

HERITAGE FOODS LTD.

Result Update: Q1 FY14

BUY

CMP	215.60
Target Price	235.00

SEPTEMBER 26th 2013

ISIN: INE978A01019

Index Details

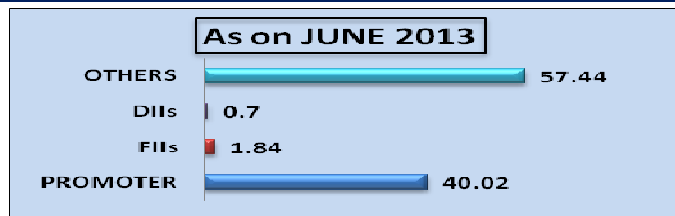
Stock Data

Sector	Packaged Foods
BSE Code	519552
Face Value	10.00
52wk. High / Low (Rs.)	284.88/138.68
Volume (2wk. Avg.)	1165
Market Cap (Rs. in mn.)	2500.96

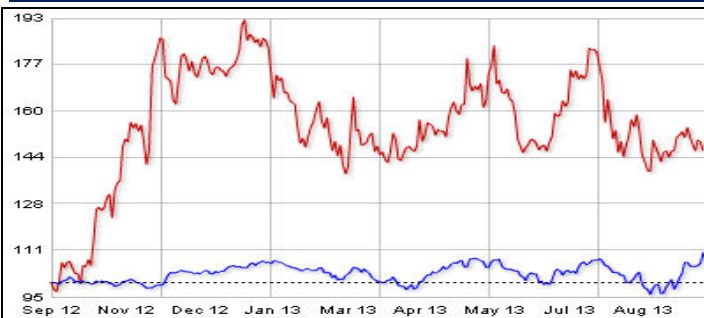
Annual Estimated Results (A*: Actual / E*: Estimated)

YEARS	FY13A	FY14E	FY15E
Net Sales	16018.13	18100.48	19910.53
EBITDA	1052.78	1152.84	1227.33
Net Profit	499.55	582.26	640.42
EPS	43.06	50.19	55.21
P/E	5.01	4.30	3.91

Shareholding Pattern (%)



1 Year Comparative Graph



HERITAGE FOODS LTD.

BSE SENSEX

HIGHLIGHTS

- Heritage Foods (India) Ltd. has informed BSE that Registrar of Companies, Ministry of Corporate Affairs, Government of India had approved the Change of the name of the Company from M/s. Heritage Foods (India) Limited to M/s. Heritage Foods Limited on August 16, 2013.
- The company's net sales registered 5.20% increase on consolidated basis and stood at Rs. 4355.712 mn in Q1 FY14.
- Net profit jumped by 74% in the current June quarter. Net profit was Rs. 146.74 mn against Rs. 84.46 mn in previous year June quarter.
- Profit before tax has rose by 94% in Q1 FY14 and stood at Rs. 201.56 against Rs.103.86 mn in the corresponding quarter in the previous year.
- EBDITA or operating profit stood at Rs. 292.24 mn against Rs. 209.23 mn in the corresponding June quarter previous year. EBDITA rose by about 40% in Q1 FY14.
- Other operating income increased by 36% from Rs. 60.09 mn to Rs. 81.78 mn in the current June quarter FY14.
- EPS in Q1 FY14 stood at Rs.12.66 against Rs. 7.33 in the same quarter last year.
- Debt equity ratio has reduced from 1.15 in FY12 to 0.69 in FY 13.

PEER GROUPS	CMP	MARKET CAP	EPS	P/E (X)	P/BV(X)	DIVIDEND
Company Name	(Rs.)	Rs. in mn.	(Rs.)	Ratio	Ratio	(%)
Heritage Foods Ltd.	208.10	2500.96	43.06	5.01	1.77	30.00
Hatsun Agro Products Ltd.	135.25	14565.3	4.33	31.24	11.24	170.00
Nestle India Ltd.	4933.30	477257.8	113.75	43.52	26.54	485.00
Venkys India Ltd.	452.00	4216.8	12.25	36.65	1.25	50.00

ANALYSIS & RECOMMENDATION - BUY

Heritage Foods is the first South Indian dairy company to be listed on BSE & NSE. The company is a major player in organized retail in South India, has outperformed at the Sensex over the last one year. Net profit and EBDITA rose by 74% and 40% respectively in June quarter over the corresponding quarter in the previous year. Profit before tax also rose by whopping 94% in Q1 FY14. Although sales rose by a lackluster 5.20%, Heritage Foods reported high profit and operating margins by reducing debt and tightening overall expenditure. Expenditure increased by a mere 3.4% (YOY) in the current quarter. Finance costs fell by 35% from Rs. 523.61 mn in Q1 FY13 to Rs. 340.09 mn in Q1 FY14 as total debt was reduced by about 30%. Total debt fell to Rs. 981.80 in 2013 from Rs. 1405.168 mn in 2012. The company reduced long term debt and short term debt by 42% and 18.4% respectively. Thus as a result, debt equity ratio was reduced to 0.69 in 2013 from 1.51 in 2012. In today's slowing economy, where inflation is a persistent economic factor, high debt servicing is the biggest challenge faced by domestic Indian companies. Heritage Foods through debt reduction has brightened its future prospects in packaged foods industry and **thus we recommend 'BUY' for the scrip.**

COMPANY PROFILE

The Heritage Group, founded in 1992 by Sri Nara Chandra Babu Naidu, is one of the fastest growing Private Sector Enterprises in India, with four-business divisions; Dairy, Retail, Agri, and Bakery under its flagship Company Heritage Foods Limited. Heritage Food's extensive product basket comprises of milk and other value added products including curd, ice cream, paneer, flavoured milk, sweets, fresh fruits, vegetables and other food and non food items. At present the company's milk products have market presence mainly in Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Maharashtra, Orissa and Delhi. In addition to that, its retail stores are present in Bangalore, Chennai and Hyderabad. In 1994, Heritage Foods public Issue was oversubscribed by 54 times. The company is listed on BSE and NSE. The Company has two subsidiary companies, Heritage Foods Retail limited and Heritage Conpro Limited. Heritage Foods is the only packaging partner for curd for Nestle in South India. The company's value chain commences right from the grassroots level with over 3 lakh farmers from whom 9 lakh litres of milk is procured daily and delivered to over 15 lakh customers located across India and also various value-added milk products to 1,176 Heritage Parlours and 67 Heritage Fresh stores. The company also exports ghee and butter in bulk and consumer packs to Asia, Europe and Gulf countries including Singapore. The vertical integration of linkages between farm level production, procurement and down stream processing and trade has lead to more efficient and effective control of cost and quality as visible in the improved profit and operating margins in the past few quarter. The turnover and net profit of Heritage Foods have grown at a substantial CAGR of 22.19 % and 121.36% respectively over the last five years.

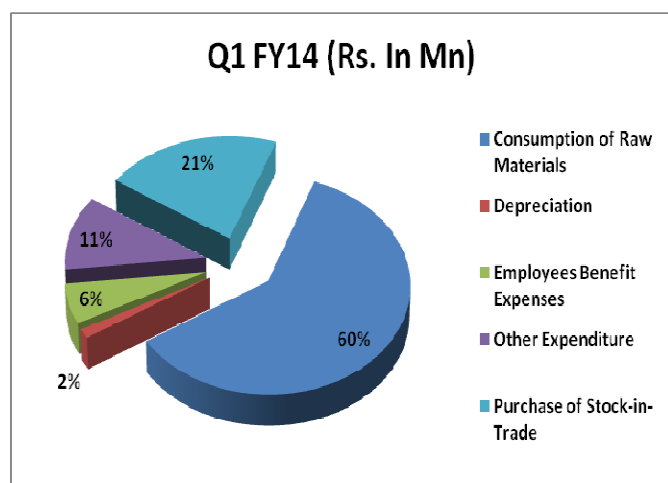
QUARTERLY HIGHLIGHTS (CONSOLIDATED)

Q1 FY14

Net sales of the company rose by 5.20% from Rs. 4140.36 mn to Rs. 4355.71 mn in Q1 FY14. Net profit jumped by 74% in the June quarter from Rs. 84.46 mn to Rs. 146.74 mn in the current June quarter. Operating profit rose by 39.67% from Rs. 209.23 mn to Rs. 292.20 mn in Q1 FY14. The Net Profit and EBDITA margin rose by 133 and 166 basis points respectively in the current June quarter. Operating income also contributed to total income with an increase of 18.37% in Q1 FY14.

(Rs. In Mn)	JUNE-13	JUNE-12	Change
Net Sales	4355.71	4140.36	5.20%
Net Profit	146.74	84.46	73.95%
Net Profit Margin	3.37	2.04	133 bp
EBITDA	292.20	209.23	39.67%
EBDITA Margin	6.71	5.05	166 bp
Other op. Income	81.78	60.096	36.082%

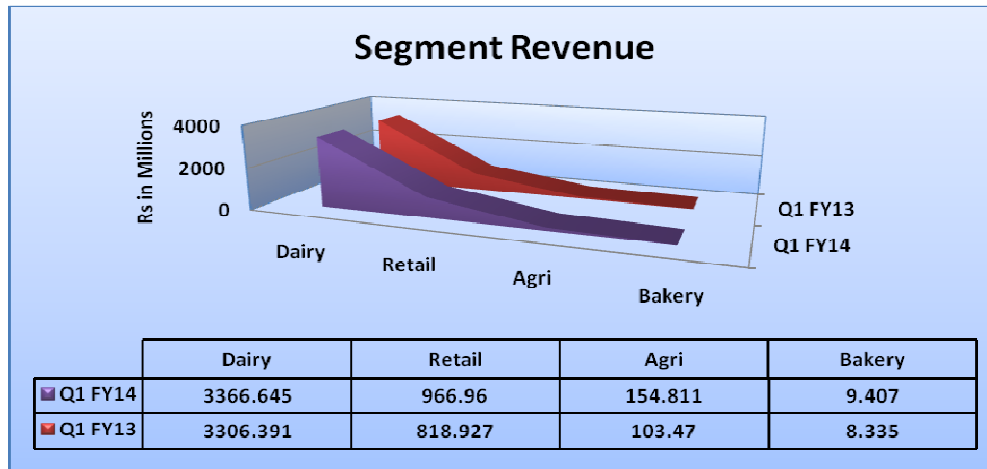
Break up of Expenditure



(Rs in Mn)	Q1 FY14	Q1 FY13	CHNG %
Cost of Raw Materials	2474.36	2363.22	5%
Depreciation	56.67	53.01	7%
Employees Benefit Expenses	243.21	194.11	25%
Other Expenditure	457.59	427.97	7%
Purchase of Stock-in-Trade	866.34	659.97	31%

Purchase of stock in trade is the major contributor to increase in expenditure in June 2013. Expenditure on Purchase of stock in trade jumped by 31% in Q1 FY14 and stood at Rs. 866.34. Employee benefit expenses rose by 25% from Rs. 194.11 mn to Rs. 243.21 mn. Depreciation and other expenses both increased by 7% in the current June quarter. Cost or consumption of raw material increased by 5% only and stood at Rs. 2474.36 mn in Q1 FY14.

Segment Revenue



Revenue from Agri segment rose by 50% from Rs. 103.47 to Rs. 154.811 mn in Q1 FY14. Retail revenues rose by 18% in the current June quarter from Rs. 818.927 to Rs. 966.96 mn in Q1 FY14. Bakery revenues grew by 13% from Rs. 8.335 mn to Rs. 9.407 mn in the current June quarter. The Dairy segment grew by an insignificant 2% and stood at Rs. 3366.64 mn.

Other Important Updates

- The Paid up Capital of the Company has increased from Rs. 11,5.2 mn divided into 1,15,29,500 Equity Shares of Rs.10 each to Rs. 11,5.99 mn divided into 1,15,99,500 Equity Shares of Rs. 10, due to allotment of 70,000 sweat equity shares during the year.
- Heritage Foods (India) Ltd has informed BSE that Registrar of Companies, Ministry of Corporate Affairs, Government of India had approved the Change of the name of the Company from M/s. Heritage Foods (India) Limited to M/s. Heritage Foods Limited on August 16, 2013.
- Distribution Network Structure as on June 30th 2013:
 - ✓ No. of Sales offices 24
 - ✓ No. of Distributors/Agents – 4250
 - ✓ No. of outlets – 85,000
 - ✓ No. of Households serviced on daily basis: 10,00,000

FINANCIAL STATEMENTS & ESTIMATIONS (CONSOLIDATED)
(A - Actual, E* - Estimations & Rs. In Millions)*
Annual Profit & Loss Statement for the period of 2012 to 2015E

Value(Rs.in.mn)	FY12	FY13	FY14E	FY15E
Description	12m	12m	12m	12m
Net Sales	13934.06	16018.13	18100.48	19910.53
Other Income	32.07	42.00	48.71	52.61
Total Income	13966.13	16060.12	18149.20	19963.14
Expenditure	-13422.91	-15007.34	-16996.36	-18735.81
Operating Profit	543.22	1052.78	1152.84	1227.33
Interest	-197.07	-167.02	-150.32	-135.29
Gross profit	346.15	885.76	1002.53	1092.05
Depreciation	-211.87	-220.20	-231.21	-238.15
Profit Before Tax	134.28	665.56	771.31	853.90
Tax	-42.42	-136.92	-188.97	-213.47
Profit After Tax	91.86	528.64	582.34	640.42
Extraordinary Items	0.00	-29.13	0.00	0.00
Minority Interest	-0.17	0.01	0.00	0.00
Share of Profit & Loss Asso.	-0.03	0.03	-0.08	0.00
Net Profit	91.66	499.55	582.26	640.42
Equity capital	115.30	116.00	116.00	116.00
Reserves	812.41	1300.64	1882.91	2523.33
Face value	10.00	10.00	10.00	10.00
EPS	7.95	43.06	50.19	55.21

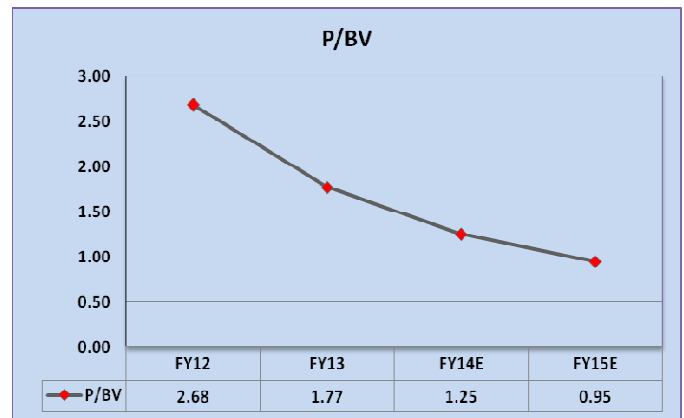
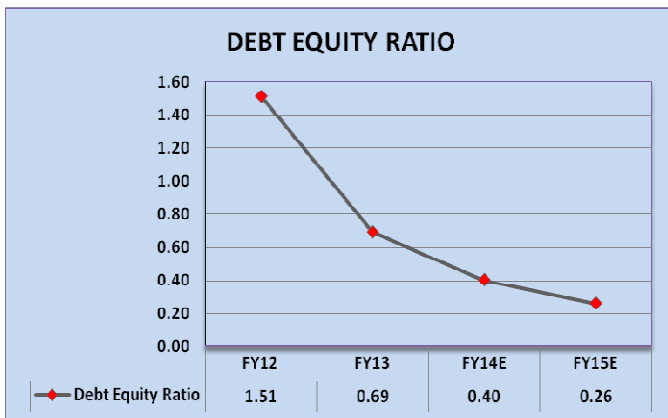
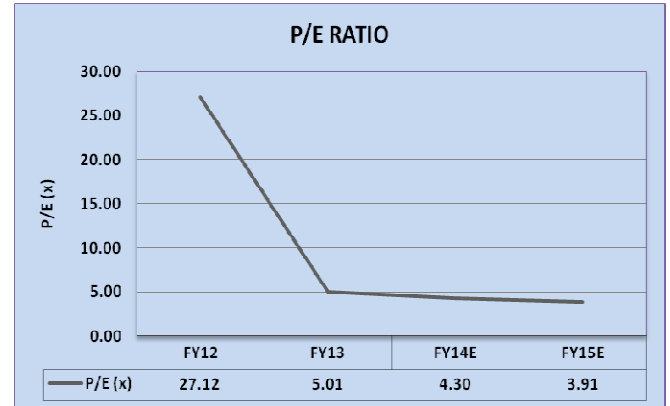
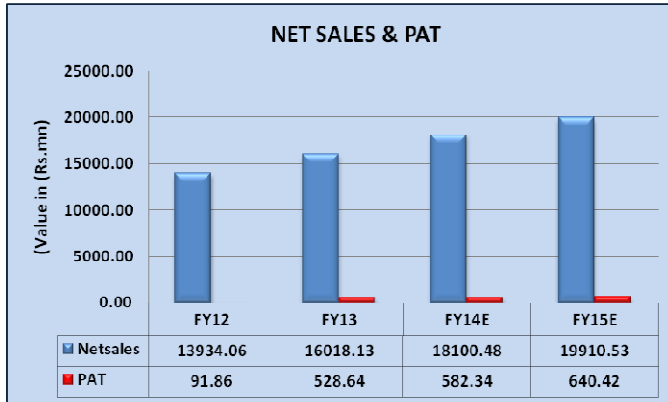
Quarterly Profit & Loss Statement for the period of 31 DEC, 2012 to 30 SEP, 2013E

Value(Rs.in.mn)	31-Dec-12	31-Mar-13	30-June-13	30-Sep-13E
Description	3m	3m	3m	3m
Net Sales	3911.99	3944.42	4355.71	4573.50
Other income	6.36	22.34	6.94	7.91
Total Income	3918.35	3966.75	4362.65	4581.41
Expenditure	-3643.99	-3674.32	-4070.41	-4272.36
Operating profit	274.36	292.43	292.24	309.05
Interest	-34.35	-34.41	-34.01	-32.31
Gross profit	240.01	258.02	258.23	276.74
Depreciation	-58.44	-56.12	-56.67	-57.80
Profit Before Tax	181.57	201.90	201.56	218.93
Tax	-36.71	-53.25	-50.99	-51.38
Profit After Tax	144.86	148.65	150.57	167.55
Extraordinary Items	-23.31	0.00	-3.75	0.00
Share of Profit & Loss Asso.	-0.01	0.01	-0.08	0.00
Net Profit	121.54	148.66	146.74	167.55
Equity capital	115.30	116.00	116.00	116.00
Face value	10.00	10.00	10.00	10.00
EPS	10.54	12.82	12.65	14.44

Ratio Analysis

Particulars	FY12	FY13	FY14E	FY15E
EPS (Rs.)	7.95	43.06	50.19	55.21
EBITDA Margin (%)	3.90%	6.57%	6.37%	6.16%
PBT Margin (%)	0.96%	4.16%	4.26%	4.29%
PAT Margin (%)	0.66%	3.30%	3.22%	3.22%
P/E Ratio (x)	27.12	5.01	4.30	3.91
ROE (%)	9.90%	37.32%	29.13%	24.26%
ROCE (%)	32.37%	53.08%	49.35%	44.00%
Debt Equity Ratio	1.51	0.69	0.40	0.26
EV/EBITDA (x)	6.61	2.99	2.56	2.28
Book Value (Rs.)	80.46	122.12	172.32	227.53
P/BV	2.68	1.77	1.25	0.95

Charts



SWOT ANALYSIS- HERITAGE FOODS LTD.

Heritage Foods is one of leading retailers in organized sector in South India. Heritage India through its retail stores sells variety of processed and packaged food products such as milk, ghee, butter, ice- cream and various food items ranging from cereals to snacks and also non food items.

STRENGTHS

- Extensive product basket comprising of high quality dairy, food and bakery products. The product basket comprises of 22 high quality value added products.
- Robust distribution network through Heritage parlours. Total number of parlours stood at 1176 in 2012-13 across the states of Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra, Kerala and Odisha.
- The company's value chain from the grass-root level to the ultimate customer has improved quality and reduced cost.
- Heritage Foods has outperformed the BSE Sensex over the last one year.
- Total debt of the company has been reduced by 30% in 2012-13.

WEAKNESS

- Lack of penetration in north India.
- Low awareness of non food products.
- Deteriorating microbiological quality of milk.

OPPORTUNITIES

- Increase in per capita income is one of the major growth drivers for dairy products. For large percentage of vegetarian population, consumption of milk products is the only source of proteins.
- Rise of rural incomes has increased the consumption of premium dairy and non dairy products.
- The overall retail market (organized and unorganized) is expected to grow at a compounded rate of 15% over the next 5 years. Organized retail is expected to grow faster than total retail at 24 % by 2016-17 as compared to 15% growth of total retail during the same period.
- Growing preference for high quality branded products in urban areas.

THREATS

- High inflation reduces disposable income of consumers. Thus consumers especially in middle and lower middle class substitute branded with unbranded low quality food products.
- 100% FDI in multi brand will increase competition in organized retail.
- Pressure on expansion of distribution network and lowering of prices due to high inflation and competition.
- High input cost due to inflation reduces profit margins.

INDUSTRY OVERVIEW

Growing demand for high value food products due to improving income levels in urban and rural areas have opened new channels of opportunities and challenges for farmers and milk producers in agriculture and food industry. Milk as a commodity has been in the forefront since 'Operation Flood' which transformed India into a self sufficient milk producing country. At present, more than 70 million rural households depend upon dairy for their livelihood. With huge vegetarian population and high disposable incomes milk and milk products have become an important part of everyday diet. The processed milk market is estimated to reach Rs. 5 Lakh Crores by 2015 with an annual growth rate of 10%. The markets for dairy products like butter, cheese, ice cream etc., are growing at 8-10% every year.

Well known companies have entered into organized retail for milk, milk products and various food and non food items. Companies such as Reliance and Heritage Foods through their vertically integrated value chains have started catering to the urban and semi urban areas with wide variety of quality products. Despite of economic slowdown and high inflation organized retail is showing robust growth. Though Indian retail is dominated by traditional 'Kirana stores', organized retail stores are making inroads in Tier I and Tier II cities across India.

On the whole milk, milk products and various food items come under food processing and also packaged food industry. The food processing industry in India is a high priority sector and is poised for excellent growth in the coming years. The total value of Indian food processing industry is expected to touch US\$ 194 billion by 2015 according to Indian Council of Agricultural Research (ICAR). The packaged food sector is presently the fifth largest sector in India and has grown rapidly over the past few years. The industry registered a compound annual growth rate (CAGR) of 15.6 per cent during FY07-FY13. In India, the industry is largely dominated by ready to eat segment, which contributed nearly 90 per cent of the total sales of packaged foods in India FY13.

OUTLOOK AND CONCLUSION

- At the current market price of Rs. **215.60** the stock P/E ratio is at 4.30 x FY14E and 3.91 x FY15E respectively.
- Earning per share (EPS) of the company for the earnings for FY14E and FY15E is seen at Rs.50.19 and Rs.55.21 respectively.
- Net Sales and Operating Profit of the company are expected to grow at a CAGR of 13% and 31% over 2012 to 2015E respectively.
- On the basis of EV/EBITDA, the stock trades at 2.56 x for FY14E and 2.28 x for FY15E.
- Price to Book Value of the stock is expected to be at 1.25 x and 0.95 x respectively for FY14E and FY15E.
- We expect the company to keep its growth story intact in the coming quarters also. We recommend '**BUY**' in this particular scrip with a target price of **Rs.235.00** for Medium to Long term investment.

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