43.64
Gross profit	-21.86	64.83	72.52	80.92
Deprecation	-43.68	-46.76	-49.74	-51.73
Profit Before Tax	-65.54	18.07	22.78	29.19
Tax	-130.04	-4.39	-1.03	-5.84
<b>Profit After Tax</b>	<b>-195.58</b>	<b>13.68</b>	<b>21.75</b>	<b>23.35</b>
Equity capital	115.30	115.30	115.30	115.30
Face value	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>-16.96</b>	<b>1.19</b>	<b>1.89</b>	<b>2.03</b>

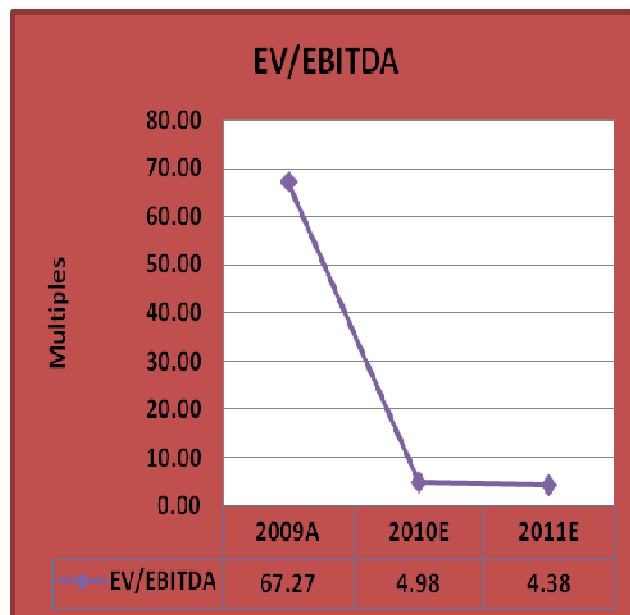
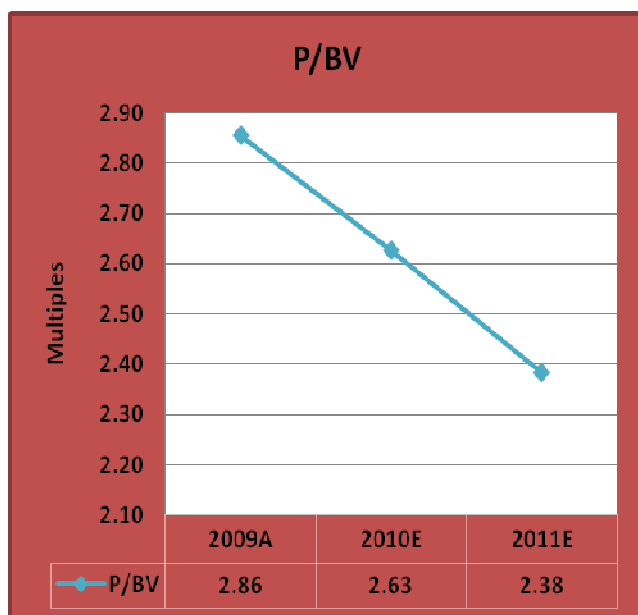


## Key Ratios:

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	11.53	11.53	11.53	11.53
EBITDA Margin (%)	4.02%	0.43%	5.13%	5.20%
PAT Margin (%)	0.16%	-4.41%	0.78%	0.88%
P/E Ratio (x)	246.90	-6.60	32.85	25.81
ROE (%)	0.81%	-43.28%	8.00%	9.24%
ROCE (%)	4.86%	-5.30%	9.29%	9.95%
EV/EBITDA (x)	9.75	67.27	4.98	4.38
Debt-Equity Ratio	1.33	2.22	2.25	2.21
Book Value (Rs.)	100.34	70.05	76.14	83.89
P/BV	1.99	2.86	2.63	2.38

## Charts





## Valuation

- ✚ At the current market price of Rs.200.00, the stock is trading at 32.85 x FY10E and 25.81 x FY11E respectively.
- ✚ Price to Book Value of the stock is expected to be at 2.63 x and 2.38 x respectively for FY10E and FY11E.
- ✚ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.6.09 and Rs.7.75 respectively.
- ✚ Net sales & Operating Profit of the company are expected to grow at a CAGR of 20% and 30% over 2008 to 2011E.
- ✚ On the basis of EV/EBITDA, the stock trades at 4.98 x for FY10E and 4.38 x for FY11E.
- ✚ Heritage Foods has approved the special purpose vehicle (SPV) for generation of hydro electric power in Arunachal Pradesh.
- ✚ We recommend '**BUY**' in this particular scrip with a target price of **Rs.230.00** for Medium to Long term investment.



## Industry Overview

### FMCG sector:

- ✚ Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, household accessories and extends to certain electronic goods. These items are meant for daily or frequent consumption and have a high return.
- ✚ A major portion of the monthly budget of each household is reserved for FMCG products. The volume of money circulated in the economy against FMCG products is very high, as the number of products the consumer use is very high. Competition in the FMCG sector is very high resulting in high pressure on margins
- ✚ FMCG companies maintain intense distribution network. Companies spend a large portion of their budget on maintaining distribution networks. New entrants who wish to bring their products in the national level need to invest huge sums of money on promoting brands. Manufacturing can be outsourced. A recent phenomenon in the sector was entry of multinationals and cheaper imports. Also the market is more pressurized with presence of local players in rural areas and state brands

### Scope of the Sector

The Indian FMCG sector with a market size of US\$13.1 billion is the fourth largest sector in the economy. A well-established distribution network, intense competition between the organized and unorganized segments characterizes the sector. FMCG Sector is expected to grow by over 60% by 2010. That will translate into an annual growth of 10% over a 5-year period. It has been estimated that FMCG sector will rise from around Rs 56,500 crores in 2005 to Rs 92,100 crores in 2010. Hair care, household care, male grooming, female hygiene, and the chocolates and confectionery categories are estimated to be the fastest growing segments, says an HSBC report. Though the sector witnessed a slower growth in 2002-2004, it has been able to make a fine recovery since then.

### Growth Prospects

- ✚ With the presence of 12.2% of the world population in the villages of India, the Indian rural FMCG market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the FMCG companies. Better infrastructure facilities will improve their supply chain. FMCG sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, FMCG companies have immense possibilities for growth. And if the companies are able to change





the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future. It is expected that the rural income will rise in 2007, boosting purchasing power in the countryside.

✚ However, the demand in urban areas would be the key growth driver over the long term. Also, increase in the urban population, along with increase in income levels and the availability of new categories, would help the urban areas maintain their position in terms of consumption. At present, urban India accounts for 66% of total FMCG consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major FMCG categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas

### **Indian Competitiveness and Comparison with the World Markets**

The following factors make India a competitive player in FMCG sector:

✚ Availability of raw materials

Because of the diverse agro-climatic conditions in India, there is a large raw material base suitable for food processing industries. India is the largest producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables. India also produces caustic soda and soda ash, which are required for the production of soaps and detergents. The availability of these raw materials gives India the location advantage.

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