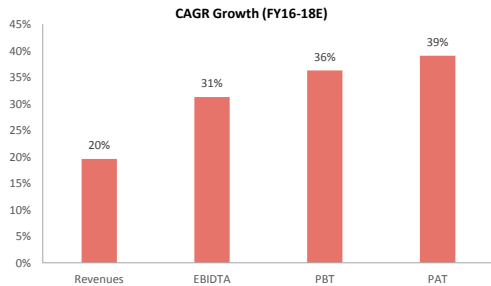


July 12, 2016

Initiating Coverage

Dairy
Sector Outlook - Positive

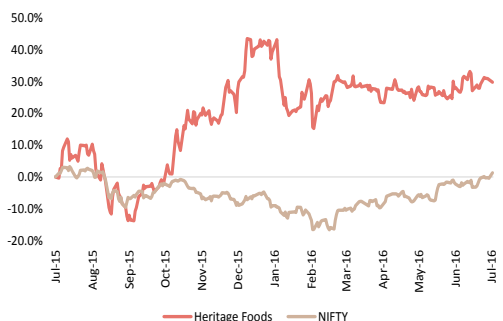


Stock Recommendation	Buy
CMP (₹)	522
Price Target (₹)	897
Upside	72%
52 Week H / L ₹	594/340
BSE 30	27627

Key Data	
No. of Shares, Mn.	23.2
Mcap, ₹ Mn	12244
Mcap USD Mn @ ₹66	186
2 W Avg Qty, (BSE+NSE)	51213

Shareholding, Mar'16	
Promoters	39.9
Public	60.1
Others	--
Total	100.0

Performance	1 M	3 M	6 M	12 M
Stock Return %	1.3	5.2	-8.6	29.8
Relative Return %	-2.3	-2.5	-17.4	28.6



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Heritage Foods Ltd is an emerging national level Dairy Company with operations in 10 states spread across all the four corners of India. Heritage Brand is the second largest selling milk brand in states of Andhra Pradesh and Telangana.

Proxy play on high growth organized Dairy in India: Industry estimates suggest India's Organized Dairy sector turnover should grow at CAGR of 19.5% between CY15 –CY20 to reach value of ₹2.4 Tn by CY20E. Heritage Foods Ltd, an emerging national level Dairy company in organized space offers good investment opportunity to benefit from high growth potential of organized dairy segment in India.

Strategy in place for aggressive topline growth: Heritage vision 2020 envisages taking the company into Billion Dollar club in terms of turnover. This is intended to be achieved by tripling Dairy segment revenue to ₹42bn, Retail segment revenue to ₹15bn and other segments combined to approx ₹3bn. Product portfolio expansion (Cheese & Yoghurt) and Geographic expansion (Delhi, Mumbai etc) is the key to achieve the stated vision. We expect company to register Topline of ₹34bn by FY18E by clocking CAGR of 19.6% between FY16-FY19E on the back of 17.4% CAGR in Dairy segment and 26.5% CAGR in Retail segment.

Change in Dairy Product Mix should lead to margin enhancement: Out of total Dairy turnover of ₹17.4bn, Value Added Dairy products contributed close to ₹3.8 bn or 22% to the Dairy segment topline during FY16. VADP segment clocked EBITDA margin of 17.7% in FY16 compared to 8.1% in liquid milk segment. Management is targeting 200-300bps increase in revenue contribution from VADP every year. We expect Dairy segment EBITDA margin to expand by 100bps and reach a level of 8.5% by FY18E on the back of 26% Dairy revenue from VADP.

Retail business set to turnaround this year, will lead to Rerating: Retail business of the company which made EBITDA loss of ₹43mn in FY16, is all set to turnaround during current financial year. We expect Retail business to clock EBITDA of ₹46mn in FY17E and ₹159 mn in FY18E. Helped by this turnaround, Core EBITDA of the company is expected to grow to ₹2.25bn by FY18E (31% CAGR) while PAT should grow to ₹1.07bn (39% CAGR) by FY18E. This should lead to complete Rerating of Heritage Foods Ltd. Further, any successful deal relating to stake sale in Retail division will lead to value unlocking.

Best among listed peers on various financial Parameters: Heritage is the best Dairy Company among listed peers on various financial parameters like Working Capital Efficiency, ROCE, Debt Equity ratio and Dividend Yield. In terms of Topline growth and EBITDA margin it commands respectable position among peers. The most distinguishing part is consistently positive free cash flow of Heritage Foods which none of the listed peers enjoy. This presents a very strong case for valuation multiple Rerating of Heritage Foods Ltd.

BUY with Price target of ₹897:

At the CMP of ₹522, stock is trading at 15.6x FY17e EPS and 11.3x FY18e EPS. Valuation is very attractive compared to peers like Parag Milk Foods (15.3x FY18e EBITDA) and Prabhat Dairy (6.9x FY18e EBITDA) in light of higher expected topline growth, ROAE and Dividend yield with least amount of leverage (0.4x only). This warrants strong rerating of Heritage Foods valuation multiples. We are assigning multiple of 8x FY18e EBITDA to dairy business while Retail business is being assigned conservative multiple of 0.5x FY18e Turnover. This gives us fair Target price of ₹897. At the targeted fair price, stock is valued at 19.4x FY18e EPS of ₹46.2 and offers upside potential of 72%.

Financials	Revenues ₹ Mn	EBITDA Mn Mn	PAT ₹ Mn	EPS ₹	P/E x	EV/EBITDA x	ROAE %
FY14	17221	950	453	19.7	26.4	7.2	28.6
FY15	20730	821	284	12.3	42.6	8.6	15.3
FY16	23805	1307	554	24.5	21.3	9.7	26.2
FY17E	28477	1729	775	33.4	15.6	7.4	28.3
FY18E	34069	2254	1072	46.2	11.3	5.6	30.1

Source: Company, Sunidhi Research



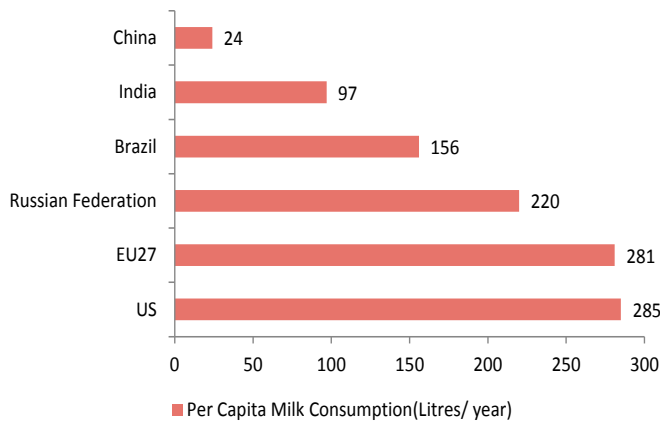
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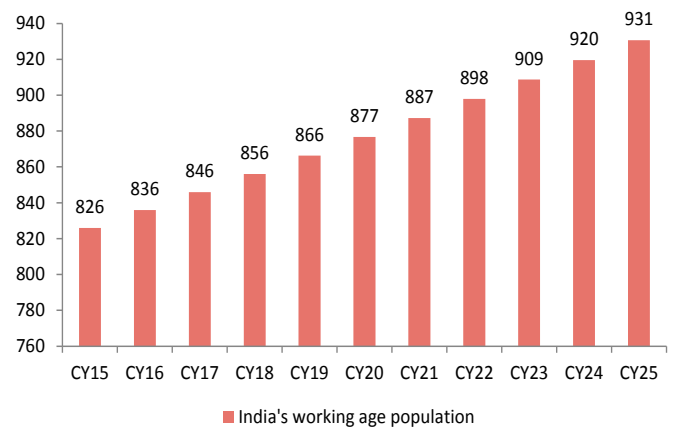
Proxy play on high growth organized Dairy in India: Per capita milk consumption in India is 97 litres which is much lower than corresponding figure in countries like US (285 liters), EU (281 liters), Russian federation (220 liters) and Brazil (156 liters). This is in spite of the fact that India is the world’s largest milk producer (147 MMT in FY15). Steadily growing population with rising per capita income is expected to lead to sustainable demand for milk and milk based products in India. India’s milk consumption is expected to grow to 192MMT in CY2021 from 138MMT in CY2015. India’s Dairy Industry which was valued at INR 4.7tn in CY15 is expected to grow at a CAGR of 14.9% between CY 15 and CY20 to reach a value of INR 9.4tn. Organized segment which is 20.7% of Indian Dairy Industry and valued at Rs 629bn in CY 15 is expected to grow faster at CAGR of 19.5% during the same period to reach value of INR 2.4trn (25.5% of Indian Dairy Industry). Increasing income level, growing hygiene consciousness, width of product portfolio & Convenience element are some of the factors creating consumer shift towards branded Dairy products .Heritage Foods Ltd, an emerging national level Dairy Company in organized space offers good investment opportunity to benefit from high growth potential of organized dairy segment in India.

Per Capita Milk Consumption (Litres/ Year)



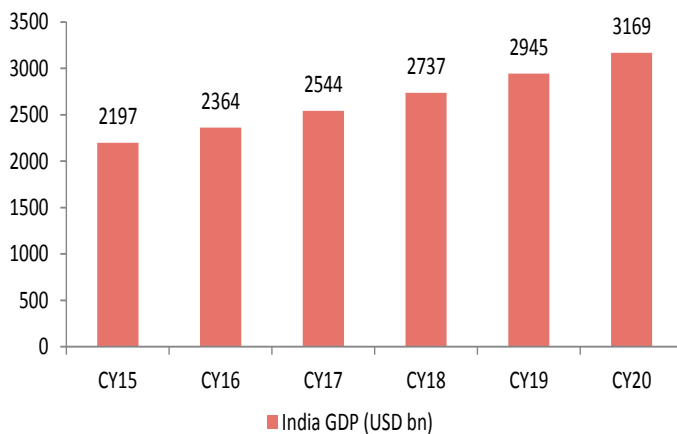
Source: Industry, Sunidhi Research

India’s Working age population (15-64 years)



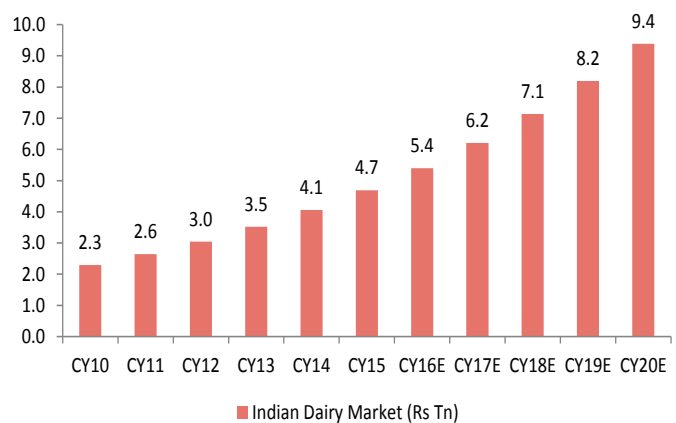
Source: IMF, Sunidhi Research

India GDP (USD Bn)



Source: IMF, Sunidhi Research

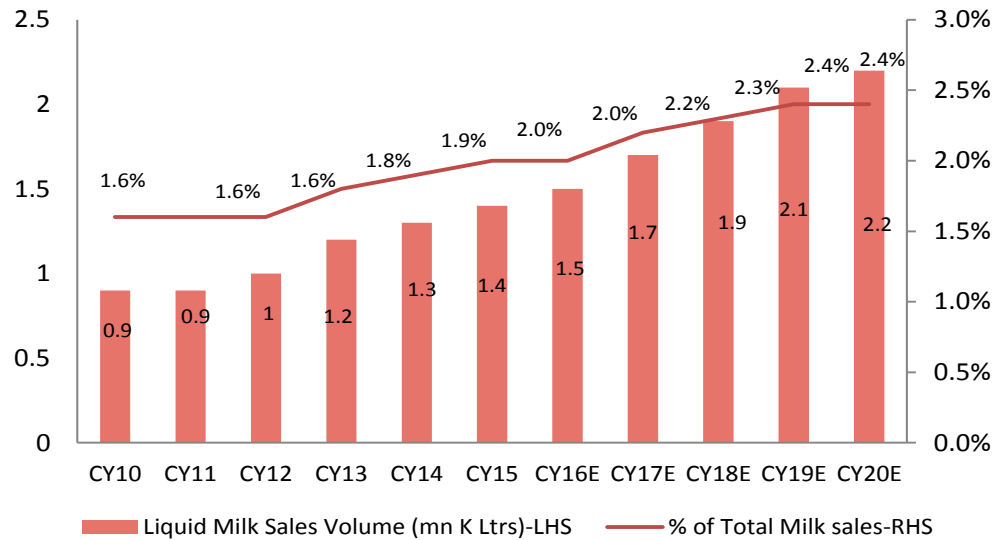
India Dairy Market Value (Rs Trn)



Source: Industry, Sunidhi Research



Liquid Milk Volume-Organized sector

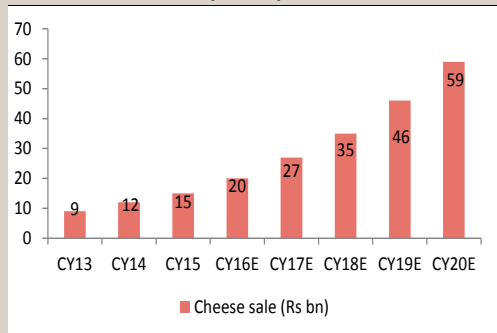


Source: Industry, Sunidhi Research

Strategy in place for aggressive topline growth: Heritage topline has grown at a CAGR of 14% in the last 3 years and reached INR23.8bn in FY16. In order to capture the anticipated Dairy demand, management has decided to shed its moderation and wear aggression. With the help of KPMG, they have charted out vision 2020 which is an aggressive plan to triple the turnover of the company to Rs 60bn by CY20. Vision envisages taking Dairy segment revenue to Rs 42bn, Retail segment revenue to Rs 15bn and other segments combined to approx INR 3 bn. Product portfolio expansion in Value Added Dairy product space (in JV with International Dairy company) and Geographic expansion (Delhi, Mumbai etc) is the key to achieve the stated vision. Company expects to spend close to Rs 5 bn in capex in order to achieve the stated turnover.

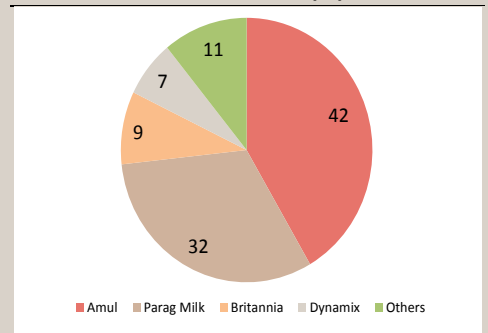
Product Portfolio Expansion: Having established market leadership position in Curd segment, company is now looking to expand its product basket by entering into the fastest growing products like Cheese and Yoghurt. Growth in Fast Food service outlets and changing food habits has triggered demand for cheese in India. Cheese market is 100% organized market and is the second fastest growing segment of VADP with 31.3% projected CAGR between CY15 & CY20 and reach value of Rs 59bn by CY20 from Rs 15bn in CY15. Top 4 players command 89% of India cheese market and there is scope for more players.

India Cheese sale (Rs bn)



Source: Industry, Sunidhi research

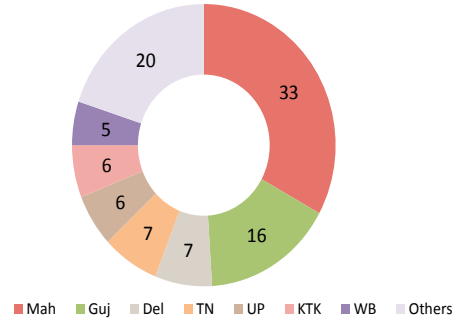
India Cheese Market share(%)



Source: Industry, Sunidhi research

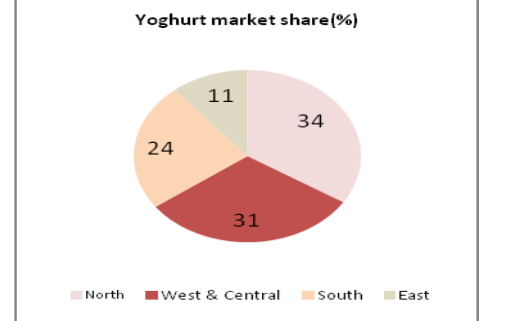


Cheese market share-Statewise(%)



Source: Industry, Sunidhi research

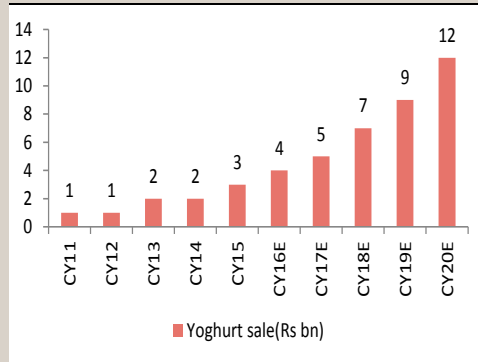
Yoghurt market share(%)



Source: Industry, Sunidhi research

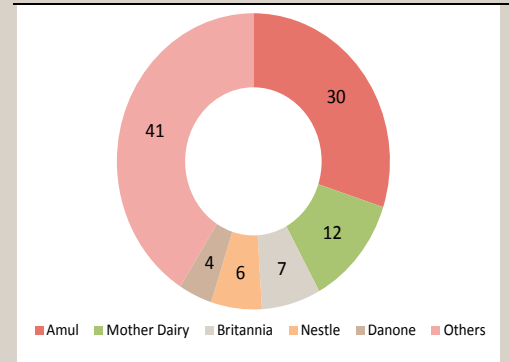
Buoyed by growing income and health consciousness, Flavored Yoghurt market in India has grown at 36% CAGR between CY11-CY14 and is expected to grow at CAGR of 32% between CY15 and CY20 to reach value of Rs 12bn by CY20 from Rs 3 bn in CY15. This segment is also 100% organized and hence no undue competition.

India Yoghurt sale (Rs bn)



Source: Industry, Sunidhi research

Yoghurt Market share(%)



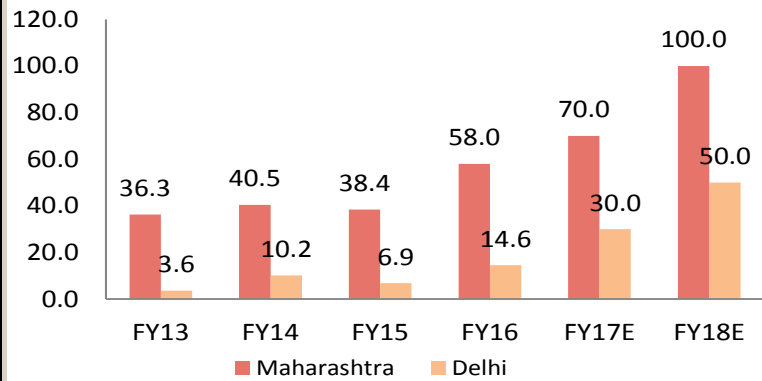
Source: Industry, Sunidhi research

Company is in negotiation with couple of Europe based Dairy companies with established brand to form a 50:50 JV to set up cheese and Flavored Yoghurt plant. Idea is to get a good start in the market from day 1 on the back of partner’s knowhow and brand strength. Tentative investment will be in the region of Rs 3bn where company’s share will be Rs 1.50bn. Plant should be up and running by FY18 on successful completion of JV. In case the JV does not materializes, company plans to go solo in which case progress will be slow and steady. Even a 5% market share by CY20 should lead to additional revenue of Rs 3.55bn for company which is close to company’s curd revenue in FY17E. Both the products being fully organized segment, there should not be risk of undercutting . Cheese enjoys 15% EBITDA margin while Yoghurt enjoys more than 19-20% EBITDA margin.

Thrust into newer Geographies : Company enjoys leadership position in Andhra Pradesh and Telangana and holds sizable market share in Tamilnadu and Karnataka and growth in these markets will be more gradual henceforth. With a view to achieve vision 2020, company has entered into two of the largest Dairy markets in India Delhi (Daily consumption 5.9mn LPD) and Mumbai (Daily consumption 1.79mn LPD). In Maharashtra Heritage milk volume has grown at 16.8% CAGR between FY13-FY16 while in Delhi same has grown at 58.1% CAGR. We expect Liquid milk volume to grow at CAGR of 31% and 85% respectively between FY16 and FY18 at Maharashtra (Mumbai & Pune combined) and Delhi market respectively.



Heritage Milk sales in Delhi & Mumbai(000 LPD)

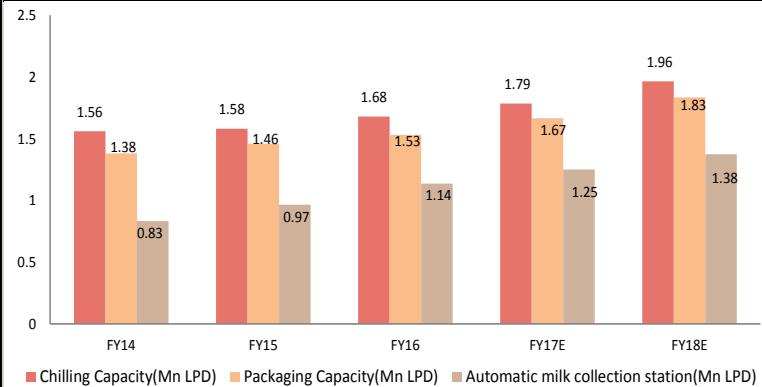


Source: Company, Sunidhi research

Maharashtra is the largest consumer of Cheese (33% of domestic consumption) while Delhi is the largest consumer of Yoghurt. These two markets will also spearhead Heritage’s to be launched VADP product growth as well in years to come.

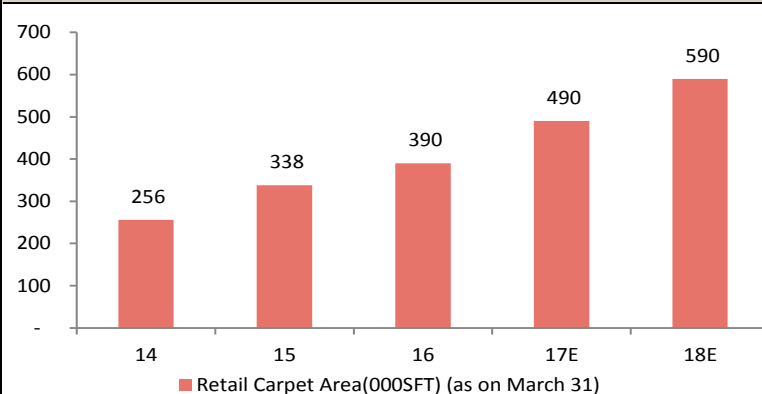
Rs 5bn capex to enhance Dairy and Retail capacity : In order to achieve targeted turnover envisaged by Vision 2020, company intends to spend Rs 5 bn over next 5 years period. Rs 1 bn will be spent every year , result will be analyzed and then further capex will be undertaken. Roughly Rs 800mn would go towards expansion of Dairy while remaining Rs 200mn will go towards Retail area expansion.In case JV materializes, Capex amount for FY17-18 should go up by close to Rs 1.5bn.

Growth in Milk Processing Capacity

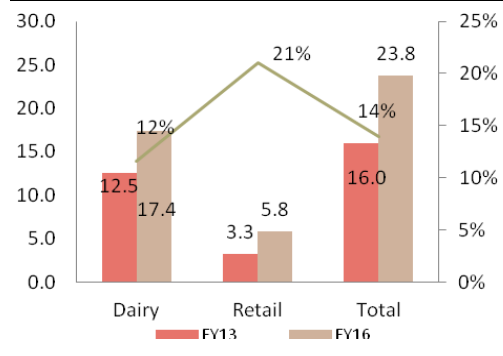


Source: Company, Sunidhi research

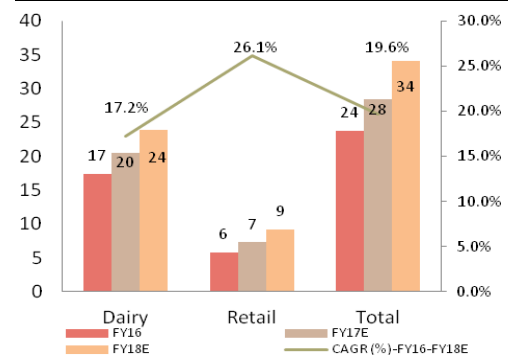
Retail Carpet Area (000SFT) (as on March 31)



Source: Company, Sunidhi research



Source: Company, Sunidhi research



Source: Sunidhi research

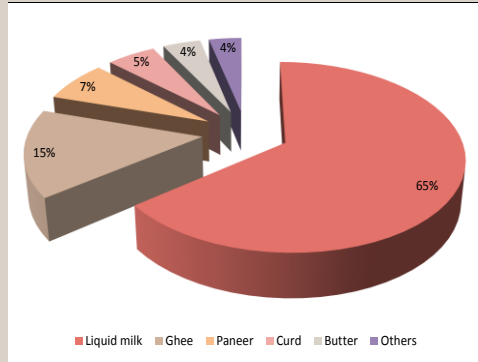
We expect company to register Topline of Rs 34bn by FY18E by clocking CAGR of 19.6% between FY16-FY18E on the back of 17.4% CAGR in Dairy segment and 26.5% CAGR in Retail segment. We have not factored in any revenue from new VADP plant which might come in JV with an International Dairy player with which negotiations are currently underway. If that materializes, company should be able to report higher topline than what we have projected.

Change in Dairy Product Mix should lead to margin enhancement: Dairy business of the company comprises of liquid milk as well as milk based products, also known as Value Added Dairy Products (VADP). In FY16, out of total Dairy turnover of Rs 17.4bn, Value Added Dairy products contributed close to Rs 3.8 bn or 22%. Curd is the largest component of VADP (76% of VADP) and has grown at 43% CAGR between FY14 and FY16. Management is targeting 200-300bps increase in revenue contribution from VADP every year with the aim to ultimately take it to 40% of Dairy segment turnover. We expect VADP sales to grow at CAGR of 28% between FY16-FY18E to reach Rs 6.3bn by FY18E led by 31% CAGR in Curd sales (Rs 5 bn) . This would result in VADP contribution to Dairy sales growing by 400bps between FY16 and FY18E to reach 26%.



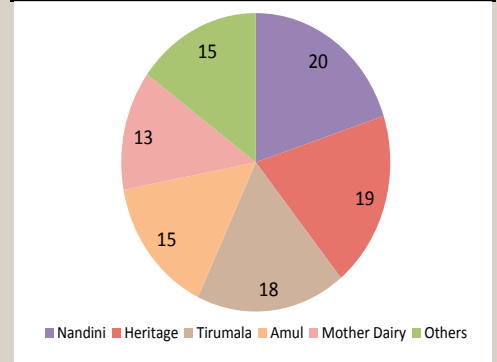
Heritage is the second largest curd player : Curd is the fourth largest Dairy product in terms of sales value(Rs 217bn) and accounted for 5% of Total India Dairy sales value in CY14. As per Industry report , in CY 14 organized sector accounted for 5.5% of Total curd market or Rs 12bn. Heritage was the largest selling Curd brand(19.16% market share) in organized space among Private Dairy players and the second largest among all organized players in India. Karnataka Milk Federation’s Nandini (20%) was the only brand ahead of Heritage in Curd sales while Tirumala (18%) and Amul (15%) were next competing brands. By end of CY 15, Heritage has increased its market share in organized curd sales to 21% (Rs 2.91bn) which we expect to grow further to 23.7% by FY18 (Rs 5bn). South India is the largest market for curd accounting for 35% sales while North India accounts for 33% of total curd consumed in India. Heritage currently derives 96% of Curd sales from South India and is a market leader in Andhra Pradesh , Telangana , Tamilnadu and Karnataka.

India Dairy sales composition (%)-CY14



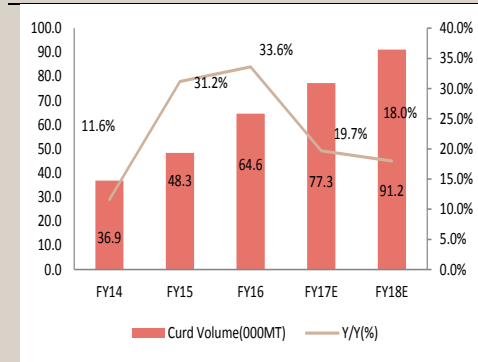
Source: Industry, Sunidhi research

Organised Curd Market-Key players share (%)



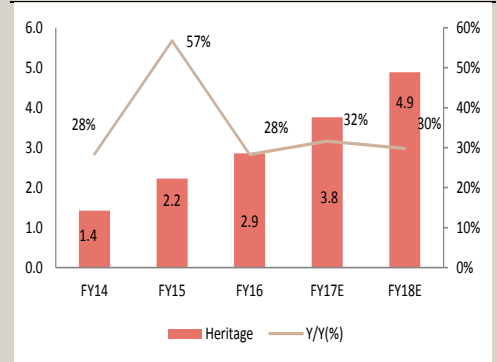
Source: Industry, Sunidhi research

Heritage -Curd Volume Growth



Source: Company, Sunidhi research

Heritage-Curd sales(Rs bn)

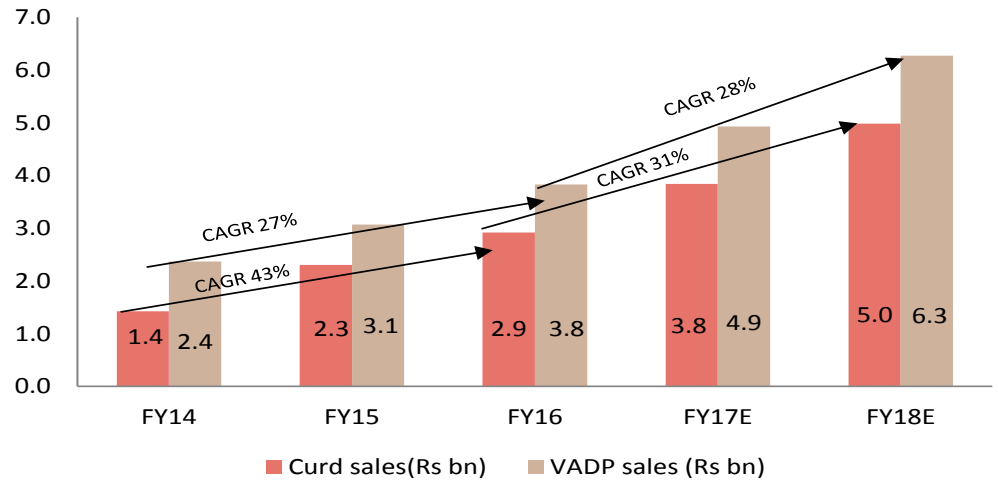


Source: Company, Sunidhi research



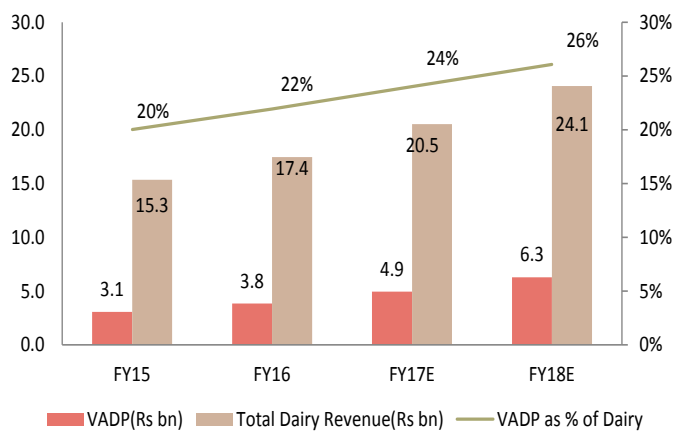
VADP segment clocked EBITDA margin of 17.7% in FY16 compared to 8.1% in liquid milk segment for Heritage Foods . 400bps increase in VADP segment contribution to Dairy segment sales should not only provide stability to EBITDA margin but also enhance it. We expect Dairy segment EBITDA margin to expand by 120bps and reach a level of 8.5% by FY18E from 7.5% in FY16.

Curd leading VADP Sales



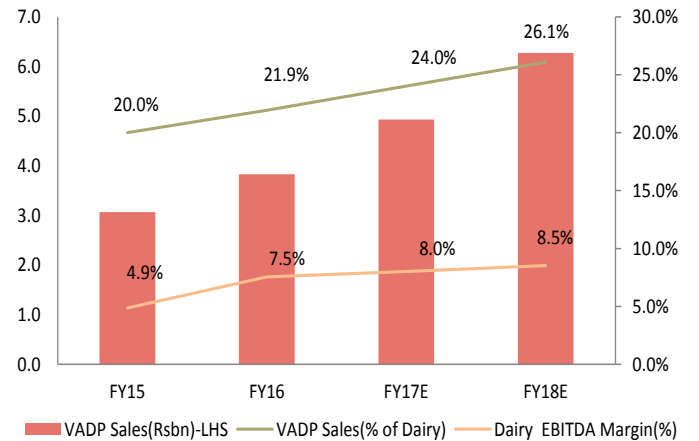
Source: Company, Sunidhi Research

VADP-Growing proportion



Source: Company, Sunidhi Research

VADP Impact on Dairy EBITDA margin (%)



Source: Company, Sunidhi Research

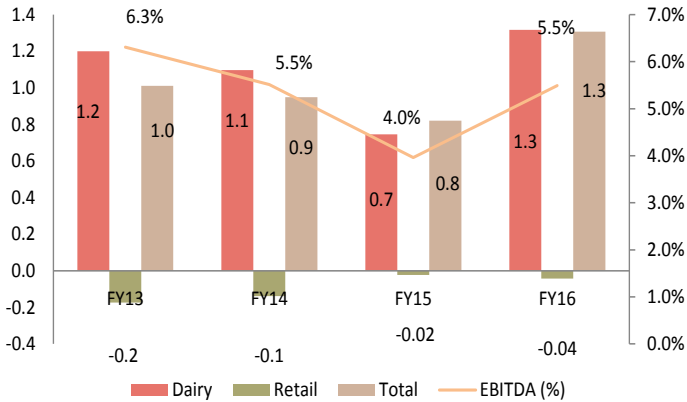
VADP sales which we have projected does not factor in specialized products which company intends to launch in JV with an International Dairy company as we do not have clarity on the same. In case, the JV plan materializes, proportion of VADP sales will become higher than what has been projected and this would lead to better than projected EBITDA margin.

Retail business set to turnaround this year, will lead to Re-rating: Retail business of the company which is run under brand name of Heritage Fresh has clocked a turnover of Rs 5.8bn in FY16 and has contributed 24% to the consolidated topline. However, at EBITDA level, the division made loss of Rs 43mn which is negative EBITDA margin of 0.7%. Our interaction with management suggests that Retail division is all set to turnaround during current financial year. Higher carpet area under Retail, control over corporate overheads along with move towards high churning product mix should help the company register positive EBITDA in FY17E.



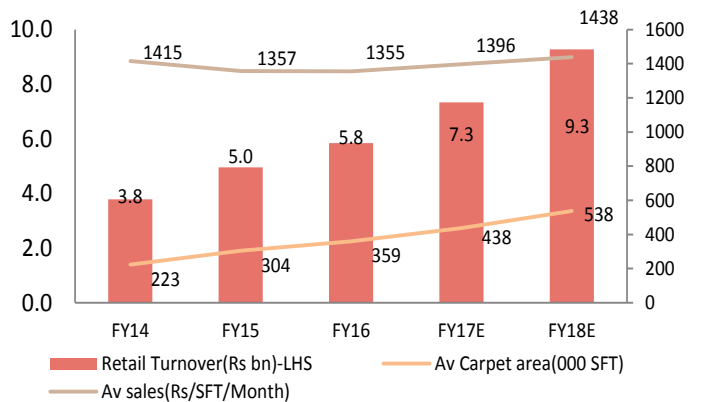
We are factoring Avg carpet area under Retail to grow at CAGR of 22% to reach 5.38 Lac SFT by FY18E from 3.59Lac SFT in FY16 while Avg monthly sales per SFT should grow at CAGR of 3% to reach Rs 1438 by FY18E. This would take Retail turnover to Rs 9.3bn by FY18E while EBITDA should reach to Rs Rs159 mn in FY18E which translates into EBITDA margin of 1.7% for FY18E. Core EBITDA of the company is expected to grow to Rs 2.25bn by FY18E (31% CAGR) while PAT should grow to Rs 1.07bn (39% CAGR) by FY18E. This should lead to complete Rerating of Heritage Foods Ltd.

Retail losses affecting Consol EBITDA(Rs bn)



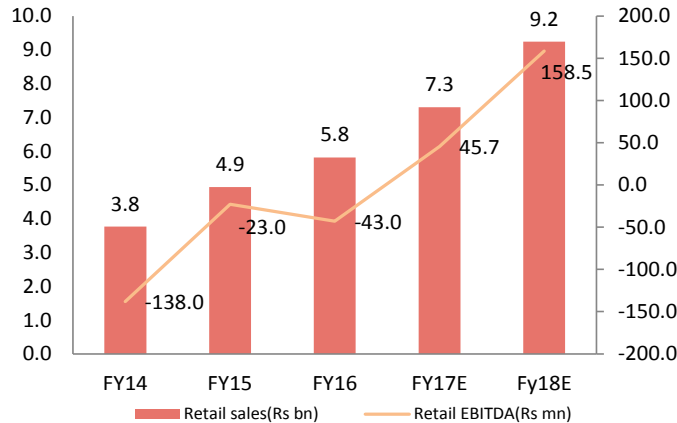
Source: Company, Sunidhi Research

Retail Business-Growing carpet area



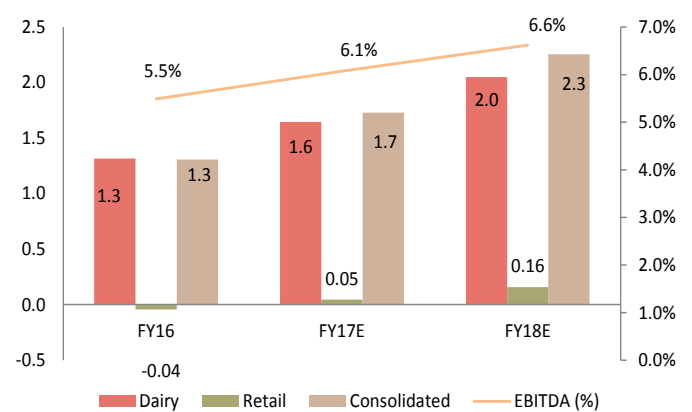
Source: Sunidhi Research

Retail-Sales vs EBITDA



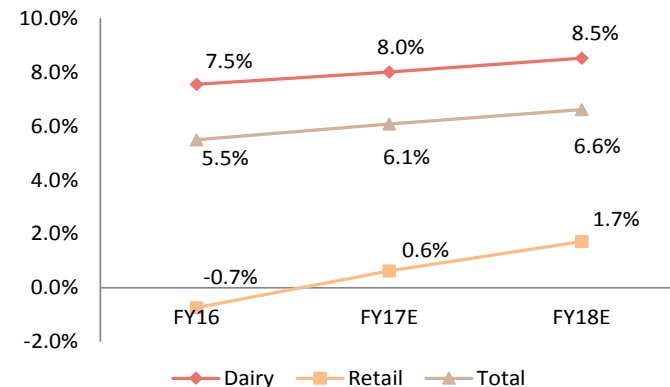
Source: Company, Sunidhi Research

Retail profitability boosting consolidated EBITDA(Rs bn)



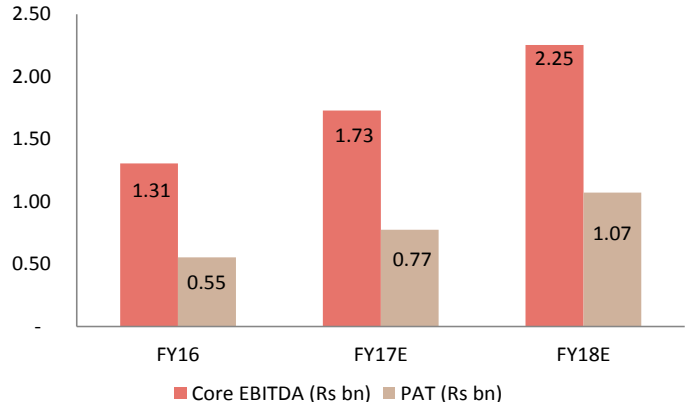
Source: Sunidhi Research

Segment wise EBITDA margin (%)



Source: Sunidhi Research

Core EBITDA vs PAT (Rs bn)



Source: Sunidhi Research



Successful stake sale in Retail business will lead to value unlocking :Management has also given mandate to KPMG to find a potential buyer / partner for Retail operation. Company is ready to sell majority stake in retail operation at right valuation. They are seeking Retail business value at 1.0-1.5x Sales which on FY17E turnover basis values Retail business between Rs 7.3bn –Rs 10.95bn while we have conservatively valued Retail business at Rs 5.0bn (0.5x FY18E Sales) in our valuation. Any successful transaction relating to stake sale in Retail division will lead to value unlocking for Heritage Foods shareholders which could translate into additional value of Rs 100-Rs 259 per share of Heritage Food. Our sense is that, successful turnaround of Retail business should increase the chances of a stake sale deal being materialized.

Best among listed peers on various financial parameters:

Sales growth : Heritage Foods Ltd Dairy division has clocked 15.3% sales CAGR between FY14-FY16 which is a respectable growth number comparable to peers. Parag Milk Foods and Hatsun Agro have done better with sales CAGR of 20.2% and 18.2% respectively during the same period.

Company	Sales (Rs bn)		
	FY14	FY15	FY16
Heritage Foods	13.1	15.3	17.4
Prabhat Dairy	8.52	10.03	11.7
Parag Milk Foods	11.39	14.44	16.45
Hatsun Agro	24.64	29.3	34.4
Kwality Dairy	50.95	58.78	64.14

Source: Company, Sunidhi Research

Profitability : In terms of EBITDA margin company falls behind Prabhat Dairy, Parag Milk Foods and Hatsun Agro mainly due to lower VADP proportion to total Dairy sales. VADP proportion for Heritage dairy was 21.9% during FY16 compared to 67.2% for Parag Milk Foods, 61.0% for Prabhat Dairy and 28.2% for Hatsun Agro. However, Net Profit Margin for Heritage Foods was the best at 3.2% . It was mainly due to the lowest Debt Equity ratio at 0.4 compared to 0.99 for Parag Milk , 4.03 for Hatsun Agro and 0.4 for Prabhat Dairy.

Company	EBITDA (%)			PAT(%)		
	FY14	FY15	FY16	FY14	FY15	FY16
Heritage Foods	8.4%	4.9%	7.5%	4.3%	1.9%	3.2%
Prabhat Dairy	10.8%	10.3%	10.2%	2.4%	2.6%	2.1%
Parag Milk Foods	7.3%	7.4%	9.0%	1.4%	2.4%	2.9%
Hatsun Agro	7.6%	6.8%	8.9%	3.1%	1.3%	1.8%
Kwality Dairy	5.9%	6.0%	6.1%	2.8%	2.8%	2.7%

Source: Company, Sunidhi Research

Working capital Efficiency : Heritage is the best company in terms of working capital efficiency and it has the lowest working capital requirement among listed peers. Retail focused operation (97-98%) where cash and carry model is followed is the biggest reason for this working capital efficiency. Second reason is relatively lower level of VADP in Dairy sales. Because of these two differentiators, Heritage has the best ROCE among listed players. Another distinguishing factors is that Heritage has been able to maintain positive Free cash flow in spite of regular Capex which it has been undertaking all these years. This is mainly due to prudent approach followed by company which has given utmost importance to return associated with every buck it spends. That's the reason Heritage has been a consistently dividend paying and growing company without stretching the balance sheet. Thus , Heritage comes out as the best investment candidate among listed peers on all financial parameters which an investor should look into. As , proportion of VADP grows over time, there will be some increase in working capital requirement but we believe it will still be better than its listed peers for years to come because of its prudent business model. Thus there is a very strong case for rerating of valuation multiples of heritage Foods Ltd .



Company	Inventory(Days)			Receivable (Days)			Payable(Days)			WC Days		
	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16
Heritage Foods	23.01	24.54	22.22	3.52	4.27	4.41	14.62	13.65	12.98	11.91	15.16	13.65
Prabhat Dairy	18.63	23.07	27.4	66.67	75.8	70.6	18.8	0.1	0	66.50	98.77	98.00
Parag Milk Foods	60.86	53.6	60.4	52.39	43.19	52.36	41.97	48.8	37.22	71.28	47.99	75.54
Hatsun Agro	13.1	32.1	36.8	3.24	1.57	1.59	13.4	13.56	15.15	2.94	20.11	23.24
Kwality Dairy	13.4	18.07	9.67	95.4	82.2	94.2	12.2	3.23	2.95	96.60	97.04	100.92

Source: Company, Sunidhi Research

Company	VADP sales (%)			B2C (%)			B2B(%)		
	FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16
Heritage Foods			21.9%			97%-98%			2%-3%
Prabhat Dairy			61.0%			30%			70%
Parag Milk Foods			67.2%			80%			20%
Hatsun Agro			28.2%			96%			4%
Kwality Dairy			NA			30%			70%

Source: Company, Sunidhi Research

Company	ROCE (%)			FCF/ share		
	FY14	FY15	FY16	FY14	FY15	FY16
Heritage Foods	56.0%	35.9%	58.9%	5.7	2.1	28.4
Prabhat Dairy	6.5%	11.9%	11.1%	-5.1	-0.1	NA
Parag Milk Foods	16.9%	25.1%	22.5%	-1.9	-6.2	NA
Hatsun Agro	26.9%	20.7%	43.3%	-1.1	-5.8	NA
Kwality Dairy	52.8%	41.2%	35.2%	-3.6	-4.2	NA

Source: Company, Sunidhi Research

**SWOT Analysis:****Strengths**

1. Heritage Foods is a B2C company with very strong cash flow and very negligible amount of working capital.
2. Direct access to a network of 0.3mn farmers in 7 states is a great strength which ensures uninterrupted supply of 1.2mn liters of milk per day.
3. Heritage is the best dairy company among listed peers in terms of working capital efficiency. It has the lowest working capital requirement due to B2C nature of business .

Weaknesses

1. Losses at Retail business are eating into profits of Dairy business. However, things should change from this year onwards with high carpet area and control over corporate overheads.
2. Major part of company's revenue comes from Southern states of India which makes the company prone to concentration risk. With aggressive focus on product basket expansion and entry into markets of Mumbai, Delhi, company is taking steps to become a national level full product Dairy Company.
3. Dairy business is a highly localized business due to perishable nature of milk. Business development in newer markets is a time consuming exercise as the whole backend infrastructure needs to be established first. Acquisition is a very expensive proposition. Thus growth based on geographic expansion is easier said than done.
4. Poor Yield of milch animals and poor state of village level infrastructure is a weakness which applies to whole sector.

SWOT ANALYSIS**Opportunities**

1. Currently 16% of company's revenue comes from Value Added Dairy Products and 3/4th of it is contributed by Curd alone. Company is looking to expand product portfolio by launching cheese and Yoghurt in collaboration with Global Dairy Company. The Indian cheese market grew at a CAGR of 26.8% between CY07-CY14 and is expected to grow at CAGR of 31.3% between CY15 (Rs 15.2bn) and CY20 (Rs 59.4bn). This will offer tremendous growth opportunity to Heritage Foods.
2. Company has entered markets of Delhi and Mumbai which are two of the largest dairy market in the country. This will help the company into achieving the targeted turnover over medium to long term.

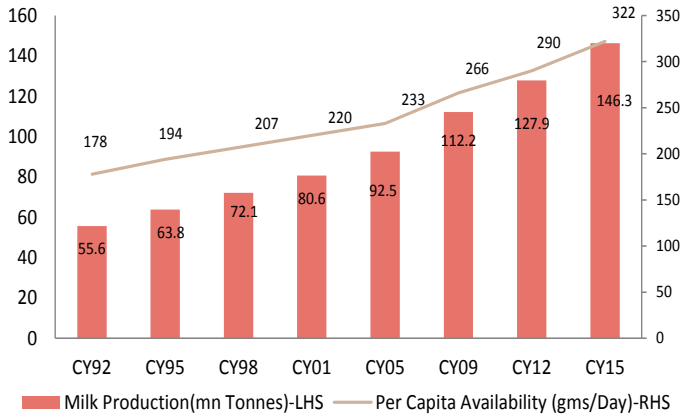
Threats

1. Access to milk supply is the biggest challenge as changing climate and stiff competition from both regional and national players increases the procurement price of milk.
2. Dairy business is a highly competitive business with very little product differentiation. Strength of Brand, breadth of portfolio, Balance sheet strength and level of market penetration are some of the factors which provide competitive advantage to a player. Heritage has advantage in home market of AP and Telangana while other regional and National level players have upper hand in other markets. However, company is taking strategic steps to deal effectively with this challenge.
3. Retail business which is almost one fourth of company's topline faces stiff competition from both organized and unorganized players. Sustainable profitability of retail operation is a challenging task.
4. State milk Cooperatives often tend to distort the economics of dairy business in India by their erratic intervention. This intervention affects the profitability of dairy business adversely. Company is steadily enhancing product basket in favour of Value Added products which will help it preserve and grow its margin.



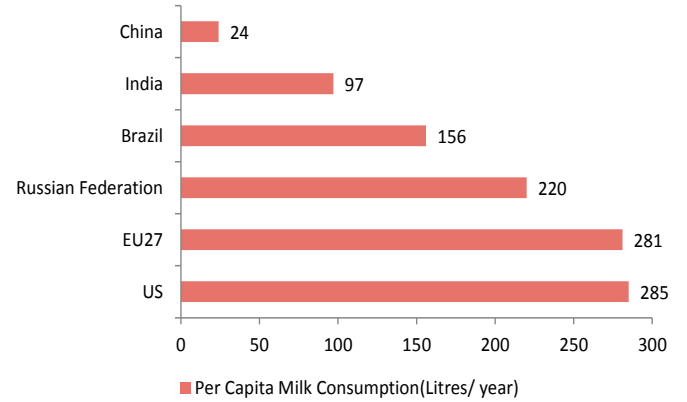
Dairy Sector in India: Current Scenario

Milk Production & Availability



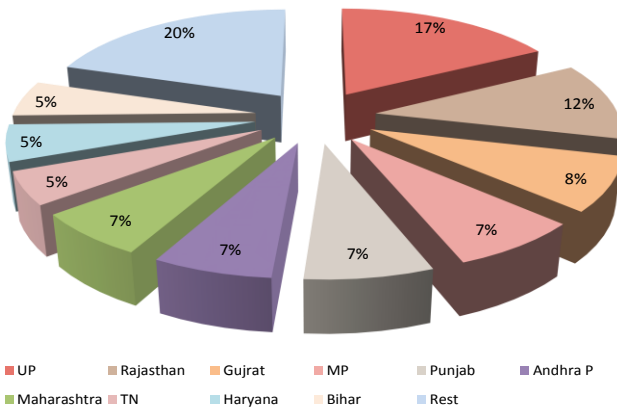
Source: Ministry of Agri, GOI, Sunidhi Research

Per Capita Milk Consumption (Litres/ Year)



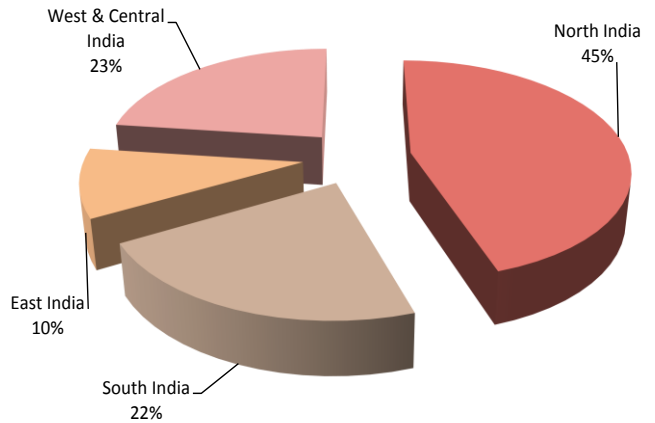
Source: Ministry of Agri, GOI, Sunidhi Research

CY15 Milk Production Statewise



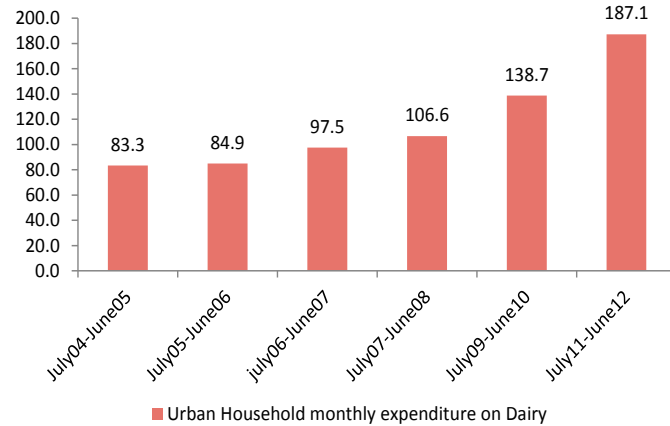
Source: Ministry of Agri, GOI, Sunidhi Research

Liquid Milk sales in India-Geographic Break-up



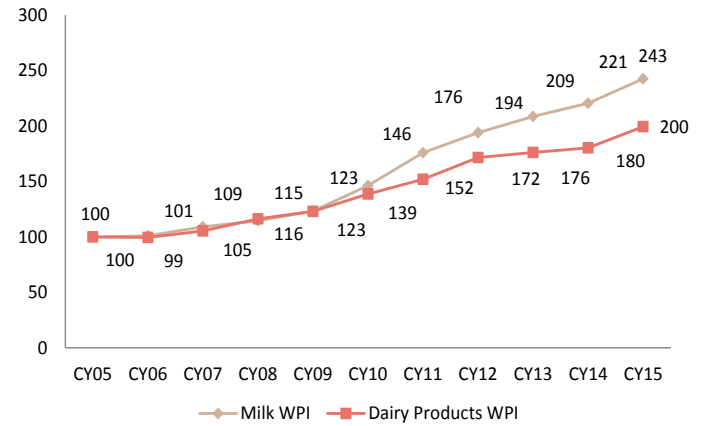
Source: Ministry of Agri, GOI, Sunidhi Research

Urban Household Monthly expenditure on Dairy



Source: Ministry of Agri, GOI, Sunidhi Research

WPI Trend in Milk & Dairy Products

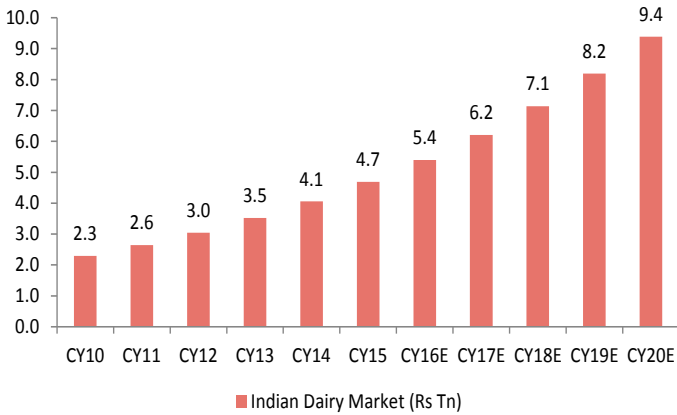


Source: Ministry of Agri, GOI, Sunidhi Research



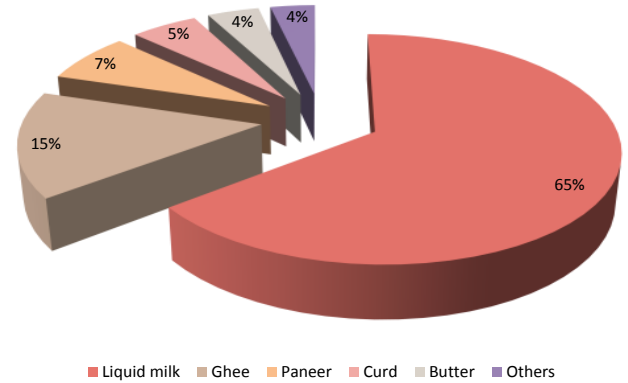
Dairy Sector India – Future Growth

Indian Dairy Trade Market (₹ Tn)



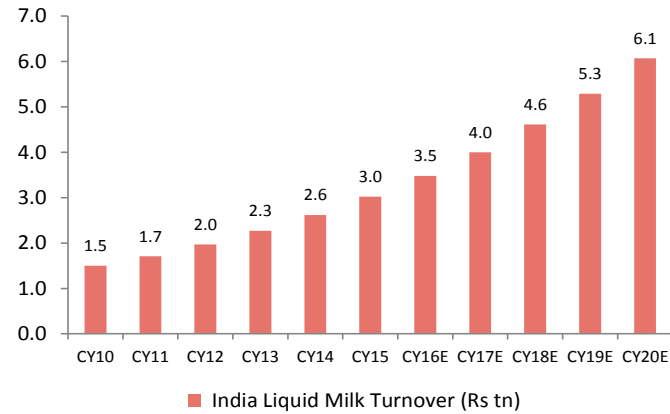
Source: Industry, Sunidhi Research

CY14 – Dairy Sales Composition



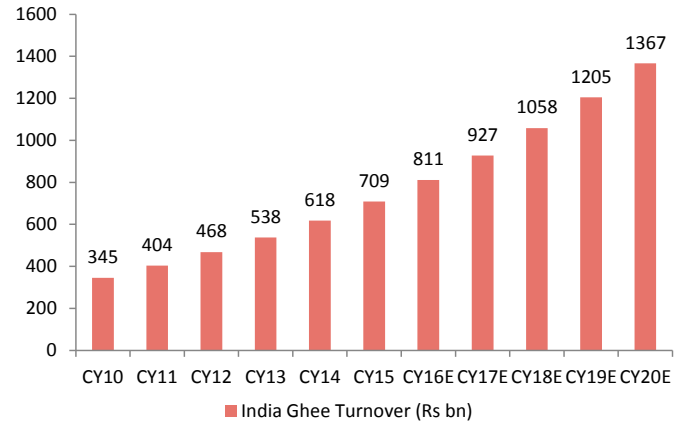
Source: Industry, Sunidhi Research

India Liquid Milk Turnover (₹ tn)



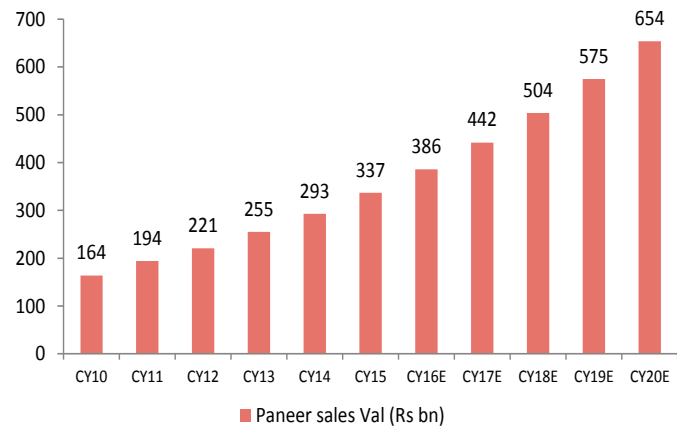
Source: Industry, Sunidhi Research

India Ghee Turnover (₹ Bn)



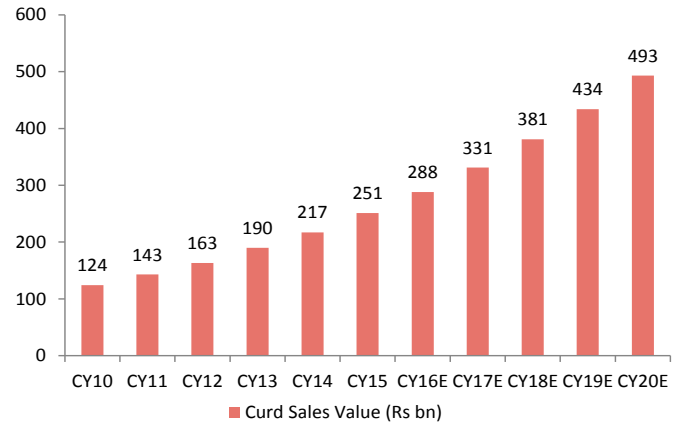
Source: Industry, Sunidhi Research

Paneer Sales Val (₹ bn)



Source: Industry, Sunidhi Research

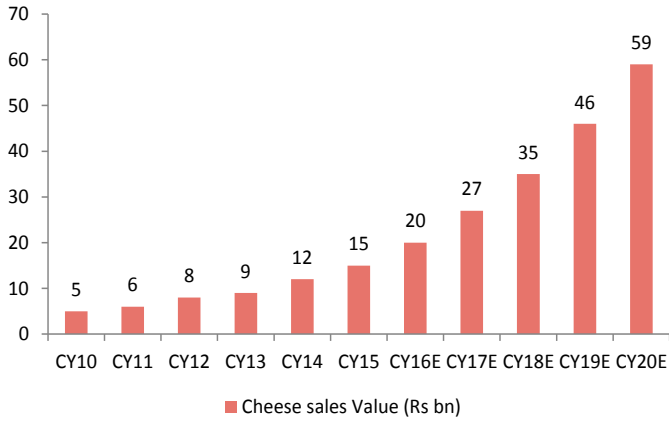
India Curd Sales Value (₹ bn)



Source: Industry, Sunidhi Research

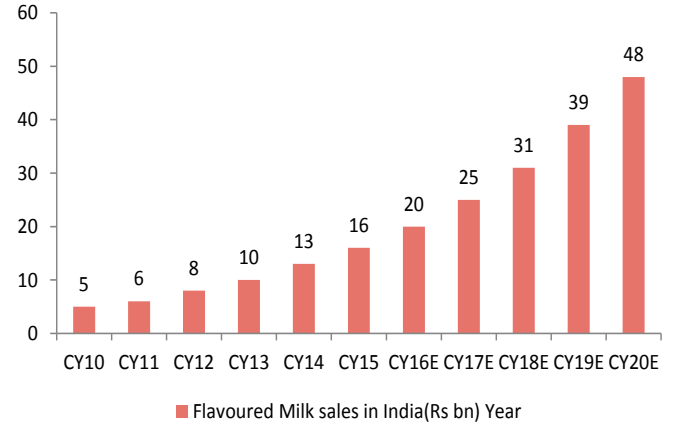


India Cheese Sales Value (₹ bn)



Source: Industry, Sunidhi Research

Flavoured Milk sales in India (₹ bn)



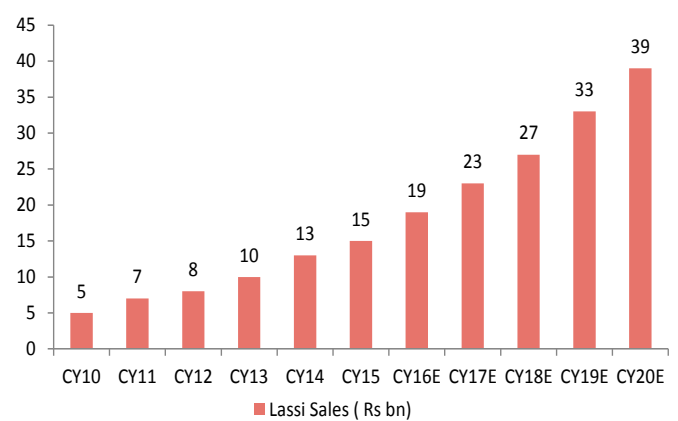
Source: Industry, Sunidhi Research

Flavoured Yoghurt Turnover (₹ bn)



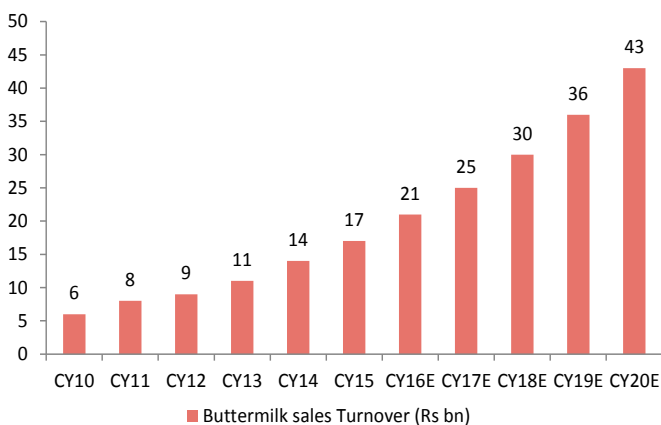
Source: Industry, Sunidhi Research

India Lassi Sales Turnover (₹ bn)



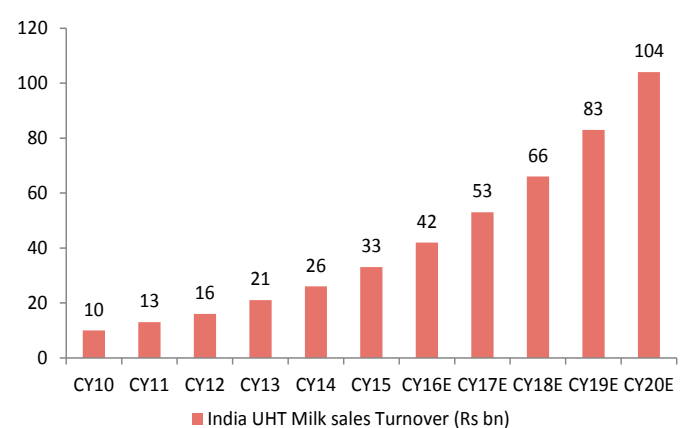
Source: Industry, Sunidhi Research

Buttermilk Sales Turnover (₹ bn)



Source: Industry, Sunidhi Research

India UHT Milk Sales Turnover (₹ bn)

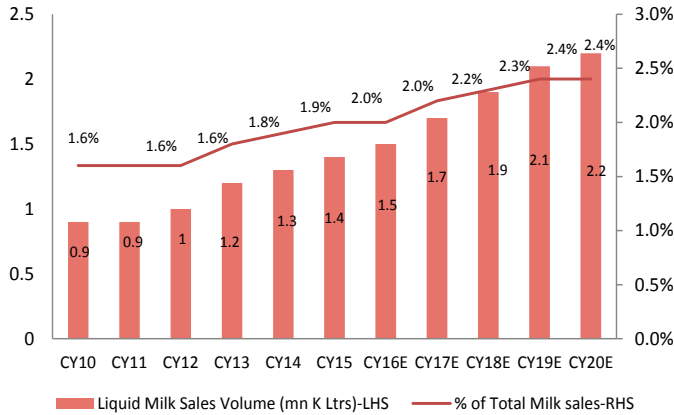


Source: Industry, Sunidhi Research



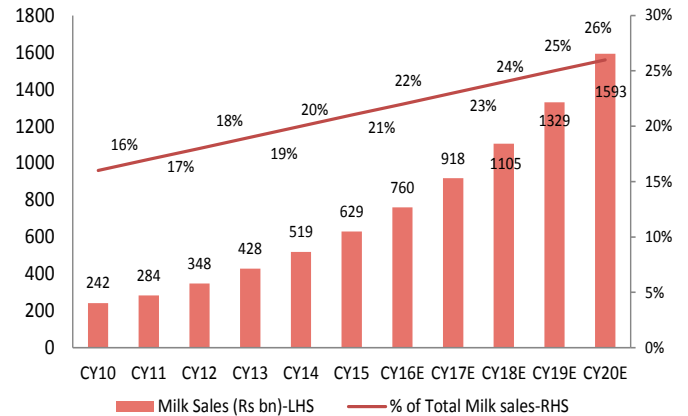
India Dairy- Organised Sector

Liquid Milk Volume-Organized sector



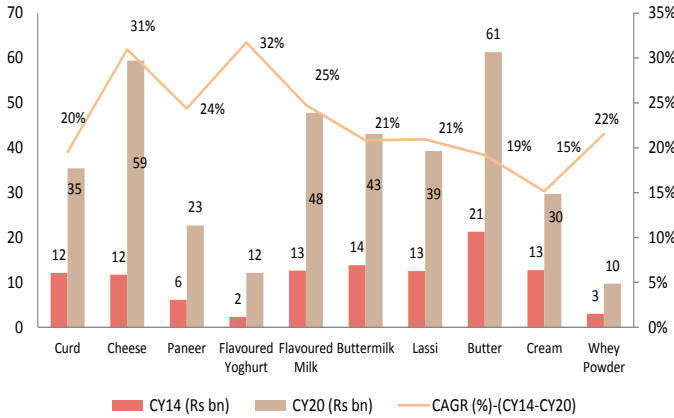
Source: Industry, Sunidhi Research

Liquid Milk Turnover-Organized Sector



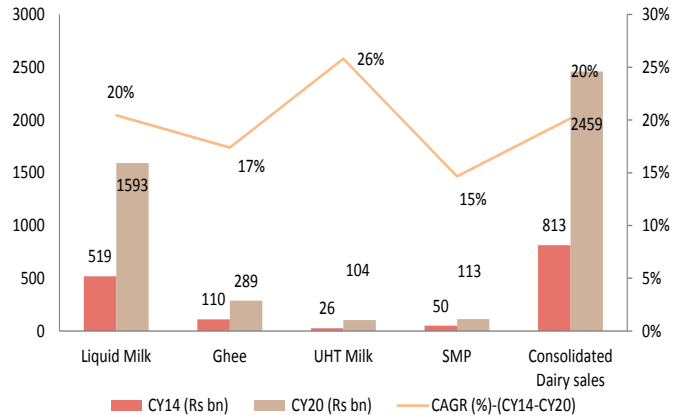
Source: Industry, Sunidhi Research

Organised Dairy- Segment wise Growth



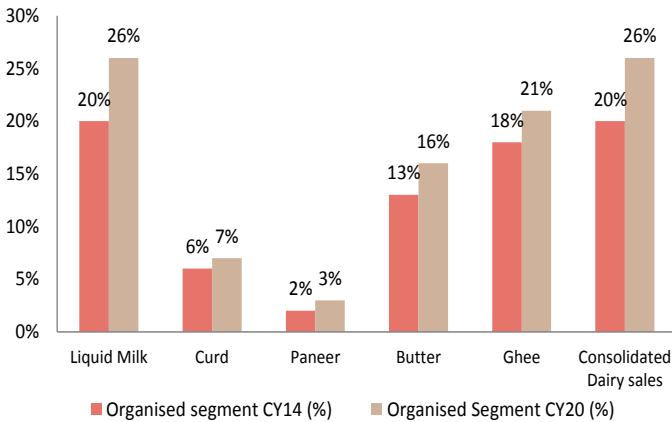
Source: Industry, Sunidhi Research

Dairy segment- Organised Sector Growth



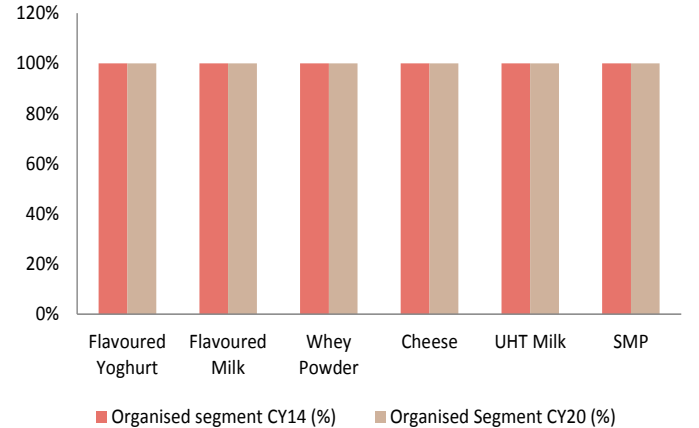
Source: Industry, Sunidhi Research

Changing share of Organised players -Segment wise



Source: Industry, Sunidhi Research

Changing share of Organised players- Segment wise

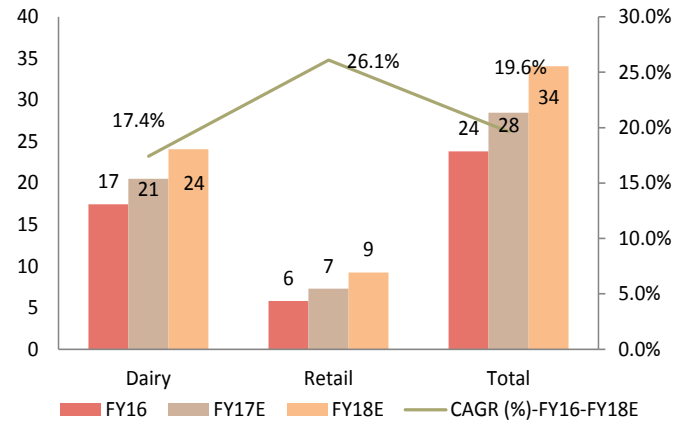


Source: Industry, Sunidhi Research



Financial Performance Analysis:

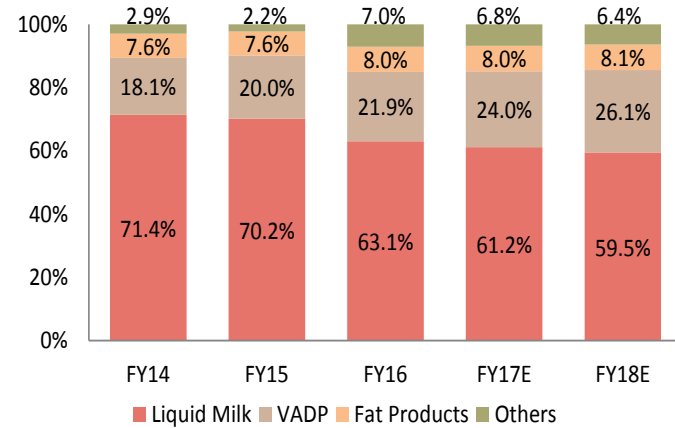
Heritage projected turnover



Consolidated turnover is expected to grow at CAGR of 19.6% between FY16 and FY18E on the back of 17.4% CAGR in Dairy and 26.1% CAGR in retail sales during the same period.

Source: Industry, Sunidhi Research

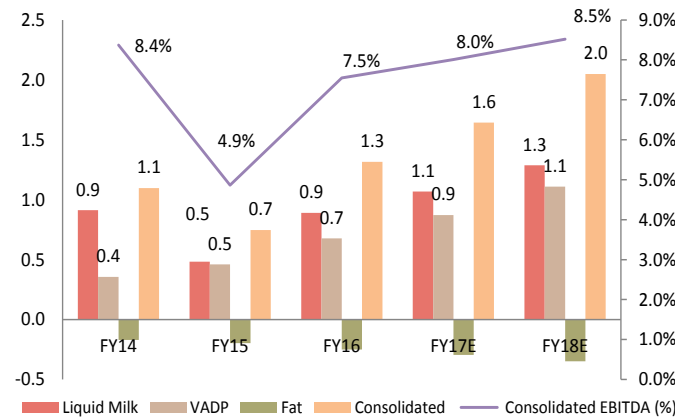
Dairy segment sales composition



VADP Sales as percentage of total Dairy turnover should grow to 26.1% by FY18E due to 28% CAGR in VADP Sales during the same period compared to 14% CAGR in rest of Dairy segment turnover. 30% CAGR in Curd sales is the key reason behind higher VADP sales growth.

Source: Industry, Sunidhi Research

Dairy -Product wise EBITDA (Rs bn)

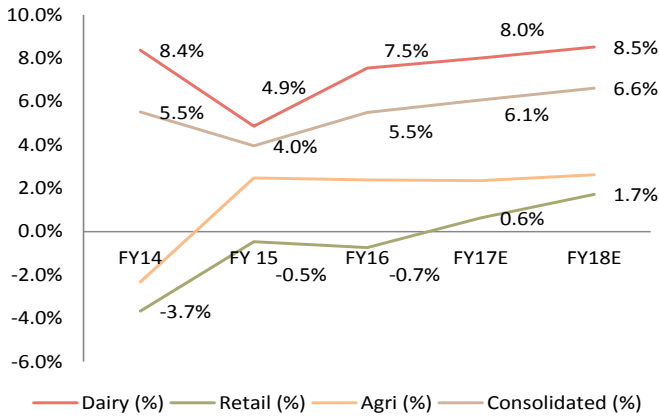


Dairy segment EBITDA margin is expected to expand by 100bps between FY16 & FY18E to reach 8.5% mainly due to 420bps increase in proportion of high margin VADP in Dairy sales.

Source: Industry, Sunidhi Research



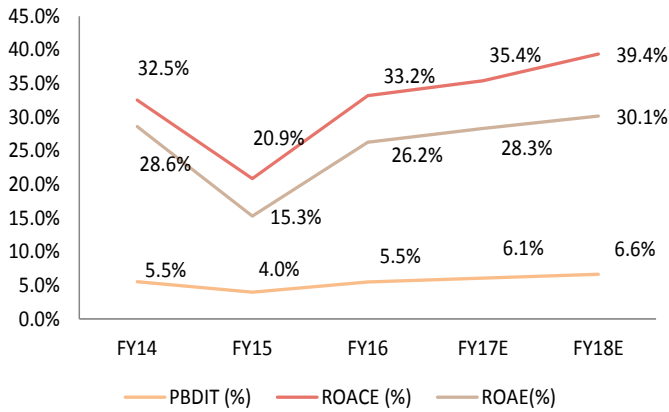
Segment wise EBITDA margin (%)



Consolidated EBITDA Margin is expected to expand by 110bps between FY16 & FY18E on the back of 240bps expansion in retail segment EBITDA margin and 100bps expansion in Dairy segment EBITDA margin.

Source: Industry, Sunidhi Research

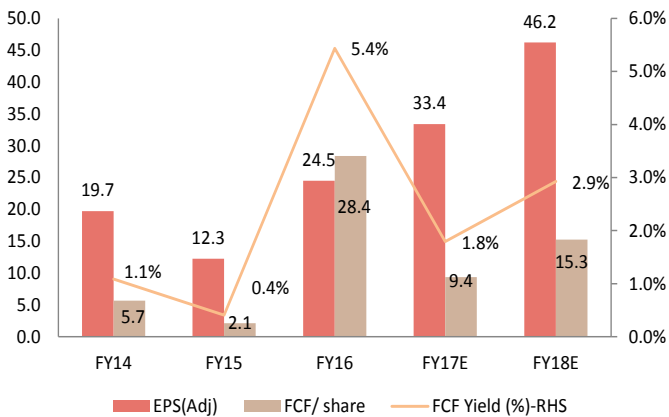
Profitability and Return Ratio



EBITDA margin expansion should lead to improvement in ROACE and ROAE going forward.

Source: Industry, Sunidhi Research

FCF / share (Rs) and FCF Yield (%)



With improvement in EPS, free cash flow per share and FCF yield is also showing improvement.

Source: Industry, Sunidhi Research



Peer Comparison:

Company	Sales CAGR(%)	PAT CAGR(%)	EBITDA(%)			ROACE(%)			ROAE (%)			D/E
	FY16-FY18E	FY16-FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16
Heritage Foods Ltd	19.60%	39.10%	5.50%	6.10%	6.60%	33.20%	35.40%	39.40%	26.20%	28.30%	30.10%	0.4
Prabhat Dairy	16.90%	69.00%	10.20%	10.30%	10.30%	9.80%	10.90%	12.60%	4.30%	7.70%	9.10%	0.4
Parag Milk Foods	16.50%	38.70%	8.90%	9.30%	9.60%	22.50%	NA	NA	13.00%	15.50%	17.50%	0.99
Hatsun Agro	14.20%*	106%*	8.80%	9.50%	NA	41.40%	29.20%	NA	26.00%	41.60%	NA	4.03
Kwality Ltd	15.90%	25.90%	6.10%	6.50%	6.80%	16.90%	20.40%	NA	18.60%	27.60%	NA	1.7

Source: Bloomberg, Sunidhi Research *For FY16-FY17 only

Company	CMP	P/E			P/B			EV/EBITDA			Div Yield (%)
		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16
Heritage Foods Ltd	522	21.3	15.6	11.3	5.0	3.9	3.0	9.7	7.4	5.6	0.6%
Prabhat Dairy	100	35.1	18.6	14.3	2.0	1.4	1.3	9.3	8.0	6.9	0.4%
Parag Milk Foods	330	49.3	34.7	17.0	6.4	5.4	4.5	17.8	18.4	15.3	0.0%
Hatsun Agro	495	88.9	43.1	NA	23.3	NA	NA	18.9	NA	NA	1.1%
Kwality Ltd	109	13.8	10.3	8.9	2.8	NA	NA	9.1	7.9	6.8	0.1%

Source: Bloomberg, Sunidhi Research

BUY with price Target of Rs 897:

At the current price of Rs 522, stock is trading at 15.6x FY17E EPS and 11.3x FY 18E EPS. Valuation looks very attractive when compared to peers like Parag Milk Foods(17 x FY18E EPS and 15.3 x FY18E EBITDA) and Prabhat Dairy(14.3x FY 18E EPS & 6.9x FY18 E EBITDA) on parameters like Topline growth, ROAE and Dividend Yield besides being the least leveraged of all. This warrants strong Rerating of Heritage Foods valuation Multiples. We are assigning multiple of 8x FY18 E EBITDA to Dairy business(still at considerable discount to Parag Milk) while Retail business is being assigned conservative multiple of 0.5x FY18E Turnover.

	FY18E Turnover	Multiplier	FY18E EBITDA	Multiplier	Enterprise Value (₹ mn)
Dairy			2048.4	8x	16387.19
Retail & Others	10,013.92	0.50x			5,006.96
Gross					21,394.15
Gross Debt					987.84
Cash & Short term Investment					410.74
Market Cap					20,817.05
No of shares					23.2
Value per share(Rs)					897.29

We initiate coverage on Heritage Foods Ltd with BUY recommendation and Fair price of Rs 897. At the targeted fair price, stock is valued at 19.4x FY18e EPS of Rs 46.2 and offers upside potential of 72%.

**Risk to Call:**

In spite of prudence and due care taken while making assumptions, there are chances of deviation in both the directions as far as topline and bottomline is concerned. This may pose risk to target price in direction of deviation. Some of the key risks are outlined below.

Downside:

- We have incorporated certain level of volume growth in our financial projection based on our interaction with management. In case, company is not able to achieve targeted volume growth in coming year/s, Topline growth may be lower than forecasted, which could adversely impact the profitability and hence valuation.
- Retail operation of the company is expected to turn profitable at EBITDA level during current financial year on sustainable basis. Any disappointment on that front may have adverse impact on company's profitability.

Upside:

- Upside surprises on volume or Av realization front can create upside risk to our topline and bottomline projection.
- Successful stake sale in Retail business could lead to rerating of company's valuation.
- Any news of JV with any global player could offer enhanced business prospects for the company in medium to long term. We have not factored in this development in our financial projections.

Company Background:

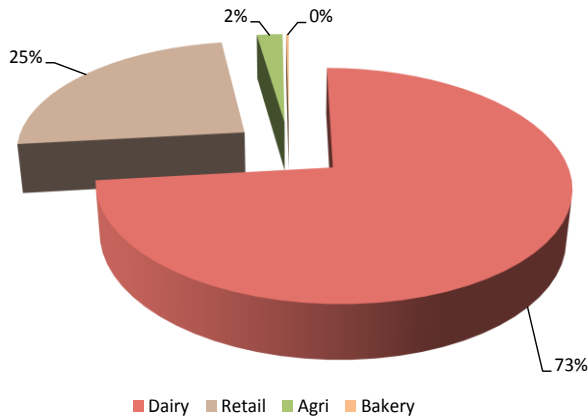
- Headquartered in Hyderabad, Heritage Foods Ltd (Incorporated in 1992) is a leading Private Sector Dairy Companies in India with operations spread across 10 states namely Andhra Pradesh, Telangana, Karnataka, Kerala, Tamilnadu, Maharashtra, Odisha & Delhi NCR (Including Haryana & Rajasthan). Company's Dairy products are sold under brand name of "Heritage".
- Heritage is the second largest selling milk brand in the states of Andhra Pradesh and Telangana .
- Besides Dairy, company operates in three other segments namely Retail, Agri & Bakery. Retail stores are operated under brand name of "Heritage Fresh".
- Company procures 1.18mn Litres of raw milk daily from approx 0.3mn farmers across 6 states which are chilled in 142 chilling plants (installed capacity 1.67mn Liters per day) and further processed and packaged in 14 packaging plants (installed capacity 1.53mn liters per day). After processing around 0.84mn Litres of Milk and 0.18mn Kg of Curd is sold daily across 8 states while 6317 Litres of Ice Cream is sold on daily basis across 6 states.
- As on March 31, 2016 company has 0.38mn sq Ft of carpet area under Retail operations which are divided among 110 heritage Fresh stores spread across Telangana (47 stores Hyderabad, 9 stores Secunderabad & 9 in Ranga Reddy districts), Bangalore (16 stores)and Chennai (32 stores).



Business Segments:

Heritage’s revenue comes from four divisions namely Dairy, Retail, Agri and Bakery. Segmentwise Break-up of FY16 revenue is as given below.

Segment wise Revenue – FY16



Source: Company, Sunidhi Research

Heritage Segmental EBITDA – FY16



Source: Company, Sunidhi Research

Highlights of Business Segments:

Segment	Brief Introduction	FY16 Sales(Rsmn)	Sales CAGR(%)- FY13-FY16
Dairy	Milk and Milk based products under “Heritage” Brand is sold to retail customers across 8 states via company’s sales & Distribution.	17445	12%
Retail	Retail stores are run under “ Heritage Fresh ” brand which cater to households daily needs like grocery, processed foods, Fresh fruits & Vegetables, Bakery & General merchandise. Stores are concentrated around Hyderabad, Secundarabad, Bangalore & Chennai.	5811	21%
Agri	Agri division deals with farmers using contract farming route with a view to source fresh fruits & vegetables for its retail outlets and export. Division also markets cattle feed under Heritage brand in 5 states.	509	31%
Bakery	The division supplies bakery products to leading multinational chains like KFC, Pizza Hut, Hard Rock Café & Taj hotels, Walmart, Marriot, Novotel apart from its own Heritage Fresh Outlets.	50.74	24%

Source: Company, Sunidhi Research

**Business Infrastructure:****Dairy: Procurement & Processing**

Company procures 1.18mn litres of milk per day from 6 states which are chilled, processed and packed in their chilling and packaging plants. Details of sourcing and processing capacities as on March 31, 2016 is as given below.

Particulars	Andhra	Telangana	TN	KTK	MAH	HRY	RAJ	Total
Av Milk Procurement(LLPD)	6.6	1.5	1.2	0.1	0.8	0.0	1.7	11.9
Chilling Capacity(LLPD)	10.0	2.1	2.6	0.6	1.2	0.0	0.3	16.8
No of chilling plants	76.0	42.0	13.0	1.0	7.0	0.0	3.0	142.0
Processing Capacity (LLPD)	7.7	3.9	0.5	1.5	1.0	0.8	0.0	15.3
No of processing plants	7.0	3.0	1.0	1.0	1.0	1.0	0.0	14.0

Source: Company, Sunidhi Research

Dairy: Sales & Distribution

Company sells on an average 0.84mn Litres of milk, 0.19mn kg of curd and 6317 Litres of ice cream per day besides other dairy products across 8 states. Details of sales & distribution is as follows.

Particulars	Andhra	Telangana	TN	KTK	MAH	Kerala	Odisha	Delhi	Total
Liquid Milk sales (LLPD)	2.0	2.8	1.4	1.3	0.6	0.1	0.1	0.2	8.4
Curd (Ton/ day)	80.9	40.8	27.8	29.2	0.2	0.8	6.3	1.8	187.7
Ice Cream (LPD)	1908.0	2994.0	602.0	289.0	367.0	0.0	157.0	0.0	6317.0

Source: Company, Sunidhi Research

Company's sales is facilitated by 26 sales offices, 5900 Distributors and 1,13,000 outlets which cater to 1.13mn households daily .

Retail: Company has currently close to 0.38mn SFT of carpet area under 110 no. of Heritage Fresh stores which it plans to take to 1 mn SFT over next 5 years. Retail outlets are bifurcated between Flagship store (Avg. carpet Area 2,500 SFT) and Daily Format stores (Avg. Carpet Area 1,000 SFT). Flagship stores cater to essential household requirement of customers like Grocery, Processed Foods, Fresh fruits and Vegetables, General merchandise, Bakery products etc. On the other hand, Daily Format stores are food stores catering to daily needs of fresh produce of the customer. Close to 2Mn customers are served every month by the retail stores.

Heritage Parlour :Heritage Parlours are franchisee operated exclusive outlets selling the whole range of Heritage products, that includes Heritage milk, milk products, ice cream, bread and other bakery products, eggs, private label products, fruits & vegetables and also products supplied/approved by Heritage Foods Ltd. As on March 31, 2016 there are 1455 no. of Heritage Parlours.

**Business model:**

Close to 96-97% of company's business (including Retail, Agri & Bakery) falls under B2C category where products are sold to end consumers via agents and retail outlets. Remaining 3% of business (in Dairy and Bakery segment) caters to local coffee chains, Organised Retail etc which falls under B2B category.

Raw Material Sourcing: Raw Milk is the key raw material for Dairy business. Company sources almost 90% of its raw milk from 0.3mn individual farmers across 6 states while remaining 10% is sourced from Milk Aggregators.

Processing & Packaging: Milk being a perishable commodity, raw milk is taken to 142 chilling plants of the company (in 6 staes) within 4 hours of procurement. After chilling the milk, it is processed and packaged in 14 processing plants of the company which are situated closer to end consumer. Almost 78% of Liquid milk is sold and consumed by end consumer within 24 hours of procurement. Remaining 22% is sold after converting them into various value added products like Curd, Ice Cream, Flavoured milk etc. These products have shelf life of upto 30 days .During the processing of raw milk, excess fat is separated from milk and converted into by products like Ghee, Butter. Cream etc.

Sales & Distribution: Pouched Liquid Milk is sold to 1.50mn households by a network of 5,900 Agents/ Distributors and 0.11mn retail outlets. 90% of Liquid milk is door delivered by Milk Agents on daily basis .Value Added Dairy products like Curd, Ice cream, flavoured milk etc. are also sold through organized retail chains besides regular retail channel which is used to sell pouched liquid milk. Company is aggressively trying to increase the number of Heritage parlours which are franchisee owned/ leased exclusive Heritage brand outlets. Grocery product of the company are also sold via e -commerce platforms.

Payment terms: Company follows negotiated payment terms with farmer groups supplying milk to it which vary from 1 week to 4 weeks. However, barring a small portion of B2B sales, company follows cash and carry model. Customers/ Franchisee make cash payment for goods off take. For the B2B segment, company extends 30 days credit. This strategy results into negligible working capital requirement for the company.

Key Competitors:

Heritage Dairy division faces competition from different brands in different markets. Marketwise list of competing brands is as given below.

State	Competing brands
Andhra Pradesh	Thirumala, Dodla Dairy, Jersey, Amul, Vijaya
Telangana	Thirumala, Dodla Dairy, , Jersey, Amul, Vijaya
Karnataka	Arokya, Mother Dairy, Nandini
Tamilnadu	Aavin, Arokya, Nandini
Maharashtra	Amul ,Mahananda, Aarey, Gokul, Warana
Odisha	Omfed
Delhi	Amul ,Mother Dairy
Kerala	Mother Dairy, MILMA

Source: Industry, Sunidhi Research

**Management Profile: Board of Directors**

Heritage Foods Ltd has a professional Board of Directors and it is a healthy mix of Family and Independent Directors, Young and experienced.

Name	Profile
Mr Seetharamaiah D, Non-Executive Independent Chairperson, 90	B.Com, FCA, Senior Partner Brahmayya & Co. With over 5 decades of experience, he has held important positions including member of Southern Regional board of Reserve Bank of India. He holds board position on several other companies. Best suited to give direction to the company.
Mrs. Bhuvaneshwari. N Vice Chairperson & MD,54	BA, With extensive experience in Dairy business, she is responsible for converting vision into strategy and action. She is Director in several other companies and has been managing company's affairs with prudence all these years.
Mrs Brahmani N Executive Director,29	BE, MBA (Stanford), With prior experience in Venture capital and Business Development, she represents second generation of promoter family and is highly exposed to global business. Under her leadership, company is aggressively looking for business alliance with globally renowned players with a firm view to establish heritage as a National Level Dairy player.
Mr N Lokesh Non-Executive Director, 33	BS, MBA (Stanford), Before joining Heritage as Vice President of Retail Division, He had a stint with World Bank as project Associate. As a Non-Executive Director, he represents the second generation of promoter family and company is benefitting from his knowledge and global exposure.
Mr Sri Vishnu Raju N Non-Executive Independent Director, 43	B.E (Chemical), Founder Chairman, EXCIGA group consisting of 5 NBFCs. Past President CII, Young Indians Hyderabad Chapter, Ex Member State council CII.
Dr V Nagaraja Naidu Non-Executive Director, 69	M Com, PhD (Finance). Started Career from Administrative Staff College of India, Hyderabad and has held positions in reputed universities. Has been associated with company since inception and helped in strengthening milk procurement of the company.
Mr Rajesh Thakur Ahuja Non-Executive Independent Director	BE (Production), He has been an entrepreneur and currently Managing Director in Sleek International Pvt Ltd, a subsidiary of Asian Paints Ltd. His experience will come handy for brand building of Heritage Foods.



Senior Management Team: Reporting to the board of directors is Senior Management Team which comprises of divisional heads. This second line of management is highly experienced in their respective domains and are acting as per vision set out by Board of directors. Details are as follows.

Name	Profile
Dr M Sambasiva Rao President	M.Sc, PhD (Zoology), He has served in state and central government for two decades as a member of Indian Administrative Service. He took VRS from IAS in January 2006 and joined Heritage Foods Ltd as President. His versatile experience in various departments of state and Central Government is a handy asset for the company. He is the man who takes all the decisions at operational level and also guides young Executive Director in various strategic matters. He is the vital link between board and the company and his vast experience and knowledge benefits the company immensely.
Mr J Samba Murthy Head- Dairy Division	B.Sc, MBA (Marketing), He has vast experience in sales and marketing at Andhar Pradesh Dairy Development Corp, NDDDB, Visakha Dairy and Reliance. He is associated with the company since 2007.
Mr Dharmendra K Matai COO- Retail & Bakery	B.Com, Exec MBA (IIMC). Prior to joining Heritage in July 2015 he has 25 years of experience in retail and FMCG sectors with organizations like Metro cash & Carry, Reliance Retail, Spencer Hyper, Foodworld, HUL Eureka Forbes etc. With expertise in store operations and category management his mandate is to grow retail business across geographies and channels.
Mr Anil Kumar Srivastav COO- Agri Division	MBA, PGDFT, PG Diploma in Fruit & Vegetable Technology. He has got around 29 years in various reputed Food processing companies like Mother Dairy, Safal Market, Modern Foods, Gujrat Agro Industries etc, Bihar Fruits and Vegetable Development Corporation etc.



Financials:

Valuations Summary

Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
Per share (₹)					
Adj. EPS	19.7	12.3	24.5	33.4	46.2
CEPS	30.5	26.9	39.3	51.3	67.2
Adj BVPS	77.0	83.2	103.4	132.6	174.0
DPS(Adj)	3.0	3.0	3.0	3.5	4.0
Payout (%)	15.2%	24.5%	12.3%	10.5%	8.7%
Valuation (x)					
P/E	26.4	42.6	21.3	15.6	11.3
P/BV	6.8	6.3	5.0	3.9	3.0
EV/EBITDA	7.2	8.6	9.7	7.4	5.6
Dividend Yield (%)	0.6%	0.6%	0.6%	0.7%	0.8%
Return ratio (%)					
EBITDA Margin	5.5%	4.0%	5.5%	6.1%	6.6%
PAT Margin	2.7%	1.4%	2.4%	2.7%	3.1%
ROAE	28.6%	15.3%	26.2%	28.3%	30.1%
ROACE	32.5%	20.9%	33.2%	35.4%	39.4%
Leverage Ratios (x)					
Gross D/E	0.7	0.7	0.4	0.4	0.2
Net Debt/Equity	0.5	0.5	0.2	0.2	0.1
Interest Coverage	5.7	3.5	6.7	8.4	10.9
Current ratio	0.8	0.9	1.0	1.1	1.1
Growth Ratios (%)					
Income growth	7.5%	20.4%	14.8%	19.6%	19.6%
EBITDA growth	-6.1%	-13.5%	59.2%	32.3%	30.4%
PAT growth	-13%	-38%	100%	36%	38%
Turnover Ratios					
Gross F.A Turnover x	4.0	4.4	4.4	4.5	4.7
Inventory Days	23.0	24.5	22.2	23.2	24.3
Debtors Days	3.5	4.3	4.4	5.1	6.0
Payable days	14.6	13.7	13.0	12.2	11.4
Net WC as %of sales	-0.6%	0.6%	-0.5%	0.4%	1.3%
Income Statement (₹ mn)					
Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
Revenues	17220.9	20729.6	23805.0	28477.4	34068.5
Op. Expenses	16271.3	19908.7	22498.2	26748.4	31814.8
EBITDA	950	821	1307	1729	2254
Other Income	49.6	71.8	65.5	20.2	21.5
Depreciation	250.0	339.9	344.1	415.4	486.7
EBIT	749	553	1028	1334	1789
Interest	132.2	159.3	154.6	159.6	164.3
PBT	617	393.5	874	1174.2	1624.2
Tax	159.0	109.3	305.5	399.2	552.2
Adj. PAT	457.9	284.2	568.1	774.9	1072.0
Minority	0	0	0	0	0
Sh. of Associates	0	0	0	0	0
Ex. ordinary	5.0	0.0	13.7	0.0	0.0
Reported PAT	452.9	284.2	554.4	774.9	1072.0

Balance Sheet (₹ mn)

Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
Equity and Liabilities					
Share Capital	232.0	232.0	232.0	232.0	232.0
Reserves and Surplus	1555	1698	2168	2844	3804
Total Shareholders' funds	1787	1930	2400	3076	4036
Minority Interest	0.2	0.2	0.2	0.2	0.2
Non-Current Liability	720	861	1005	1058	915
Long Term Borrowings	392	557	658	697	538
Deferred Tax Liabilities (Net)	225	188	187	185	184
Long Term Liab/ Provisions	103	116	160	176	193
Current Liabilities	2411	2467	2344	2614	2953
Short Term Borrowings	883	867	393	400	450
Trade Payables	690	775	847	948	1062
other CL/Short Term Prov.	839	824	1105	1265	1441
Grand Total	4918	5258	5749	6749	7905
Assets					
Gross fixed Asset	4196.3	4623.4	5303.4	6303.4	7303.4
Net Fixed Assets	2715	2807	3143	3727	4241
CWIP	111	90	74	0	0
Long term Loan and Adv.	204.4	208.5	237.2	263.0	291.7
non-Current Investments/assets	14.2	15.4	14.8	13.8	15.2
Current Assets	1874	2137	2280	2744	3357
Inventories	1086	1394	1449	1811	2264
Trade Receivables	166	242	288	402	561
Cash and Cash Equivalents	445.4	407.8	453.3	426.6	409.2
Short Term Loans & Adv.	163	78	68	78	90
Other Current Assets	14.1	15.8	22.2	26.5	33.2
Grand Total	4918	5258	5749	6749	7905
Cash flow Statement					
Year End-March	FY 14	FY 15	FY 16	FY 17E	FY18E
PBT	617	394	874	1174	1624
Depreciation	250	340	344	415	487
Interest (Net)	115	156	155	160	164
Others	-1	-13	-15	23	-16
CF before W.cap	981	876	1358	1772	2259
Inc/dec in W.cap	-97	-254	270	-240	-352
Op CF after W.cap	884	622	1628	1532	1908
Less Taxes	-136	-98	-306	-399	-552
Net CF From Operations	748	524	1323	1133	1356
(Inc)/dec in F.A + CWIP	-628	-479	-664	-926	-1000
(Pur)/sale of Investments	0	0	0	2	-1
others	11	5	0	8	0
CF from Invst Activities	-617	-475	-664	-916	-1001
Loan Raised/(repaid)	152	143	-374	0	-110
Interest Paid	-119	-159	-155	-160	-164
Dividend	-41	-80	-84	-84	-98
Equity raised	0	0	0	0	0
CF from Fin Activities	-8	-97	-612	-244	-372
Net inc /(dec) in cash	123	-48	47	-27	-17
Op. bal of cash	317	438	408	453	427
Other bank balance	5	18	-1	0	0
Cl. balance of cash	445.4	407.8	453.3	426.6	409.2



Annexure:

Heritage Product Portfolio:

Dairy Products:







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The price target for a **large capstock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
HOLD	Absolute Return Between 0-20%
SELL	Absolute Return Negative

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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