HEALTH Heritage HAPPINESS

Investor Presentation FY2012

Bring Home Health & Happiness

Disclaimer

The release contains forward-looking statements, identified by words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' and so on. All statements that address expectations or projections about the future, but not limited to the Company's strategy for growth, product development, market position, expenditures and financial results, are forward-looking statements. Since these are based on certain assumptions and expectations of future events, the Company cannot guarantee that these are accurate or will be realized. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances. Therefore the investors are requested to make their own independent assessments and judgments by considering all relevant factors before making any investment decision. The Company assumes no responsibility to publicly amend, modify or revise any such statements on the basis of subsequent developments, information or events.

Agenda

I. **Heritage Foods (India) Ltd. - Introduction**

II. Dairy Industry Scenario

III. Business Overview

    I. Business Overview – Dairy Division

    II. Business Overview – Retail Division

    III. Business Overview – Agri & Bakery Division

IV. Business Strategy

V. Share Holding Pattern

Heritage - Overview

- Heritage Foods (India) Limited ("Heritage") is a leading corporate based out of Hyderabad and operates in the high-growth Food and Retail business segments
- Four reporting divisions - Dairy, Retail, Agri, and Bakery

- **Dairy** **(FY2012 Revenue:Rs10940mn EBITDA:Rs719mn Capital Emp:Rs1460mn)**
  - Milk procurement, milk processing, production of milk products and marketing under company owned "Heritage" brand
  - 1055 franchisee based "Heritage Parlors"
- **Retail** **(FY2012 Revenue:Rs2990mn EBITDA:Rs-183mn Capital Emp:Rs607mn)**
  - 72 company managed own "Heritage Fresh" stores in South India
- **Agri & Bakery** **(FY2012 Revenue:Rs357mn EBITDA:Rs-23mn Capital Emp:Rs471mn)**
  - Provide backend support to dairy and retail divisions, and also supply to the general trade

- Only private sector company in India with a true Farm to Fork solution in dairy and retail
- First dairy company in India to be listed on BSE & NSE

Heritage - Founder

Mr Chandrababu Naidu Nara was the Chief Minister of Andhra Pradesh during 1995-2004. He holds the record of being the longest served Chief Minister of Andhra Pradesh.

Heritage was founded by Mr. Nara in 1992 with an objective to assure remunerative prices to milk producers, who needed better marketing opportunities.

Mission & Vision

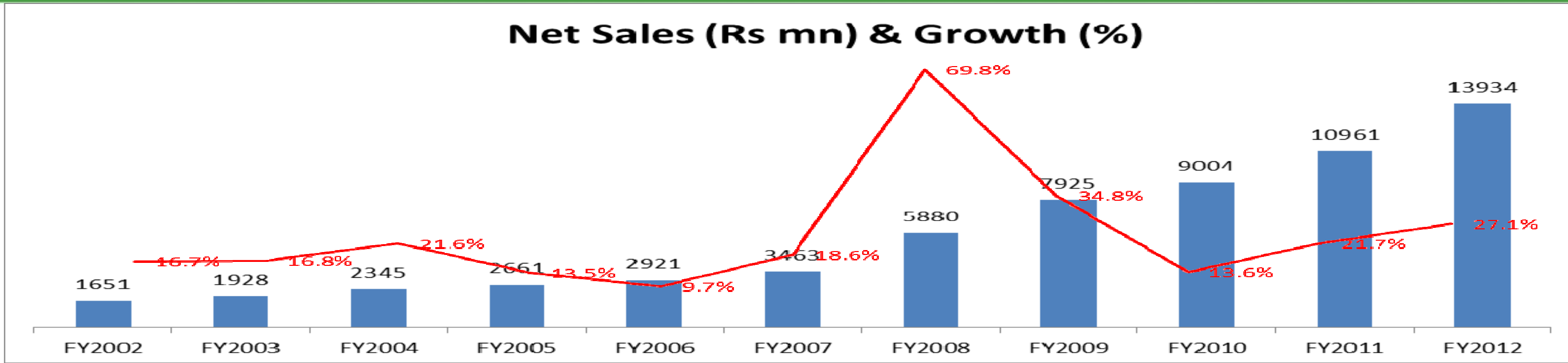
Mission

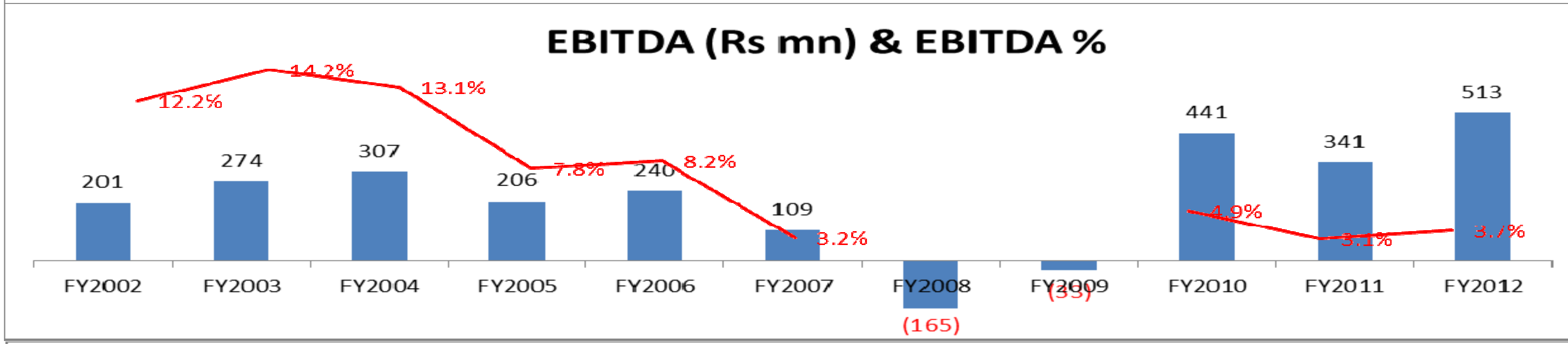
- Bringing prosperity into rural families through Co-operative efforts and providing customers with hygienic, affordable and convenient supply of "Fresh and Healthy" food products

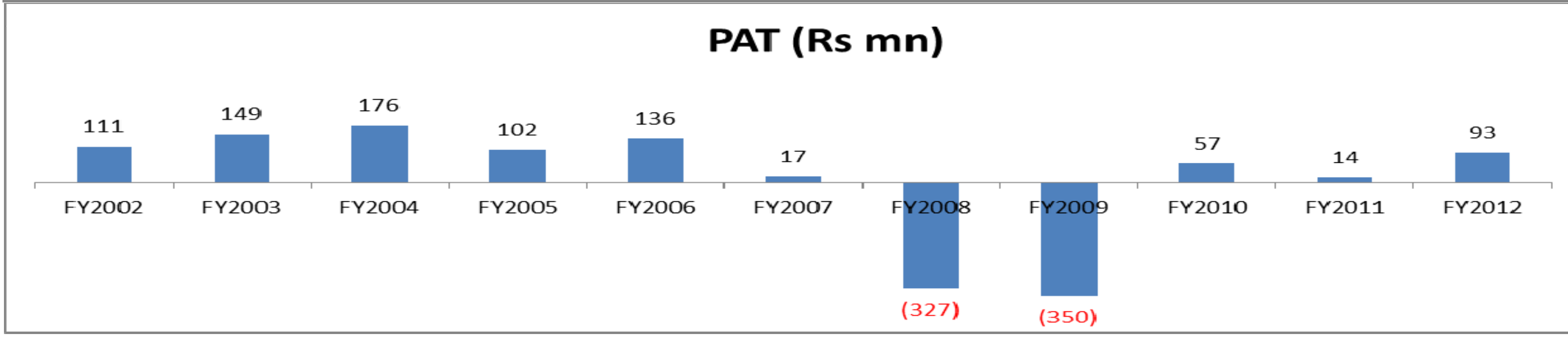
Vision

- To achieve this by delighting customers with "Fresh and Healthy" food products, that are a benchmark for quality in the industry
- We are committed to enhanced prosperity and the empowerment of the farming community through our unique "Relationship Farming" model
- To be a preferred employer by nurturing entrepreneurship, managing career aspirations and providing innovative avenues for enhanced employee prosperity

Consolidated Financial Overview

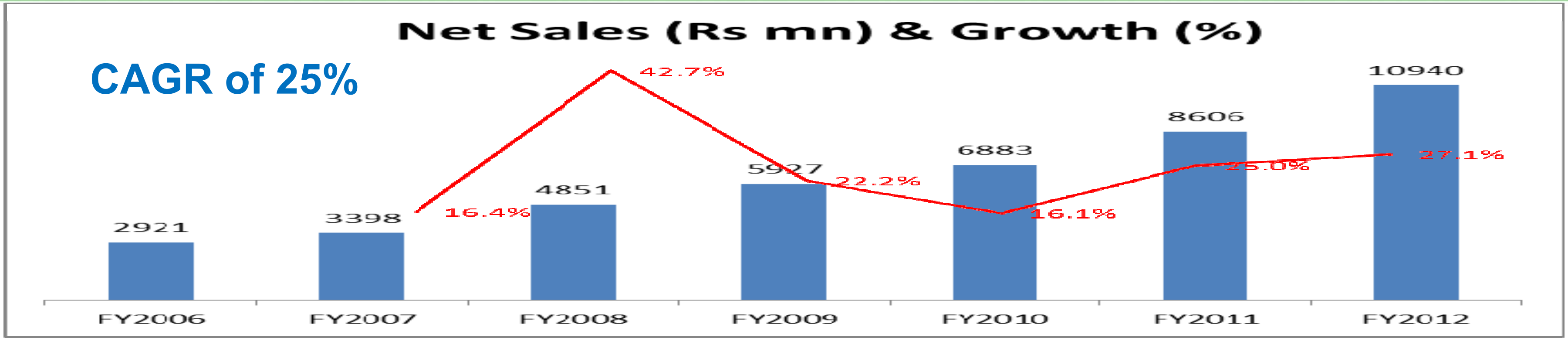


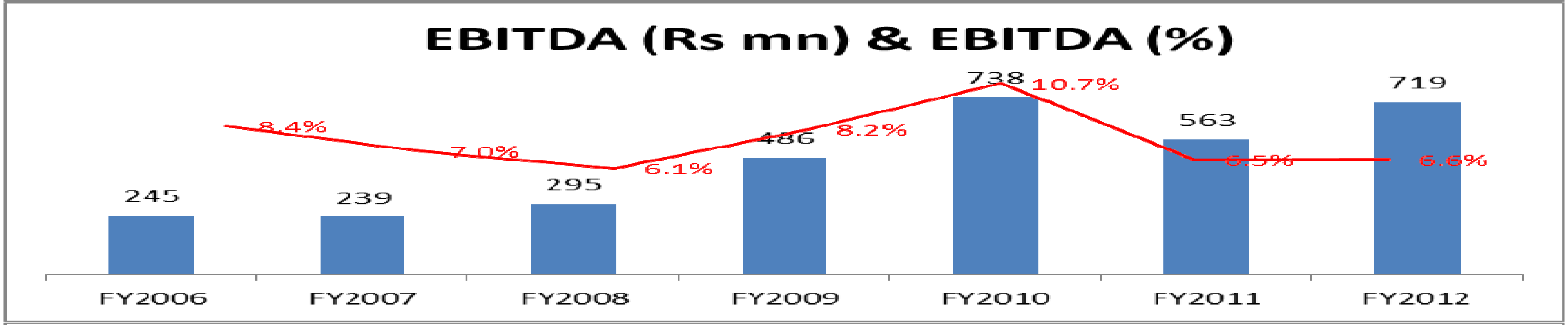


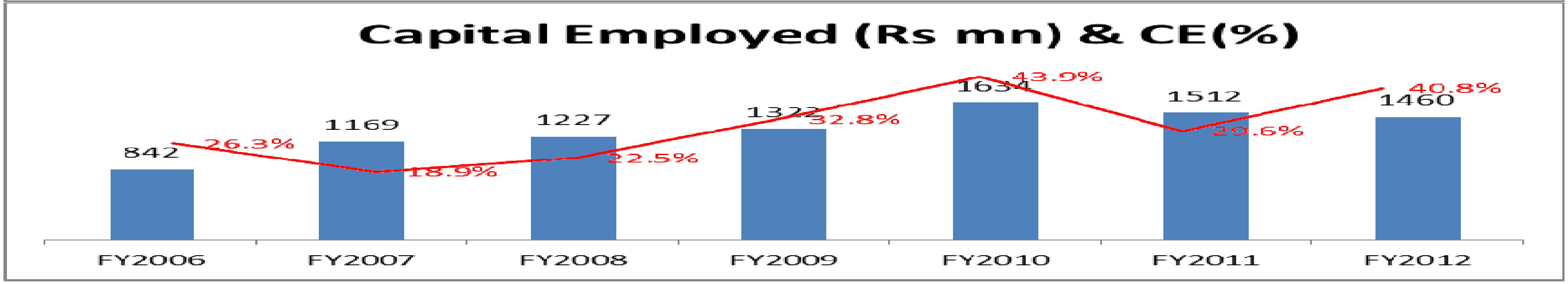


- The decline in profit in FY2007 and the suppressed profitability thereon is on account of the initial year of losses in the nascent Retail business

Dairy Financial Overview



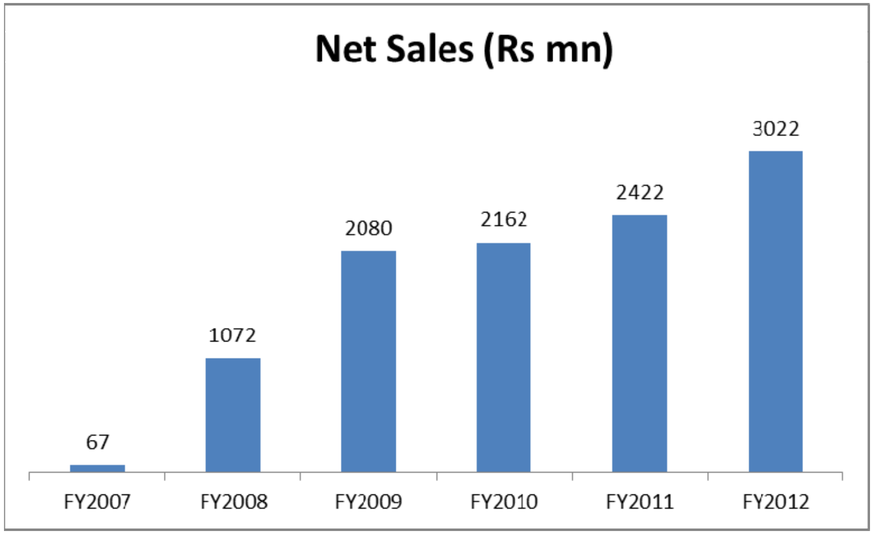


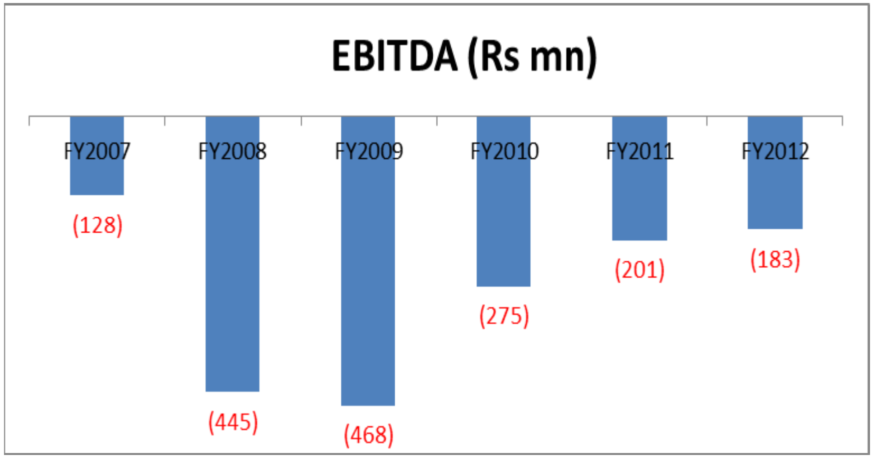


- The decline in EBITDA margin in FY2011 is on account of very rapid inflation in milk procurement prices; depressed fat prices have kept the margin low in FY2012

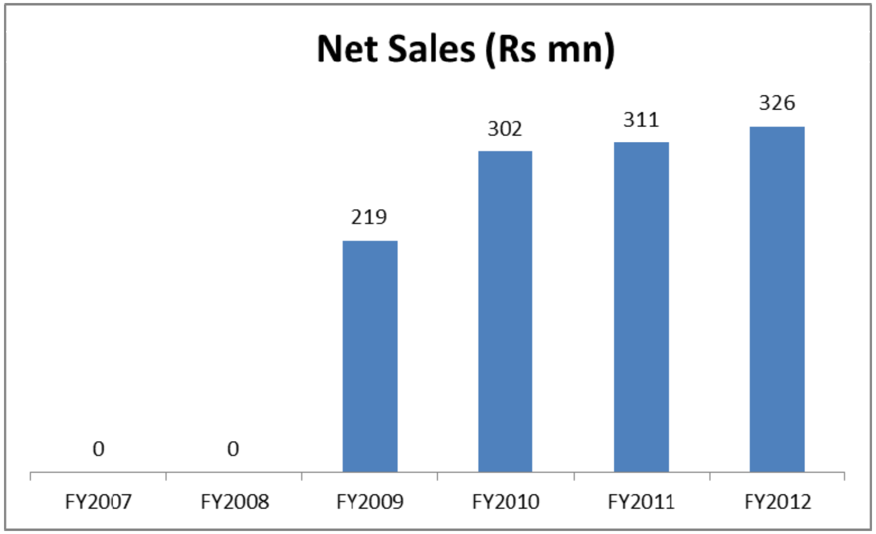
Retail & Agri Financial Overview

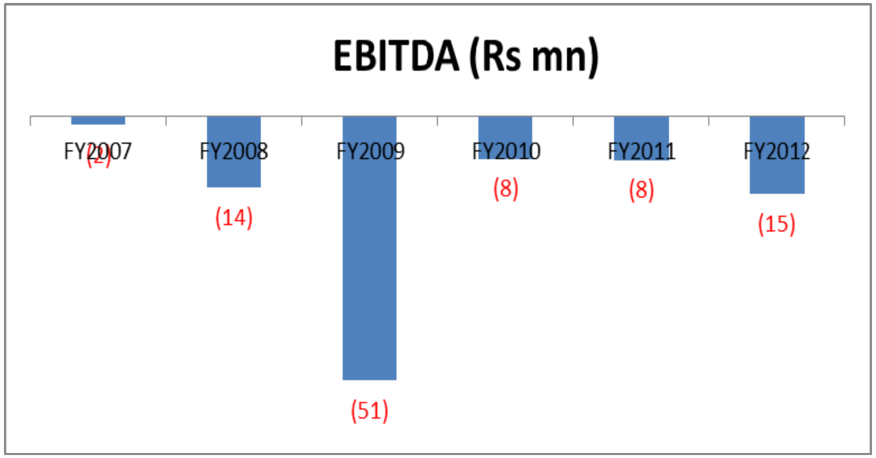
Retail





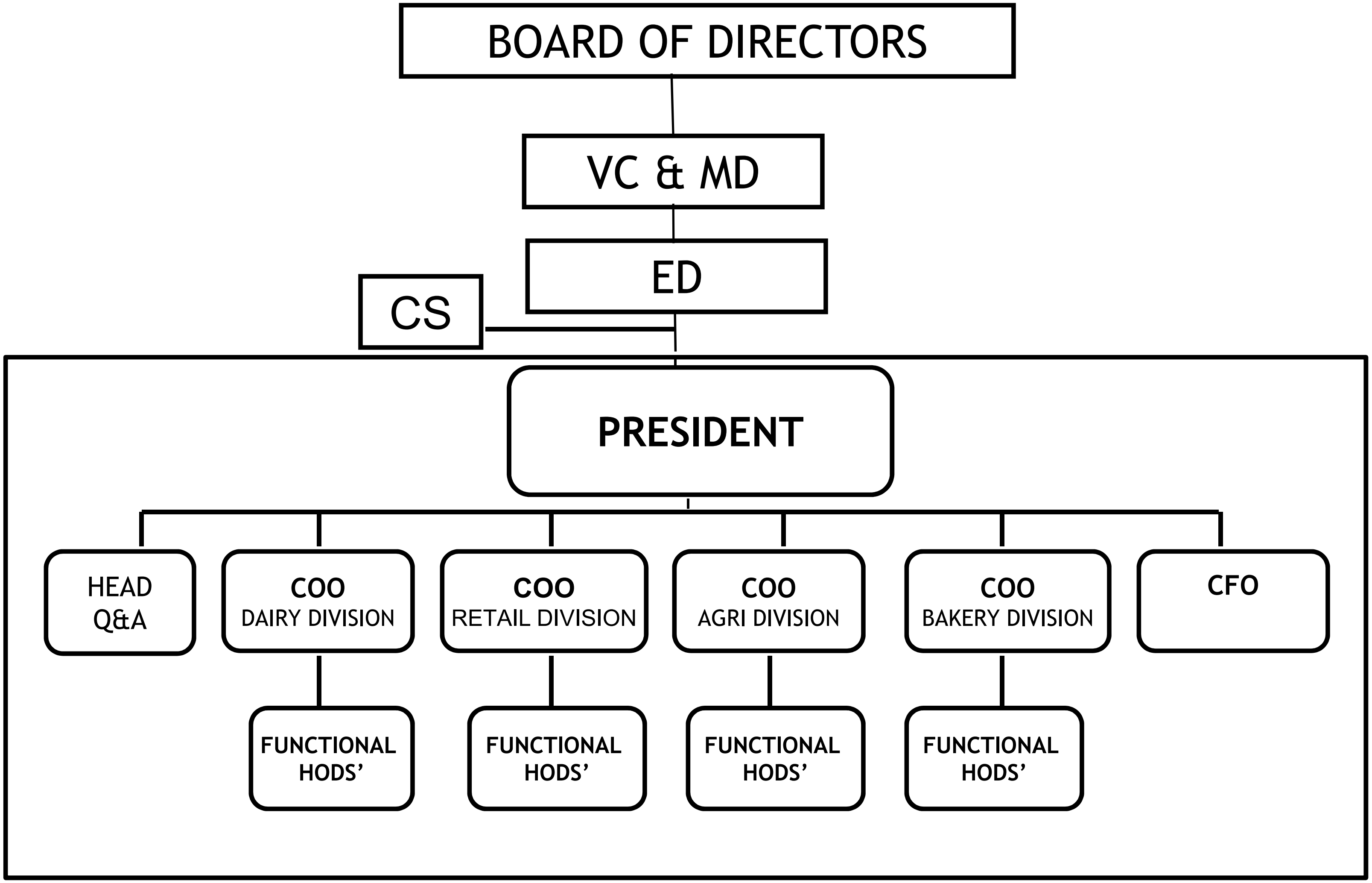
Agri





- Bakery division has been clubbed with Retail
- Capital Employed in Retail (incl Bakery) is at Rs721mn and in Agri at Rs354mn

Organization Structure



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Indian Dairy Scenario

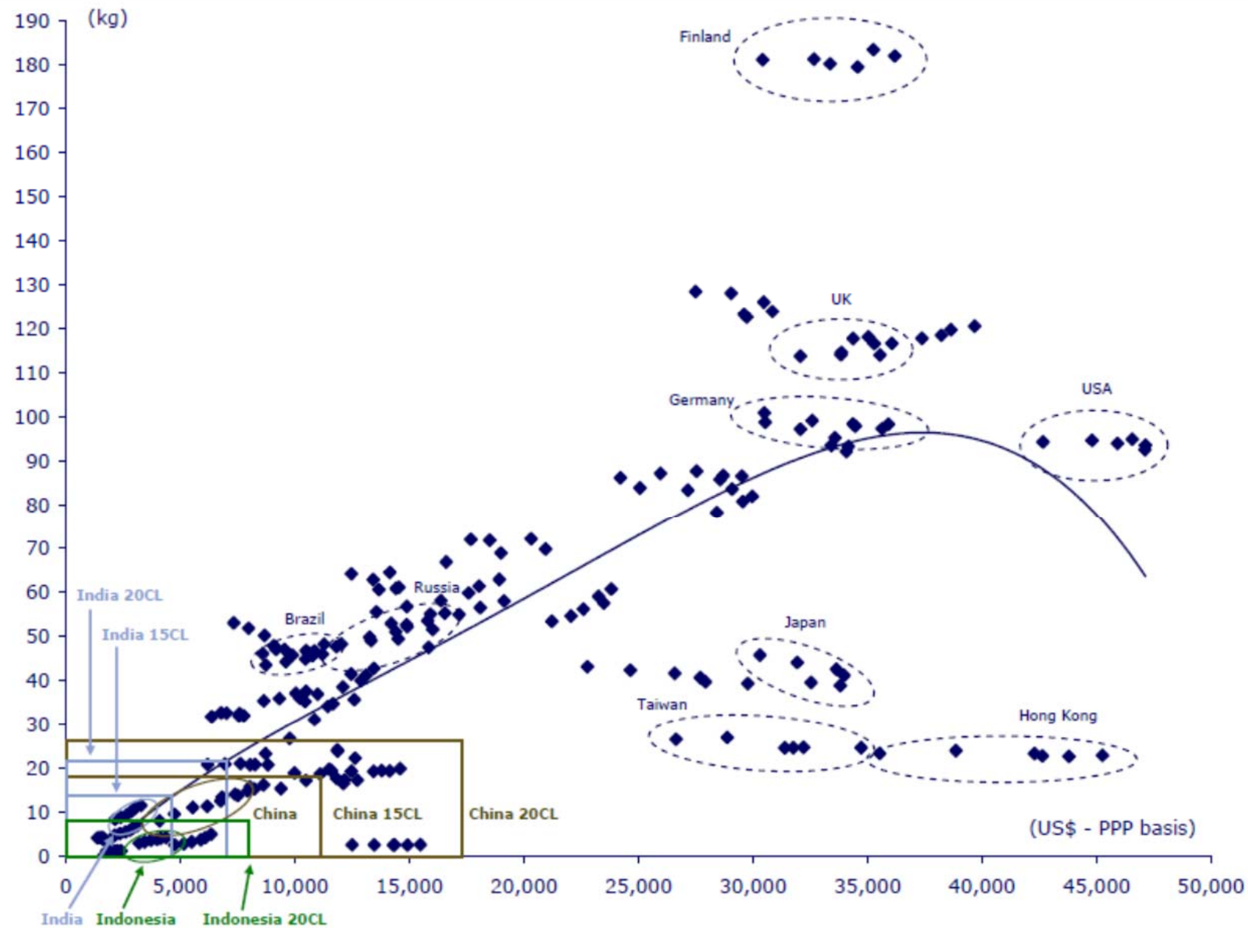
- In India, as in many developing countries, dairying is a supplementary enterprise to crop farming and highly integrated with the crop production sector
- Milk production in India is a low-input, low-output farm activity with a smallholder production system, with about three-quarters of rural households owning two to three milk animals
- It provides supplementary income to over 70% of rural households
- As part of domestic economic reforms, the Indian dairy sector was liberalized in a phased manner starting with partial opening-up in 1991; in March 2002, the government removed all restrictions on setting up new milk-processing capacity
- Following partial decontrol of the dairy sector in the early 1990s, many private sector players entered the market and set up milk-processing facilities, mostly in milk surplus areas
- Some of the private sector players like Heritage also adopted the Amul model by creating informal contacts with local farmers and providing various inputs and services to the farmers
- However, a large proportion of private dairy plants depend on contractors/ subcontractors to meet their raw material requirement

Indian Dairy Scenario

Indian Dairy Sector (FY2011)

	mn tons	% share
Milk production	122	
Retained for consumption	61	50%
Marketable surplus	61	50%
Processed by Org. sector	23	19%
Cooperatives	11	
Private sector	12	

Per capita volume consumption of milk products vs GDP/capita (2005-10)



Source: CLSA Asia-Pacific Markets

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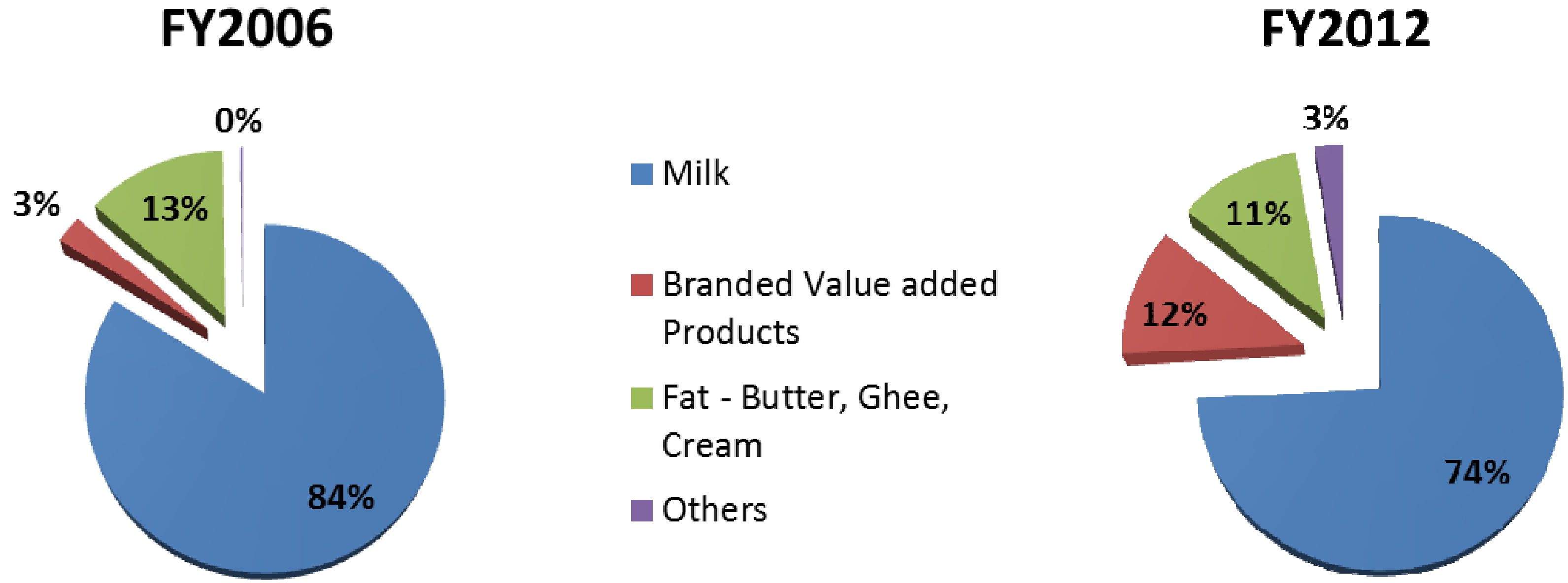
Spread of Operations

- Widest regional footprint in India among privately held dairy companies. Spread across 6 states
  - Andhra Pradesh
  - Tamil Nadu
  - Karnataka
  - Maharashtra
  - Kerala
  - Orissa
- Present in the highest milk producing states in India
- One of the Top 3 private sector dairy companies in India in sales and volumes

Particulars	Andhra Pradesh	Tamil Nadu	Karnataka	Maharashtra	Kerala	Orissa	Delhi	Total
No of Chilling Plants	86	8	0	5	--	--	--	99
Chilling Capacity (LPD)	1047000	186000	50000	67000	--	--	--	1350000
Milk Procurement (*LPD)	576675	147148	29030	147715	--	--	--	900568
No of Processing & Packing Plants	10	1	1	1	--	--	--	13
Packing Capacity (LPD)	900000	50000	150000	50000				1150000
Liquid Milk Sales (LPD)	457820	206923	102269	36290	13146	6250	3635	826333
Ice Cream (LPD)	5998	2127	619	--	--	--	--	8744
Curd (*MTPD)	54.39	26.59	8.09	--	0.20	1.20	--	90.47

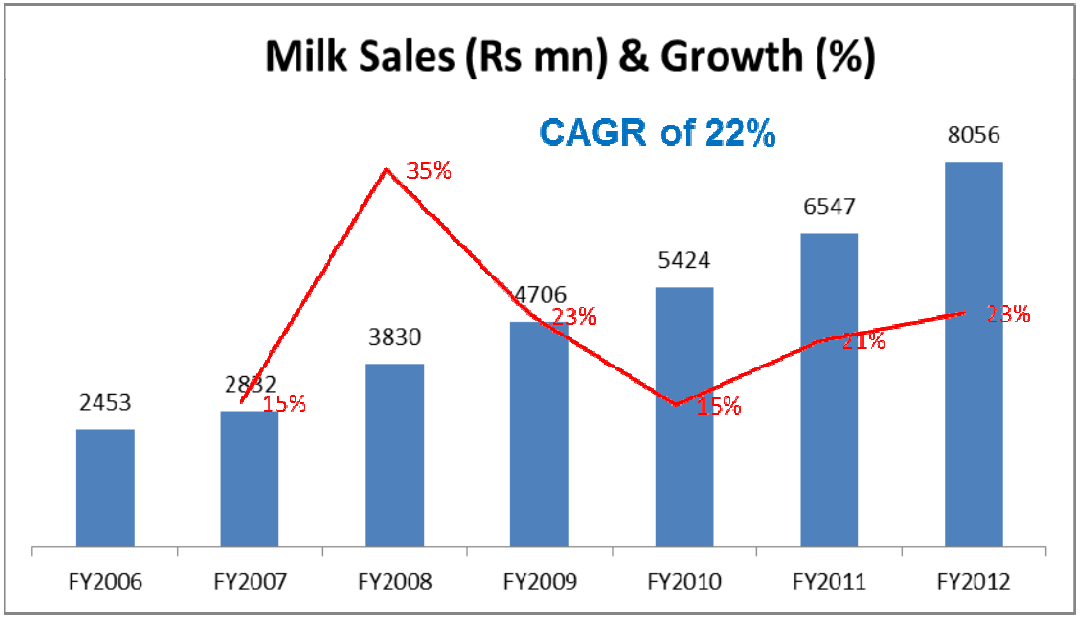
Dairy Categories

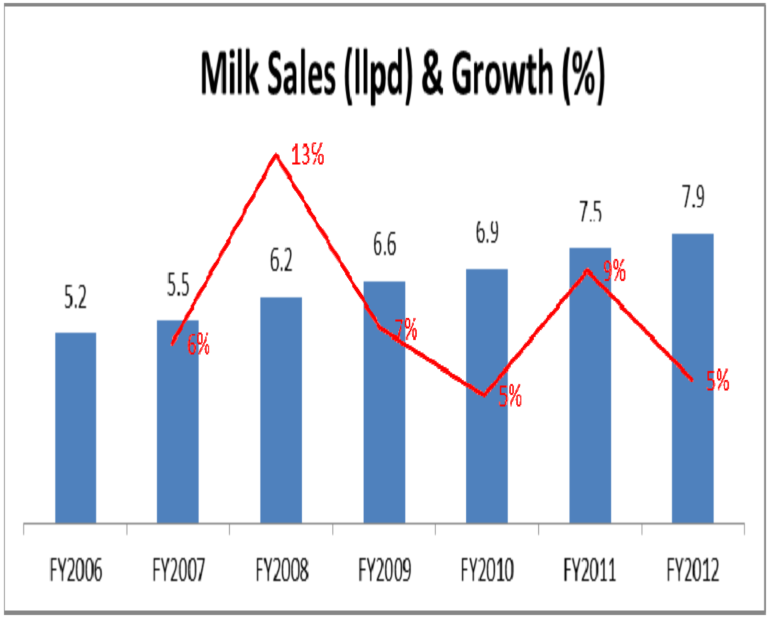
Revenue Split



- High growth of higher margin Branded Value-Added Products - Curd, Ice Cream, Paneer, Flavored Milk, Sweets
- Only packaging partner (curd) for Nestle in India, and one of their only 2 Indian dairy packaging partners

Dairy Categories – Pouch Milk





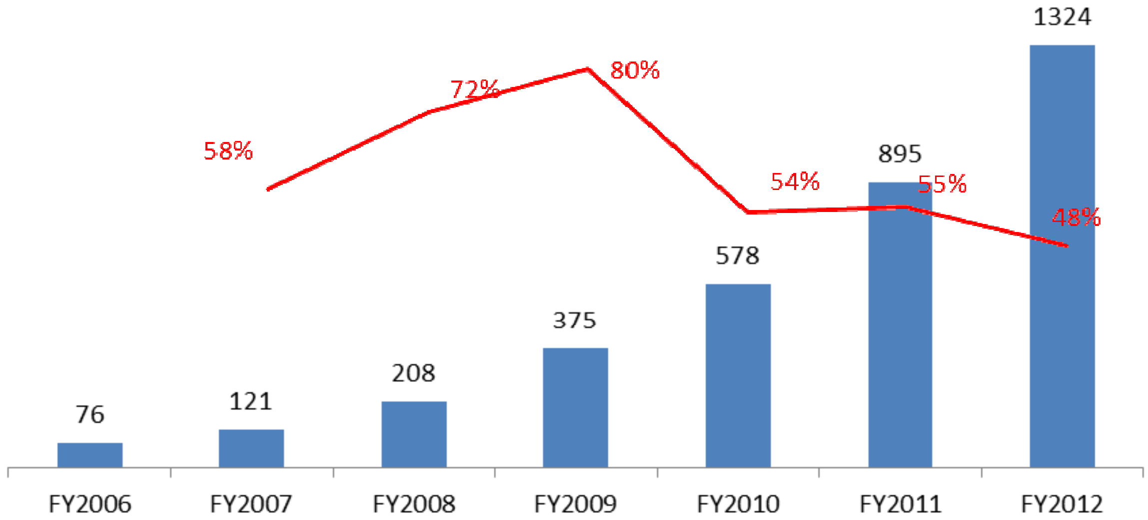
- #2 in Pouch Milk sales in India amongst private sector dairy companies
- Liquid milk is a "fresh" product. Requires daily replenishment
- 90% of Heritage liquid milk is door delivered through milk agents on a daily basis
- 99% of liquid milk procured is sold within 24 hrs everyday
- 99% of the liquid milk is packed in low cost Co-extruded Multi Layer Film pouches
- Tetra pack/UHT packaging material costs 7x more and associated milk processing cost is higher

Dairy Categories - Branded Value Added Products

Paneer

Lassi

Sales (Rs mn) & Growth (%)



Curd

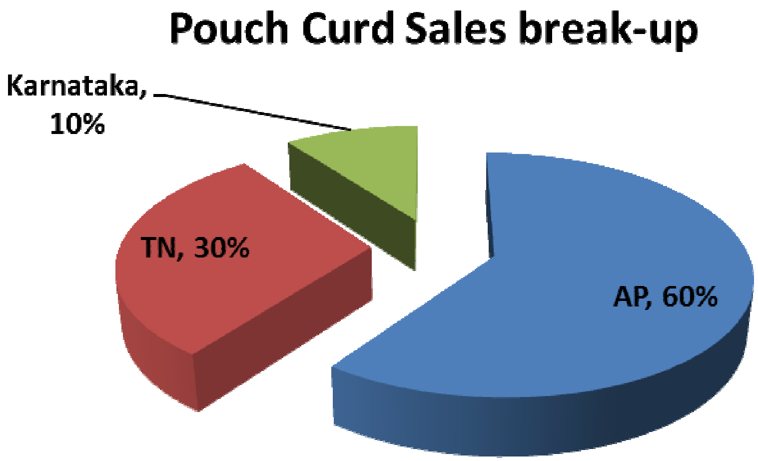
Ice Cream

***Product Highlights**

- #1 in Curd sales in India
- #3 regional Ice-cream company and among the top 10 in India (started only 3.5 years back)
- #1 in Butter Milk sales in India
- #2 in Lassi sales in India
- #1 regional company in ghee (not incl. in value-add. Products) and among the top 5 companies in India
- Widest range of dairy products (22) in India

* *Amongst private sector dairy companies*

Pouch Curd - The growth driver



Market Share in Pouch Curd

	% share
Hyderabad	56%
AP	51%
Chennai	28%
TN	22%
Bangalore	7%
Karnataka	6%

- **Branded Curd Sales accounts for approx.. 60% of Branded Value added products Sales**
- **Pouch Curd accounting for more than 80% of volume sales (with the balance being Cup Curd)**
- **Low market share and share of sale in Karnataka is on account of aggressive non-commercial pricing of the state cooperative**

Pouch Curd - The growth driver

AP Pouch Curd Sales

	Urban Pop (mn)	Sales Split %
Hyderabad & Rangareddy	7.7	31%
Rest of AP - 7 Districts	8.4	69%
Remaining AP	12.2	0%
Total	**28.4**	**100%**

Chennai Market Shares %

	Pouch Curd	Pouch Milk
Heritage	**28%**	**7%**
Private Competitor 1	21%	10%
Private Competitor 2	4%	9%
State Cooperative	4%	52%
Others	43%	22%

- **Branded Curd Sales is not restricted to the metros**
- **Current penetration level is still very low as reflected in yet to be covered urban population in AP**
- **Consistent high quality is a hallmark of Heritage's all products including Curd**
- **This is exemplified in Heritage's higher market share in Pouch Curd vs its Pouch Milk market share in Chennai**
- **Curd requires maintenance of strict quality control across the value chain to ensure product consistency and quality**

Activity Flow chart

Procurement

Collection of Milk from Farmers

Testing, Chilling of Milk and Transportation to Packing Plant – 99 units

Production

Pasteurization, Homogenization, Standardization of milk & excess fat separation – 13 units

Excess Fat Converted To By-Products

Milk and Milk Products

Sales and Marketing

Milk

Packed Milk to Distribution Point

- **Heritage Fresh & Parlors**
- **Institutions**
- **Milk Agents**
  - **Door Delivery to Households**

Consumer

Milk Products

Distributors

- ***Kirana Stores**
- **Modern Retail Formats**

Consumer

* Kirana: Mom and pop retailers of food & grocery and FMCG.

Distribution Network Structure

One Level

87% sales

Sales Office → Agents/Retailer/Parlours → Consumer

Two Level

11% sales

Sales Office → Distributors/Stockists → Agents/Retailers → Consumer

Three Level

2% sales

Sales Office → CFA/CA → Distributors/Stockists → Agents/Retailers → Consumer

- 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
- No of vehicles (trucks/tankers/puff vehicles) servicing Heritage everyday: 1,000 (employing ~ 3,000 people)

Range of Products

Milk

UHT Milk & Fresh Cream

Flavoured Milk

Tetra Packs & Bottles

Curd

Fruit n Curd

Lassi

Butter Milk

Sweets

PT Butter & Cheese

Cooking Butter

Range of Products

Buffalo Ghee

Cow Ghee

Paneer

Dairy Whitener

Skim Milk Powder

Ice Cream

Welfare Activities for Milk Producers

Input Activities

- Cattle insurance
- Cattle productivity improvement
  - Health camps, deworming, immunization etc.
  - Supply of high quality seeds, fodder, feed, mineral mixes
  - Sourcing high quality breeding bulls given to farmers at subsidized rates
- Providing equipment like milking machines and chaff cutters
- Veterinary services available to farmers at all times

Training

- **Heritage Institute of Milk Sciences (HIMS):** Industry recognized diploma in milk sciences/tech; priority to farmers' children
- Educating milk producers about cattle health, feed formulation, breeding etc.
- Entrepreneurial skill development
- Women's development program

Welfare Activities for Milk Producers

Farmers Welfare Trust (FWT)

- Cooperative effort between milk producers and Heritage to create village-based fund pool (50-50 contribution) used for local individual and community developmental activities.
- Non-supply members can also participate in welfare activities

Farmer Loans

- Heritage is the preferred channel partner for banks to disburse loans to milk producers
- State Bank of Hyderabad has tied-up with Heritage to provide assured supply of milk based loans to the tune of USD 45m
- Heritage has been active in directly giving loans to milk producers at good recovery rates

Quality Assurance & Technology

Offering premium quality milk and dairy products to customers at reasonable prices

- Scientific methods of quality checks at different levels - Industry benchmarks
- Dedicated Quality Assurance & Product Development team
- State of the art, sustainable infrastructure
  - ISO 9001, ISO 22000 & ISO 14,000 certified milk operations
  - Hazard Analysis Critical Control Point certified manufacturing facilities
  - Manufacturing & Processing Technology in co-operation with IDMC, De Laval & Tetra Pak
  - Accorded Export License from Ministry of Commerce and Industry
  - 1st prize in dairy sector for National Energy Conservation Awards 2010 and 2nd prize in 2008
  - Excellent pollution control infrastructure and stringent mechanisms in place
  - Only packaging partner (curd) for Nestle in India, and one of their only 2 Indian dairy packaging partners
- Excellent supply/cold chain connectivity and logistics management to maintain high quality
- Heritage is the first company in India to implement ERP applications of SAP for dairy business for its business processes across all locations

Heritage Parlour

- Heritage Parlor is a Modern “Kirana” incubated and pioneered by Heritage
- Currently there are 1055 parlors with an average shop area of 100sft
- Vision is to nurture entrepreneurship and to enhance inclusive growth opportunities - Owned and managed by franchisees
- Selling only Heritage range of products and authorized products/services
- Only organized chain of parlors to be selling non-dairy products also
- Milk & Milk Products, Ice Cream, Bread, Baked Products, FMCG Products, Staples, Fruits & Vegetables, Eggs, Public Telephone, and Mobile recharge coupons

Heritage Parlour - Product Range

Product Category	Products	Frequency	Availability	Vehicle Type
Category 1	Milk Pouch Butter Milk Pouch Curd	Daily	All Regions	Insulated Truck
Category 2	Cup Curd, Cheese Lassi, Butter Milk Paneer, Sweets Cooking Butter Bread, & Baked Products	Parlour Dependent Either Daily or alternative day	All Regions	Insulated Truck
Category 3	FMCG Products like Jams, Ketchups, Honey, etc Dairy Whitener, Flavored Milk Skimmed Milk Powder UHT Milk, & Ghee	Weekly	All Regions	Covered Truck
Category 4	Ice Cream	Weekly	All Regions	Refrigerated Truck
Category 5	Fruits and Vegetables	alternative day	Hyderabad 28 Parlours Only	Covered Truck

- Every Category has its own SM (Sales Man)
- Timely payment and supply: A SM travels with the delivery vehicle to deliver indent, collect cash, and the next indent
- Currently Parlous benefit from existing dairy and retail distribution centers and logistics
- Merchandise mix is developed based on the local requirement
- Currently close to 200 private label SKUs are marketed through Parlours

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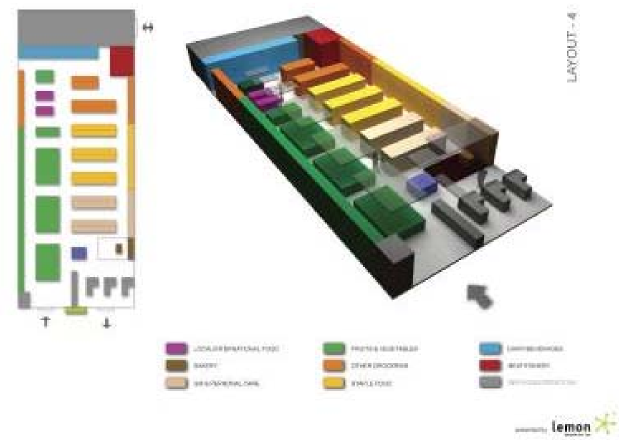
Business Profile – Retail Division

- Started in 2006 as a logical extension to dairy division to benefit from the food and grocery retail boom in India
- Average store area is ~3,000 sft and contains over 6,000 SKUs
- A typical store is on 9 years lease
- International concepts/standards in branding, layout, design and display
- Layout, ambience, and cleanliness standards have become a benchmark in the industry. All stores are air-conditioned, owned, operated, and maintained by the company
- Rated the highest in Customer Satisfaction among Food & Grocery chains in South India by WPP group



All Stores are in prime retail/residential locations and are on the ground flood with an average frontage of 40ft

Quality & FRESHness

- FRESH is not just a part of our name
  - It is the essence of the relationship we have built with our customer
  - It stands for the freshness of the products we sell
  - It's also about the originality of our business model
- Direct procurement of fruits & vegetables from farmers/Heritage Agri and FMCG & grocery products from manufacturers
- Dedicated bakery facility to cater to select stores by offering a wide range of fresh bakery products

Company's value proposition is high quality fresh produce, grocery & FMCG products at competitive prices coupled with high level of service & convenience

Highest Productivity

- Highest productivity of Rs1040 FY 12 (USD 22) per sft per month (FY 12) in food & grocery retail (supermarket format) business in India
- Customer satisfaction due to high quality and wide range of product availability
  - Total 14,613 SKUs in FMCG + Dairy contributing to 60% of Revenues, Heritage dairy constitutes 72.4% of dairy sales in store
  - Strong private labels -"Farmer's pride" for staples , "Blossom "(fragrance based for Hand wash, Tissues, Agarbathis, coconut oil), "Spic" (Utensil Cleaners), "Sanistar" (Toilet Cleaners), "Cozy" (Detergents). Comprise 30% store revenue
- Store managers are given business orientation - responsible for own P&L

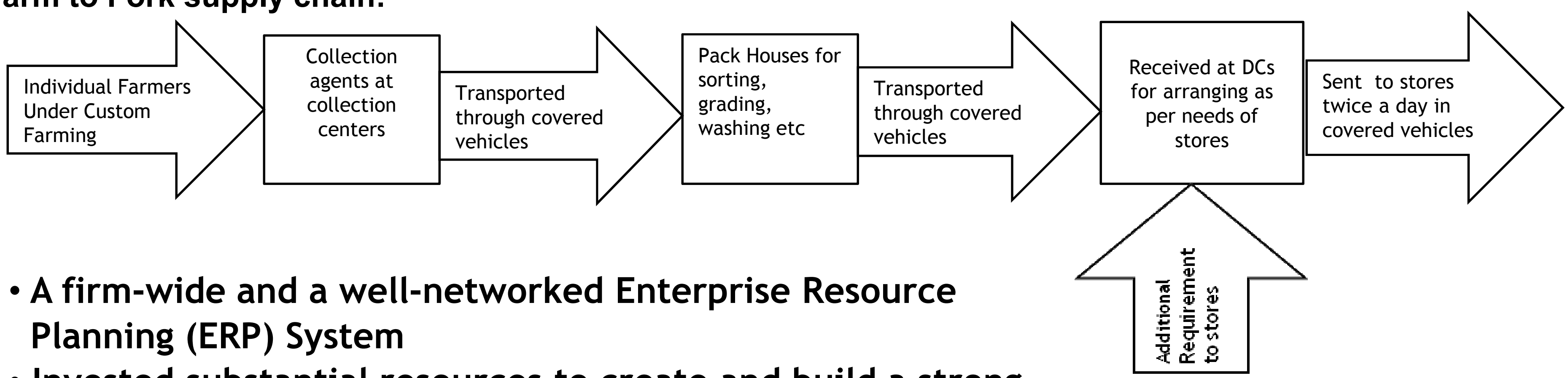
With the objective of offering distinct shopping experience, the Company has also focused extensively on in-store ambience to deliver 'convenience and value' to the customers

Well Integrated Supply Chain

- Distribution Centers (DCs) strategically located close to stores. Each of the 3 cities has a DC
  - Supply chain cost @ 2.4% of sales
  - The logistics/fleet of trucks for transportation of goods from DC to stores is contracted out
- Strong internal control systems:
  - Highly accurate inventory management.
  - Inventory audit is done by external agency every month across all stores and SKUs
  - DC audit is done once in a quarter

Distribution Centre Details	Unit	Hyd	Bangal -ore	Chennai	Total
Ownership		Leased	Leased	Leased*	
Warehousing for F & V, FMCG	Sft	30,000	14,000	20,842	64,842
Warehousing for Staples	Sft	7,200	3,200	5,000	15,400
Picker Productivity Per Hour		111.4	98.30	96.00	101.90
Logistics cost per store (Rs. In Lakhs)		0.25	0.18	0.26	0.23
Ware house cost per store (Rs. In Lakhs)		0.44	0.43	0.49	0.45

Farm to Fork supply chain:



- A firm-wide and a well-networked Enterprise Resource Planning (ERP) System
- Invested substantial resources to create and build a strong backend

Key Operational Metrics: FY2012

	Hyderabad	Bangalore	Chennai	Total
No. of Stores	35	15	23	**73**
Total Carpet Area (sq ft)	120404	49204	47504	**217114**
Effective Carpet Area (sq ft)	116509	36836	47196	**200542**
ABV (Rs)	193	185	180	**188**
No. of Bills	597	385	433	**497**
Ave. Sales (Rs/sq ft/month)	979	885	1311	**1040**
Store Sales (Rs mn)	1369	391	743	**2503**
Gross Margin (post dump & shrink) %	20.5%	19.9%	20.9%	20.5%
Rent on carpet area (Rs/sq ft/month)	60	56	57	**59**

- **Sales composition: F&V – 20%, FMCG – 58%, Staples – 22%**
- **Share of Private Label is at 21% to overall sales**
- **Among the Least Business Opex cost in the Industry**
- **One of the highest Gross Margins in the business**

Trend of key operational & financial metrics

Rs mn	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
No. of stores	15	70	75	75	75	73
Total carpet area ('000 sq ft)	43	149	159	158	166	217
Effective carpet area ('000 sq ft)	8	90	158	158	160	200
Avg store sales (Rs/ sq ft/month)	**731**	**943**	**974**	**968**	**1113**	**1040**
YOY %		**29.0%**	**3.3%**	**-0.7%**	**15.0%**	**-6.5%**
Heritage Fresh Stores	67	1012	1849	1836	2145	2503
Institutional, General Trade & Others		59	215	155	146	329
Other Operating Income		17	30	77	129	172
Total Revenue	**67**	**1089**	**2093**	**2068**	**2420**	**3004**
Growth (%)		1527%	92%	-1%	17%	24%
Total Gross Profit		**185**	**286**	**330**	**462**	**585**
Gross margin (%)		**17.0%**	**13.6%**	**15.9%**	**19.1%**	**19.5%**
Gross margin Fresh @ (%)					**19.3%**	**20.5%**
EBITDA at store level (Rs mn)		**(77)**	**(97)**	**(24)**	**90**	**118**
EBITDA margin (%)					3.7%	3.9%
Regional & Corporate Overheads		369	371	251	261	287
EBITDA (Rs mn)		**(445)**	**(468)**	**(275)**	**(171)**	**(169)**

- **SSS (considering 61 comparable stores) stood at 8% in FY2012**
- **6.5% productivity de-growth in FY2012 on account of 22000 sq ft (approx. 10% of total area) addition at first floor level in 6 stores. Productivity tends to be lower on first floor.**
- **Store Gross margin improved strongly by 125 bps to 20.5% and overall gross margin by 40 bps**

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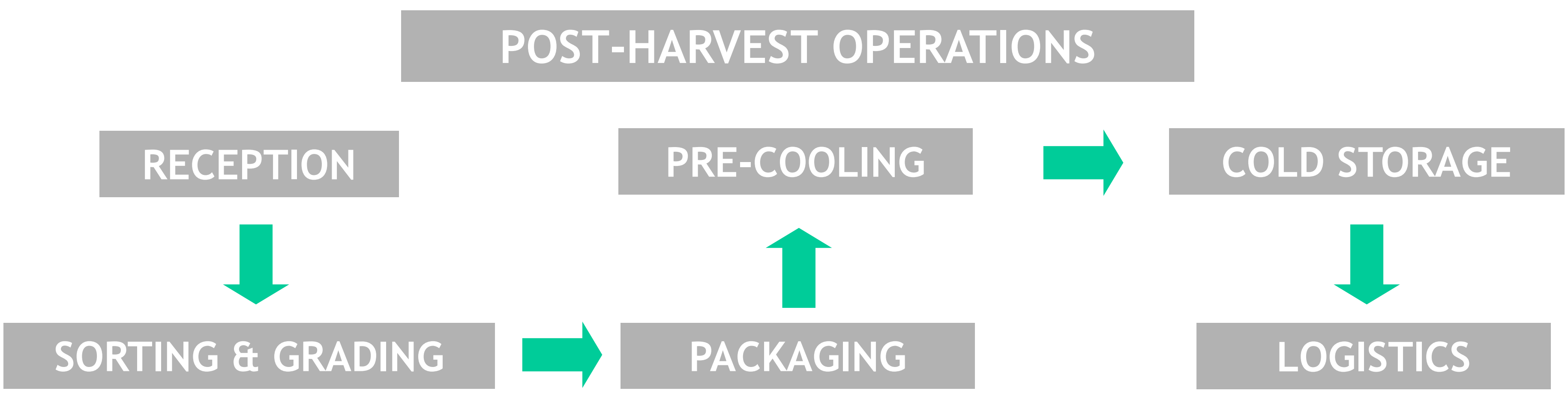
Integrated Agri operations

- Pioneers in “Custom Farming” in retail industry. Working closely with farmers and providing assistance regarding
    - Good Agricultural Practices
    - Annual crop calendar
    - Integrated Pest management
    - Credit linkage
    - Input supply
    - Pre/post harvest management
- Farmers reduce handling losses by ~5% and improve productivity per unit area by ~8%
- Vast database of farmers that enables easy tracking and data mining
- 50% supplies to Heritage Fresh i.e 23 MT/day
- Commercial sales of 22 MT /day
- FY2012 revenue of Rs326mn

Integrated Agri operations

- State of the art Pack Houses (processing centers)
  - Air-conditioned and humidity controlled pack houses with cold storage facilities and ripening chambers at 2 strategic locations with a combined capacity of 300MT per day
  - Combined capacity expandable to 450MT with minimal additional investments
  - Current excess capacity is being leased to farmers and vendors



Pack Houses Infrastructure

Business overview - Bakery Division

- State-of-the-art bakery production facility
- Provides backend production services for Heritage Fresh and Private Label
- Manufactures a range of breads, puffs, pastries, puddings and custards
- European equipment - spiral mixers, digitally controlled laminated dough lines, breadlines, blast freezers, and other infrastructure.
- Delivers the highest standards of hygiene and food safety
- FY2012 revenue of Rs326mn

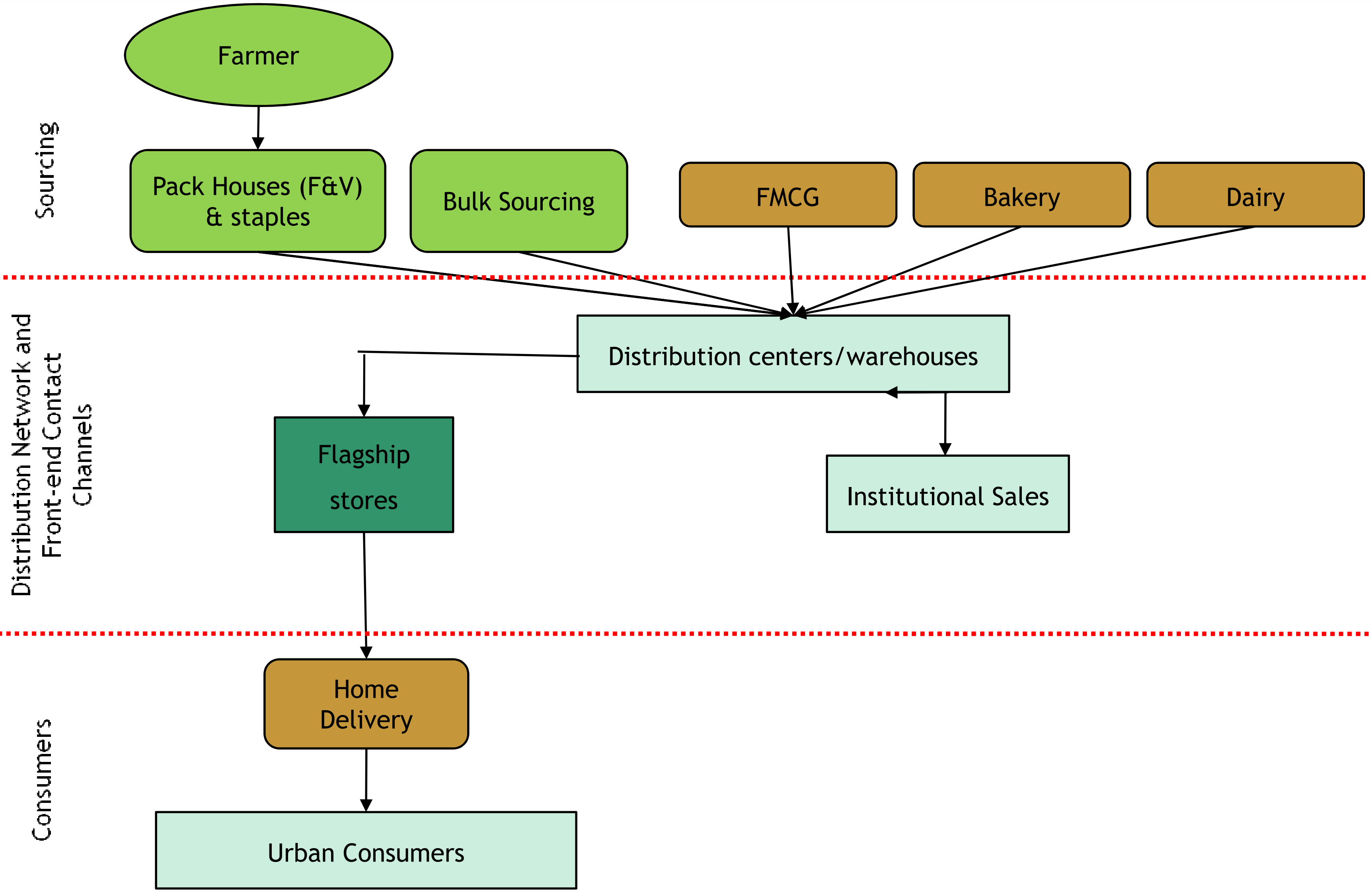
Agenda

I. Heritage Foods (India) Ltd. – Introduction
II. Dairy Industry Scenario
III. Business Overview
    I. Business Overview – Dairy Division
    II. Business Overview – Retail Division
    III. Business Overview – Agri & Bakery Division
IV. Business Strategy
V. Share Holding Pattern

Dairy strategy – Moving up the value chain

- Focus on own brand value added products
  - Curd
  - Butter milk
  - Ice cream
- Consolidation in existing markets
- Expansion to new markets

Farm to fork - Integrated Retail Business



Economic Activity - Manpower

S No	Division	Regular Jobs	Part timers/Casuals Jobs	Total
1	Dairy	1788	1652	3440
2	Retail	1868	340	2208
3	Agri	87	76	163
4	Bakery	41	44	85
	Grand Total	3784	2112	5896

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Current Share holding pattern

As on June 2012

	mn shares	% holding
Promoters	5.3	46%
FIIs	1.1	9%
Domestic Institutions	0.1	1%
Others	5.1	44%
Total	**11.5**	

Thank You

Bring Home Health & Happiness