

Tara Health Foods Ltd

Issue highlights

- **One of the few organized player of the edible oil and cattle feed industry in India**, Tara Health Foods Ltd. (THFL) has within a short span of period created a **strong brand image in northern region** and has developed **extensive distribution network**. Within first **3 years of operations**, THFL **doubled its cattle/poultry feed capacity to 500 tons per day (TPD)**. The facility at Malerkotla (Punjab) is **ISO 9001:2000 certified**.
- THFL is increasing its capacity for Animal Nutrition from **500 TPD to 750 TPD by 2010 and edible oil refining capacity from 120 TPD to 420 TPD by 2011**. If successful in generating higher capacity utilization rate backed by demand, THFL will **embark on a strong growth trajectory and propel its revenue and profitability over next 2 years**.
- THFL has till date only concentrated on the Northern regions of India. It has **tremendous scope to transform its success story across other regions and States of India** which are yet left untapped by THFL and provides significant growth opportunity in the long term.
- THFL has seen exponential growth over **past 3 years**. Income from operations has grown at a **CAGR of 203%**; operating profit at a **CAGR of 273%** and net profit at a **CAGR of 343%** during the period FY 06-FY 09.

Objects of the issue

Objects	(Rs cr)
Setting up new edible oil refining plant & 5 MW cogeneration power plant	125.32
Expansion of cattle feed plant at existing location	45.20
Augmenting long term working capital requirements	38.96

Financial summary (Consolidated)

Period ended	Gross Sales (Rs cr)	EBITDA (Rs cr)	EBITDA Margin (%)	Adj. Net Profit (%)	Diluted EPS (Rs)	RONW (%)
31.03.2007	34	3	7.7%	3.4%	3.37	14.2%
31.03.2008	106	15	14.3%	8.5%	5.81	27.2%
31.03.2009	198	30	15.4%	8.6%	8.89	31.7%
31.12.2009*	243	57	23.3%	15.2%	18.48	38.9%

* 9 months Ended 31 Dec 09; ^ PAT after adjustments for restatements

Issue highlights

Issue size: Rs 180-190 crs
No. of shares : 1,00,00,000 shares
Face value: Rs 10

Issue summary

Price band: Rs 180-190 per share
Issue opens: April 28, 2010
Issue closes: April 30, 2010
Bid Lot : 30 shares

Lead managers: Atherstone Capital Markets Ltd.

Syndicate: Enam Securities, Antique Stock Broking, SMC Global, SPA Securities

Registrar: Bigshare Services Pvt. Ltd.

Shareholding (%)

	Pre Issue	Post Issue
Promoters	100	66.72
Others	0	0
Public	[•]	33.28

	Pre issue	Post issue
No. of shares (in cr)	2.00	3.00

Issue break-up

Reservation for	Shares (in lakhs)	% of Issue
QIB	47.5	47.5
Mutual Funds	2.5	2.5
Non-Institutional	15.0	15
Retail	35.0	35

* Company may allocate up to 30% of the QIB Portion, to Anchor Investors on a discretionary basis

BACKGROUND

Company and promoters

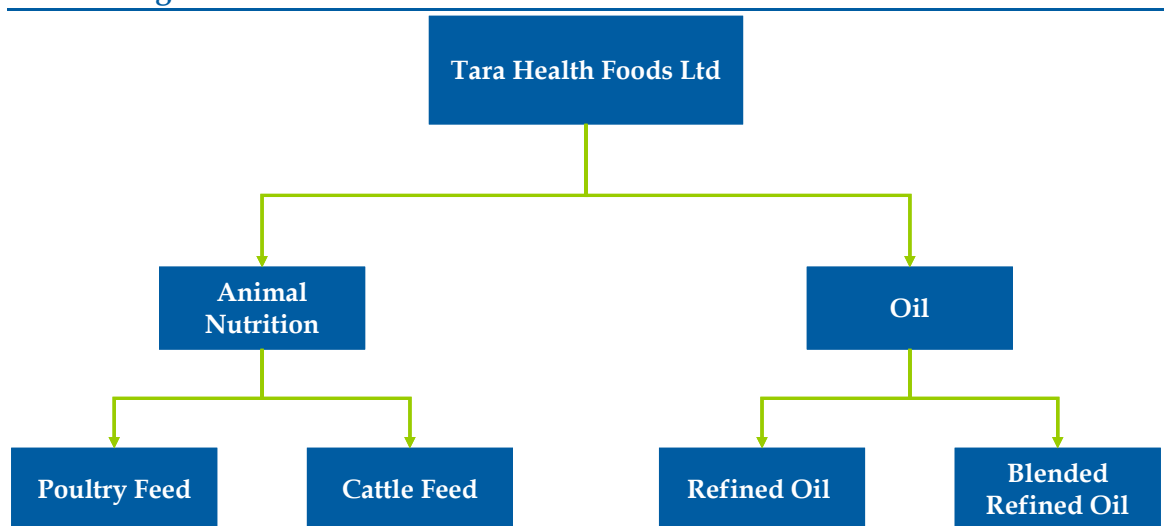
One of the few organized player of the edible oil and cattle feed industry in India, **Tara Health Foods Ltd. (THFL)** under the product brand “Tara” has earned repute amongst the North Indian consumers. In order to earn economies of scale and meet growing demand for Animal nutrition products; THFL has increased its capacity from **250 TPD in 2005 to 500 TPD** currently. The company ventured into refining edible oil industry by setting up **120 TPD** in 2008. Both the product lines are distinct and cater to diverse users.

Promoted by first generation entrepreneur, Mr Balwant Singh is the Managing Director of THFL and has around a decade experience in related industry and has spearheaded THFL’s expansion and has successfully integrated its operations both forward and backward.

BUSINESS OVERVIEW

THFL’s is one of the few organized players catering to oil and cattle feed industry in India. Its business primarily revolves around 2 distinct segments namely; **Animal Nutrition and Oil**. THFL primarily caters to the Northern region of India where it has developed a strong distribution network across several states like Punjab, Haryana, Delhi and others. Its current plants are located in Punjab and Uttaranchal which augurs well for the company due to its proximity to the end-market (North region). The product segmentation is as below;

Product Segmentation



Source: Company.

Animal Nutrition

Animal Nutrition segment has been highly unorganized and fragmented industry. THFL since inception has been engaged in diverse range of branded products catering to distinct needs of its customers. **The success of its products and customer acceptance can be measured by its capacity expansion which has grown from 250 TPD in 2005 to 500 TPD in 2009. Moreover the plants are working at over 90% utilization.** Both these point validate company's strength in creating its niche brand and wide customer base. Animal nutrition segment can be further sub-divided into;

Cattle Feed

Company covers the entire spectrum of the cattle feed segment by providing diverse products at varied price points which helps cater to a wider audience. Promoters being veterans of dairy industry; help in assimilating the industry dynamics and end-users mentality. **Products have distinct features such as a product is applicable in all weather and to all animals, one product which aids higher milk output with fat yield, one product provides high energy, low priced products for farmers and others and products which develop immune of the animals.** Thus it is evident THFL's products reach to a wide range of customer's base with distinct preferences and affordability.

Poultry Feed

Company's **manufacturing facilities are capable of producing synergistic products like poultry feed** which again caters to the same customer base as above. Only order based manufacturing is conducted which results in low capital getting stuck in inventory and optimum capacity utilization.

Edible Oil

Edible Oil segment is the **second core line of business** for THFL. To tap this emerging business and to step towards achieving forward integration, THFL has set up a refinery unit with an installed refining capacity of **120 TPD** for refining of edible oil at its existing facilities in 2008. **Although currently the company is targeting domestic consumers; it has also opened up avenues to explore the exports market on a later stage.** Product offering in edible oil can be subdivided into;

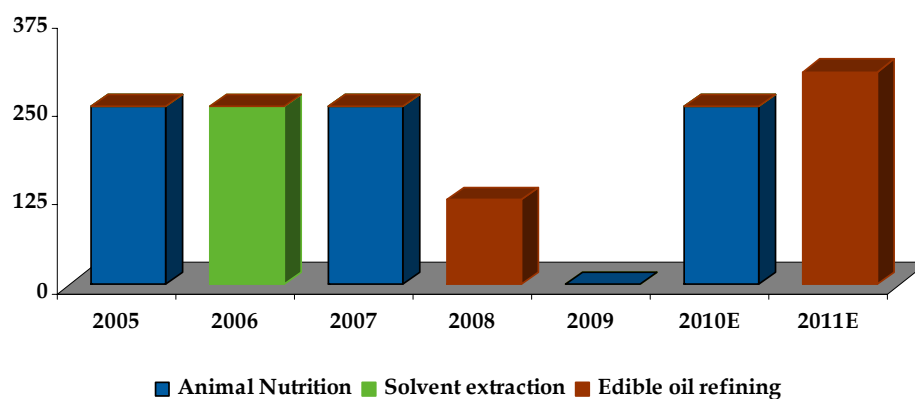
Pure Refined Oil

The company offers 3 variety in pure refined oil segment; namely **rice bran oil, olive oil and cottonseed oil**. Rice bran and olive oil products provide various benefits to consumers ranging from being **anti-diabetic to anti-obesity, fat free, lowering blood cholesterol levels** amongst others. **Cottonseed oil generally has long shelf life** as compared to other variants.

Blended Refined Oil

Olive oil although has its **health benefits; is richly priced**. THFL has **indigenously developed blended refined oil (rice bran +olive oil) which is economical and contains high nutritious value**.

Production Capacity Additions each year



Source: Company.

The company has plans to further increase its production capacity for Animal nutrition (**+250 TPD in 2010**) and edible oil refining (**+300 TPD in 2011**). THFL also had commenced a **solvent extraction plant in 2006**. **The output from the plant is used for internal consumption. Thus this plant provides the company easy, consistent and cheap access to raw materials**. Thus company has been pro-active in scouting for opportunities by scaling its business for vertical and backward integration.

INDUSTRY OVERVIEW

Edible Oil Industry

India is the **third largest consumer of edible oil in the world, next only to China and the US.** India is an edible oil deficit country and **imports approx. 40% of its consumption.** India's annual consumption of edible oil stands at around 12 mn tons.

The Indian edible oil Industry is highly fragmented with a large number of small scale producers.

Groundnut, mustard/rapeseed, sesame, safflower, linseed, castor are the major traditionally cultivated oilseeds. Among the non-conventional oils, RBO and cottonseed oil are the most favored.

Rice Bran Oil Industry

India is the second largest producer of rice in the world and has potential to produce over 1.2 mn ton of RBO p.a. Currently, Indian industry is producing approx. 480,000 tons of edible RBO p.a.

Olive Oil Industry

As per the Indian Olive Association (IOA), **India presently consumes 4,500 tons of Olive oil per year. The consumption has grown by 73% in the last two years.**

Further, IOA forecasts that the consumption of **Olive oil in India is expected to grow to 42,218 tons by 2012, translating a whopping 75% CAGR growth over the next four years.**

Olive oil has generated immense interest amongst the higher income group in India (**around 35 mn**) as it has been proven that it works very well in lowering cardiac diseases substantially.

The Government has in the recent past reduced import duty on olive oil to 7.5% from the existing 45%.

Livestock Industry

India enjoys the credit of having around 57% of the world's total buffalo population.

India remains the numero uno milk producing country in the world since 1988 despite which the per capita consumption is lower than that of the world.

The World milk production is estimated at 613 mn tns and is growing at a CAGR of 1.1%. **India's milk production stands at 91 mn tns and is growing at a CAGR of 4%.**

The Planning Commission has indicated an outlay of Rs 81.8 bn for DAHD for the 11th Plan as compared to Rs25 bn in 10th Plan. This includes Rs 42.4 bn for Animal Husbandry, Rs 7.8 bn for Dairy Development, Rs 27.8 bn for Fisheries, amongst others. The 11th plan targets a 6-7% growth p.a. for the livestock sector as a whole, with milk group achieving a growth of 5% p.a. and meat and poultry achieving a growth of 10% p.a.

According to the 'Feed and fodder supply programme, DAHD' the **daily requirement of cattle feed for high yielding cows and buffaloes comes to about 14-15 kgs. Hence, the market size for cattle feed in India should come to around 42 mn tns per day** (number of bovines in 2003 census multiplied by 15 kgs of feed). Thus there is a huge market size awaiting penetration by organized players like THFL in the coming years.

Strategy

- In order to ensure efficient production of quality products; **THFL will continue to focus on state of the art manufacturing equipments.** Product quality helps THFL compete with other organized players in the industry. Investment in latest technology shall ensure quality products to its customers demanding bulk quantities and also attract new customers.
- **Focusing on customer preferences, their affordability and specific requirements;** THFL provides a wide range of products across its 2 broad segments of cattle and poultry feeds and oil and related products. THFL not only deals in bulk quantities but also in retail packs of varying quantities. This augurs deeper penetration in the urban and rural areas.
- THFL is catering to **2 very diverse and independent sectors namely refined edible oil and cattle and poultry feed.** Thus, the company is better poised to effectively control risks within our business and be in a position to sustain any downturn in the economic activity.
- THFL has been conducting **awareness camps at regular intervals** which help the company in branding its products and have a first hand understanding of customers need and preferences.
- THFL has an **established dealer/retailer network across different states** to sell cattle and poultry feed; refine vegetable oils and blended oil. This network across different states creates brand visibility and results in brand recall and promotes products sold under the brand name "Tara".

ISSUE PROFILE

Positives

- THFL has seen exponential growth over **past 3 years**. Income from operations has grown at a **CAGR of 203%**; operating profit at a **CAGR of 273%** and net profit at a **CAGR of 343%** during the period FY 06-FY 09.
- **THFL has strategically located its manufacturing facility (one each in Punjab and Uttaranchal) in the Green Belt of India (North Region)**. State of Punjab boosted by “The Green Revolution” is coined as “India’s Granary” with large affluence of agriculture. This location ensures consistent supply of raw materials and helps save transportation costs. Moreover it ensures quick delivery of products to the end consumers in the North region. Furthermore, company also has a Solvent extraction plant which helps in reduction of input cost and provides partial stability to availability of raw-materials. Thus, **proximity to end customers and availability of raw material results in cost savings and expansion of margins**.
- THFL is increasing its **edible oil refining capacity from 120 TPD to 420 TPD by 2011**. Although currently, company has plans to only focus on domestic consumers in Northern region (utilizing company distribution network in North); with this capacity expansion **THFL may scout for opportunities across other States of India as well as consider exports to lucrative markets**. THFL’s current refining plant has been assessed by DAS Certification Ltd., U.K., and has found to meet the requirements of the Codex Based HACCP, safety management system for manufacture of blended oil. If the company considers exporting its products, earning such **quality Certification will augur well in generating interest and attract prospective consumers**. Moreover mid-size customers like **Little Italy/Dominoz/Pizza Hut have evinced interest in long term purchase agreements** of edible oil. If successful in winning long term agreements; **consistent revenue generation** will be achieved and THFL can **leverage on its customer’s strong brand to attract new interest** from marquee entities.
- THFL has till date only **concentrated on North India for sale of its products**. Despite being concentrated only in one region, the company was successful in garnering strong demand and earning exponential profits. **Company has huge opportunity in the face the remaining regions of India where it can mirror its performance achieved in North India**.
- THFL is further expanding its capacity for Animal Nutrition from **500 TPD currently to 750 TPD by end of 2010**. THFL’s will be utilizing the available land at its facility in Punjab (**ISO 9001:2000 certified facility**) for this expansion. Consequently, it earns dual benefits of **low upfront cost (as it doesn’t require purchasing land) and operational synergy from the existing plant**.

Risk factors

- Company is dependant on the availability/supply and cost of raw materials. Any significant increase in the prices or decrease in the availability of these raw materials may adversely affect its operations and consequently is profitability.
- THFL's business has substantial working capital requirements. In case there are insufficient cash flows to meet this requirement or its inability to raise funds, there may be an adverse impact on the operations.
- Significant portion of THFL's revenues are concentrated in Northern India. Failure to successfully expand in other parts of the country or economical, political or social issues plaguing North India can seriously harm company's profitability.

INCOME STATEMENT

Y/E March (Rs Cr)	31.03.2006	31.03.2007	31.03.2008	31.03.2009	31.12.2009*
Income from operations	7.12	33.85	106.11	198.24	243.22
Expenditure					
Raw material costs	5.72	27.71	83.89	158.97	175.31
Personnel costs	0.07	0.28	0.51	0.89	1.52
Administrative and other expenses	0.12	0.40	0.86	1.20	1.68
Selling and marketing expenses	0.29	1.35	2.50	2.56	2.98
Manufacturing expenses	0.34	1.49	3.15	4.16	5.01
Total expenditure	6.53	31.24	90.90	167.79	186.50
Operating profit	0.59	2.61	15.21	30.45	56.72
Other Income	0.00	0.00	0.00	0.00	0.00
PBITDA	0.59	2.61	15.21	30.45	56.72
Depreciation	0.30	0.31	0.91	2.71	2.37
Interest & financial expenses	0.19	0.81	2.76	7.64	9.43
Profit before tax	0.10	1.49	11.54	20.11	44.92
Tax	0.03	0.07	2.52	3.11	8.62
Adjustments (net)	(0.14)	0.25	(0.02)	(0.10)	(0.58)
Profit after tax	0.20	1.17	9.03	17.10	36.87

Source: RHP

*For the period from 01/04/09 to 31/12/09

BALANCE SHEET

Y/E March (Rs Cr)	31.03.2006	31.03.2007	31.03.2008	31.03.2009	31.12.2009*
Sources of funds					
Equity capital	1.50	6.50	8.50	9.02	20.04
Share application money	0.85	0.00	0.00	0.00	0.00
Reserves & surplus	0.57	1.74	24.86	44.99	74.84
Total shareholders funds	2.92	8.24	33.36	54.01	94.88
Secured loans					
Secured loans	3.97	14.79	48.23	94.58	140.19
Unsecured loans					
Unsecured loans	0.00	0.01	0.01	0.01	0.00
Total debt	3.97	14.80	48.23	94.59	140.19
Defferred Tax Asset / Liability	0.07	0.22	1.18	2.06	3.27
Total liabilities	6.95	23.26	82.77	150.65	238.34
Application of funds					
Gross block	2.28	10.04	36.78	45.34	62.74
Less: Accumulated depreciation	0.11	0.42	1.33	4.04	6.41
Net block	2.18	9.62	35.45	41.30	56.33
Capital work in progress	0.00	0.00	0.00	0.00	0.00
Investments					
Investments	0.00	0.00	0.00	0.00	0.00
Current assets, loans & advances					
Inventories	3.10	10.06	26.24	91.08	129.35
Sundry Debtors	1.42	6.08	21.01	22.38	66.68
Cash & bank balances	0.32	0.22	1.03	3.97	8.42
Loans and advances	0.59	0.72	5.64	2.45	12.39
Total current assets	5.44	17.09	53.92	119.87	216.83
Less: Current liabilities and provisions					
Current liabilities	0.56	2.68	4.37	7.60	26.89
Provisions	0.11	0.77	2.22	2.93	7.94
Total current liabilities	0.67	3.45	6.59	10.53	34.83
Net current assets	4.77	13.64	47.32	109.35	182.01
Miscellaneous expenditure	0.00	0.00	0.00	0.00	0.00
Total assets	6.95	23.26	82.77	150.65	238.34

Source: RHP

*For the period from 01/04/09 to 31/12/09

COMPARATIVE ANALYSIS

Company	Gross sales (Rs Cr)	Operating margin (%)	PAT (Rs Cr)	EPS (Rs)	Latest P/E	CMP* (Rs)	RONW (%)
Tara Health Foods Ltd.	243	23.3%	37	8.89	20.2/21.3	180/190	31.7%
Agro Tech Foods Ltd.	774	4.0%	21	8.50	30.35	258	17.3%
Anik Industries Ltd.	1,029	4.3%	10	3.70	17.74	66	5.6%
Sawaria Agro Oils Ltd.	1,121	6.5%	38	2.10	24.10	51	41.4%

* CMP as on 23 April 2010

Source: RHP, company filings; All fig. for FY 09

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