

Heritage Foods India Ltd

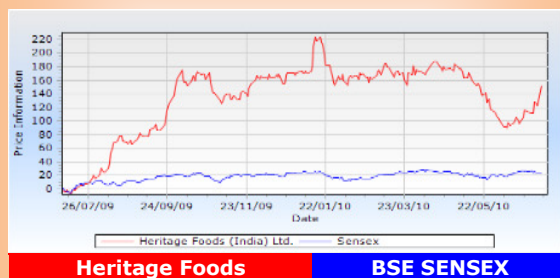
BUY

C.M.P:
Rs.189.00

Target Price:
Rs.217.00

July 06, 2010

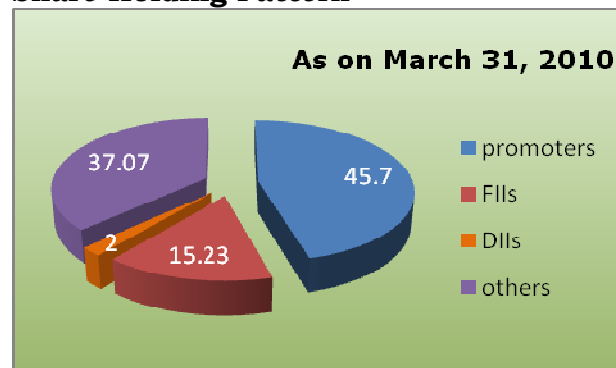
1 Year Comparative Graph



Stock Data

Sector	FMCG
Face Value Rs.	10.00
52 wk. High/Low (Rs.)	255.90/68.90
Volume (2 wk. Avg.)	96000
BSE Code	519552
Market Cap (Rs.In mn)	2179.17

Share Holding Pattern



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SYNOPSIS

- 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).
- Heritage is now become the ISO 22000 certified company by maintaining international quality Standards.
- 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.
- More than 75% of revenue is contributed by dairy segment to its total revenue.
- During the year ended, the robust growth of revenue is increased to Rs.55.96 million.
- Net Sales of the company is expected to grow at a CAGR of 12% over 2009 to 2012E.

Financials (Rs.in.mn)

	FY10	FY11E	FY12E
Net Sales	9003.8	10084.3	11092.7
EBIDTA	468.9	592.6	651.9
Net Profit	55.9	135.22	151.31
EPS	4.85	11.73	13.12
P/E	38.94	16.12	14.40



Firstcall Research

(KPO Division Of Firstobject Technologies Ltd.)

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Heritage Foods India Ltd	189.00	2179.17	4.85	38.97	2.52	0.00
Nestle India	3087.00	297201	68.41	45.12	51.20	485.00
Britannia Industries	1860.00	44435.7	48.76	38.15	4.72	400.00
Glaxo smith Consumer	1814.00	76288.7	58.27	31.13	-	180.00

Investment Highlights

🚩 Q4 FY10 Results Update

Heritage Food India Ltd disclosed earnings results for the fourth quarter ended March 2010. During the quarter, net sales for the quarter rose by 24.81% to Rs.2407.81 million from 1929.23 million in the same quarter last year. Net profit of the company is loss to Rs.11.89 million from the loss of Rs.199.82 million compare to corresponding quarter last year. The loss per share Rs.1.03 for the quarter ended march 2010.

Quarterly Results - standalone (Rs in mn)			
As At	Mar-10	Mar-09	%change
Net sales	2407.81	1929.23	24.81
PAT	(11.89)	(199.82)	(94.05)
Basic EPS	(1.03)	(17.33)	(94.05)

FY 10 Performance

The company has posted a net profit of Rs55.96 million for the year ended March 31, 2010 as compared loss to Rs.356.13 million for the year ended March 31, 2009. Total Income has increased from Rs.7992.54 million for the year ended March 31, 2009 to Rs.9033.11 million for the year ended March 31, 2010.



Recommendation of dividend

Heritage Foods (India) Ltd has recommended a dividend for the year ended March 31, 2010 @ Rs. 1.80/- per share (18%) on equity shares of face value of Rs 10/- each subject to the approval of members.

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.

Subsidiaries & Associates

-  Heritage Infra Developers
-  Heritage Finlease
-  Heritage International
-  Heritage Agro Merine

Business Area

Company has three business division are as follows

- a) Dairy(Milk products)
- b) Retail (Fresh@-Retail out lets)
- c) Agri (Agriculture products direct from farmers)

Products

Heritage products include milk, curd, butter milk, UHT milk (Tetra pack), flavored milk, ghee, doodh peda, paneer, ice cream, cooking butter, lassi, and cream. The company also involves in retail food business that offers fruits, vegetables, cereals, pulses, grocery, processed food, cleaning aids, bakery, dairy products, beverages, frozen food, and other home needs through its stores.

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY09	FY10	FY11E	FY12E
Description	12m	12m	12m	12m
Net Sales	7925.55	9003.85	10084.31	11092.74
Other Income	66.99	29.26	38.04	41.84
Total Income	7992.54	9033.11	10122.35	11134.59
Expenditure	-7958.26	-8564.12	-9529.67	-10482.64
Operating Profit	34.28	468.99	592.68	651.94
Interest	-145.83	-166.75	-183.43	-198.10
Gross profit	-111.55	302.24	409.25	453.84
Deprecation	-172.24	-196.43	-216.07	-237.68
Profit Before Tax	-283.79	105.81	193.18	216.16
Tax	-65.79	-49.85	-57.95	-64.85
Profit After Tax	-349.58	55.96	135.22	151.31
Extraordinary Items	-6.55	0.00	0.00	0.00
Net Profit	-356.13	55.96	135.22	151.31
Equity capital	115.30	115.30	115.30	115.30
Reserves	692.40	753.45	888.67	1039.99
Face value (Rs.)	10.00	10.00	10.00	10.00
EPS	-30.89	4.85	11.73	13.12

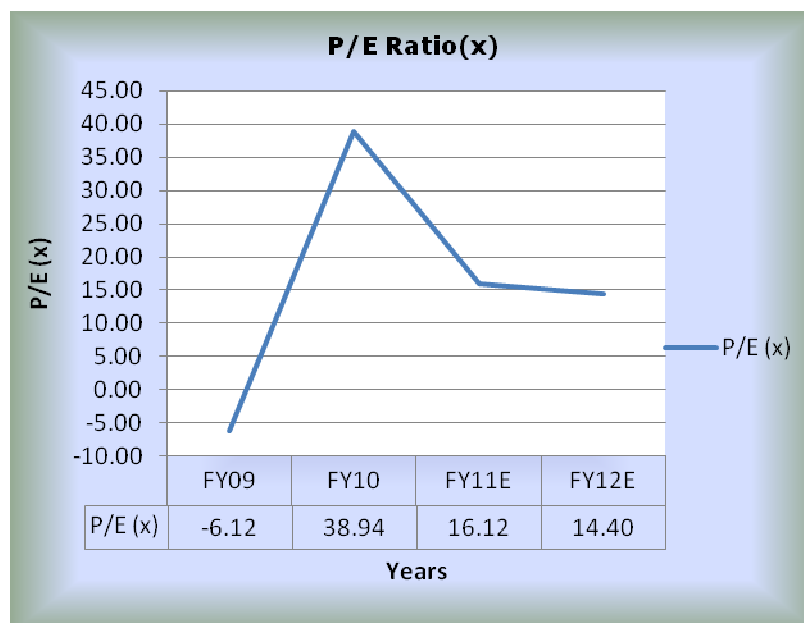
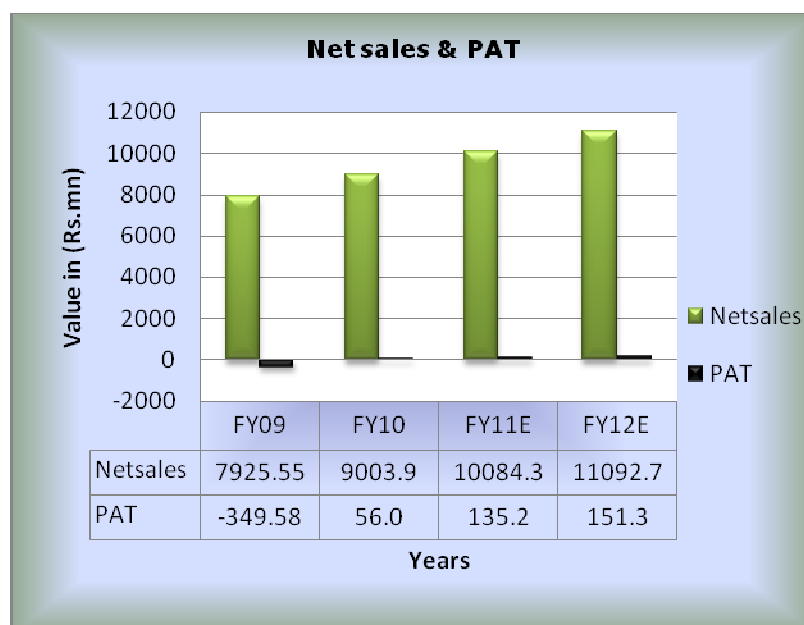
Quarterly Ended Profit & Loss Account (Standalone)

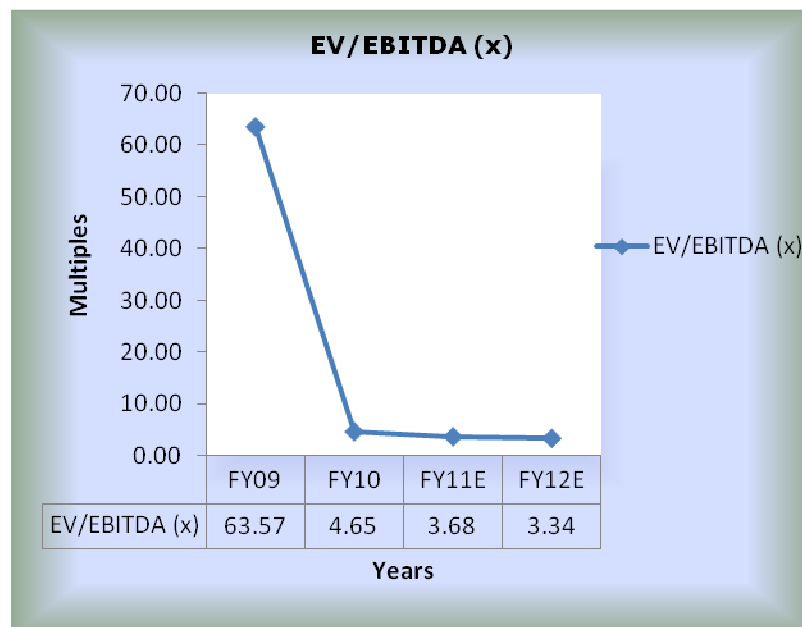
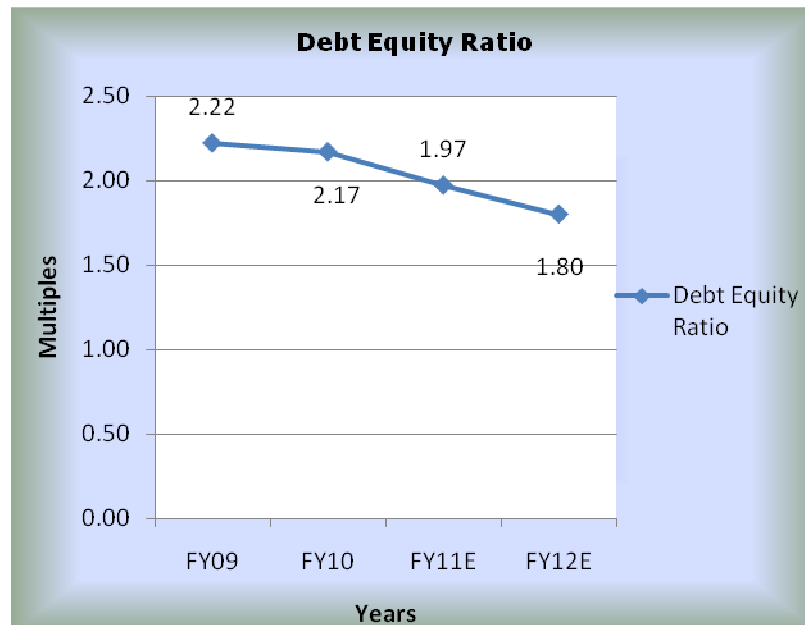
Value(Rs.in.mn)	30-Sep-09	31-Dec-10	31-Mar-10	30-Jun-10E
Description	3m	3m	3m	3m
Net sales	2190.26	2221.01	2407.81	2600.40
Other income	22.82	18.95	-38.27	19.90
Total Income	2213.08	2239.96	2369.54	2620.30
Expenditure	-2098.19	-2092.17	-2271.74	-2457.40
Operating profit	114.89	147.79	97.80	162.90
Interest	-42.37	-37.75	-42.95	-45.10
Gross profit	72.52	110.04	54.85	117.80
Deprecation	-49.74	-51.15	-48.78	-50.20
Profit Before Tax	22.78	58.89	6.07	67.60
Tax	-1.03	-26.16	-18.27	-16.90
Profit After Tax	21.75	32.73	-12.20	50.70
Extraordinary Items	0.00	0.00	0.31	0.00
Net Profit	21.75	32.73	-11.89	50.69
Equity capital	115.30	115.30	115.30	115.30
Face value (Rs.)	10.00	10.00	10.00	10.00
EPS	1.89	2.84	-1.03	4.40

Key Ratios

Particulars	FY09	FY10	FY11E	FY12E
No. of Shares(In Million)	11.53	11.53	11.53	11.53
EBITDA Margin (%)	0.43%	5.21%	5.88%	5.88%
PBT Margin (%)	-3.58%	1.18%	1.92%	1.95%
PAT Margin (%)	-4.49%	0.62%	1.34%	1.36%
P/E Ratio (x)	-6.12	38.94	16.12	14.4
ROE (%)	-43.28%	6.44%	13.47%	13.10%
ROCE (%)	7.93%	24.16%	27.10%	27.51%
Debt Equity Ratio	2.22	2.17	1.97	1.8
EV/EBITDA (x)	63.57	4.65	3.68	3.34
Book Value (Rs.)	70.05	75.35	87.07	100.2
P/BV	2.7	2.51	2.17	1.89

Charts:





Outlook and Conclusion

- ✚ At the current market price of Rs.189.00, the stock is trading at 16.12 x FY11E and 14.40 x FY12E respectively.
- ✚ Price to Book Value of the stock is expected to be at 2.17 x and 1.89 x respectively for FY11E and FY12E.
- ✚ Earning per share (EPS) of the company for the earnings for FY11E and FY12E is seen at Rs.11.73 and Rs.13.12 respectively.
- ✚ Net Sales of the company is expected to grow at a CAGR of 12% over 2009 to 2012E.
- ✚ On the basis of EV/EBITDA, the stock trades at 3.68 x for FY11E and 3.34 x for FY12E.
- ✚ We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.217.00 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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