

BUZZING

STOCK

Heritage Foods (India) Ltd.

CMP – Rs.163

Analyst

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Key Stock Data

Sensex	13972
Nifty	4015
Sector	Food & Dairy Products
Bloomberg	HTFI@IN
Reuters	HEFI.BO
No. of shares (m)	10
Market Cap (Rs m)	1,624
Market Cap (US\$ m)	36.41
52-week H/L	Rs.209/111

Shareholding Pattern (%)

Promoters	47.02
Mutual Funds	8.87
FII's	12.92
Corporate Bodies	2.64
Pubic & Others	28.55

Heritage Foods (India) Ltd. (HFL), promoted by Shri Chandra Babu Naidu is all set to foray in retail field with launch of its pilot store at Hyderabad. HFL with its 10.8-lakh liters per day (LPD) capacity of processing milk has 4 bulk cooling unit (BCU) & 24 procurement, processing and packing plants spread over the states of Andhra Pradesh, Tamil Nadu & Karnataka. HFL procures milk everyday from lakhs of small families in these states at its procurement & chilling centers. Here it is pasteurized and supplied in tankers to bulk consumers & in sachets to retail consumer. Milk contributes to 83% of the total turnover of HFL with remaining being contributed by milk products such as butter, ghee, cream, curd, etc.

Retail Foray: HFL launched its pilot retail store in Hyderabad named as Fresh@location spread over 3000 sq. feet. The store will have 40% of the shelves filled with agro products (with focus on fresh fruits & vegetables) and remaining will be taken up by FMCG. HFL will utilize its existing procurement & logistical network to source its products to the store. The purpose of this launch is to taste the waters before formal launch of retail chain in Hyderabad.

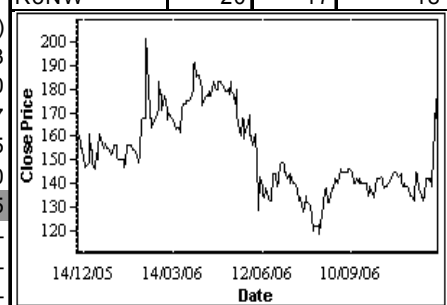
Expansion Activity: HFL in August 2006 has added two more BCU taking its total count to 6 BCUs. In FY07, it has also set up 8 Mini Chilling Center (MCC) & 1 Chilling Center (CC) with another 3 MCC & 2 CC being under construction. Besides it has commissioned a packing station (PS) unit in September 2006 and another PS is under construction. These expansion activities are aimed at tapping the demand potential of emerging Indian milk sector and providing quality, value added products to the consumers. HFL is expected to invest around Rs.250m in ongoing expansion activity to be funded by mixture of debt and internal accruals.

Indiana Acquisition: HFL has acquired a sick unit of Indiana Dairy Specialties located at Hyderabad for Rs.61m, to be funded by debt and internal accruals. HFL is planning to set up a milk-processing unit with capacity of 1-lakh LPD taking the aggregate capacity to 11.8-lakh LPD. This unit is expected to be operational in FY07. The unit, in addition has land admeasuring 2.69 Acres that is expected to be utilized for its retail plans.

Valuations: Due to ongoing expansion activity, HFL could not report good set of numbers. In H1FY07, revenues at Rs.1,732m were up by 18% YoY. EBIDTA margins at 5% declined by 233 bps YoY. PAT at Rs.38m was down by 41% YoY. The current market price discounts the H1FY07 annualized EPS of 7.5 by 21x.

Financial Snapshot

Heritage Foods India Ltd.				Rs.m			Ratios (%)			
	Q2 FY07	Q2 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Financial Year End: March										
Net Sales	899	771	17	2921	2661	10	Debt -Equity	0.23	0.30	(23)
Other Income	4	3	35	13	8	63	PBIDTM	8.8	8.1	9
Total Income	903	774	17	2933	2669	10	PBDM	8.5	7.6	11
Total Expenditure	855	723	18	2681	2461	9	RoCE	25	23	11
PBIDT	48	51	(7)	252	209	21	RoNW	20	17	18
Interest	3	0	675	4	6	(33)				
PBDT	45	51	(12)	248	203	23				
Depreciation	15	13	21	48	40	20				
Tax	10	14	(32)	66	52	27				
Reported Profit After Tax	19	28	(33)	136	101	35				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	19	28	(33)	136	101	35				
No. of shares (m)	10	10	-	10	10	-				
EPS (annualised.) (Rs.)	7.7	11.3	-	13.7	10.1	-				
P/E	20.8	14.2	-	11.7	15.8	-				



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