

Management Discussion and Analysis

CORPORATE OVERVIEW

Heritage Foods Limited (the Company) is a fast-growing Indian dairy company. The Company is in the business of Milk, Milk products and Ice cream/Frozen Desserts. The company's sustainability has been centered around enlarging its presence in high demand markets.

The Financial statements are prepared in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 2013 ("the Act") read with Section 133 of the Companies Act, 2013. Your Management accepts responsibility for the integrity and objectivity of the financial statements, as well as for the various estimates and judgments used therein. These estimates and judgments relating to financial statements are prudently made to reflect in a true and fair manner the form and substance of transactions. This also enables in reasonably presenting the Company's state of affairs and profits and cash flows for the year ended March 31st, 2017.

ECONOMY OVERVIEW

The India's Economic performance in 2016-17 has moderated as shown in the Economic Survey. The Economic growth is expected to revive in 2017-18 with the expected normalization in the economy as the cash crunch eases. This is indicative of the relative stability of the economy. There has been an improvement in the government's fiscal management in 2016-17 aided by the buoyancy in revenue collections.

INDUSTRY STRUCTURE AND DEVELOPMENTS

The Indian dairy industry is one of the fastest growing dairy segments across the world and it is also a dependable pillar of the Indian economy. It catalyses India's economic growth through large rural and semi-urban employment opportunities, creating an alternative livelihood means for millions otherwise dependant on monsoon-reliant agriculture. The success of this national industry has been driven by the integration of milk collection, transportation, processing and the distribution networks.

India is the world's largest consumer of dairy products, consuming almost 100% of its own milk production. Dairy products are a major source of economical and nutritious food to millions of Indians and the main source of protein for the large vegetarian segment of the Indian population.

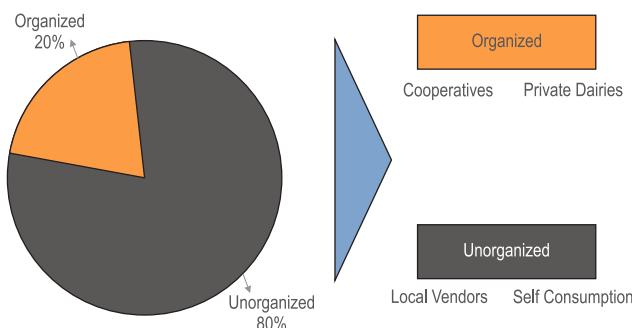
In India, milk consumption mainly consists of buffalo milk at 49% followed by cow milk at 48%. However, cow milk is growing at a faster pace than buffalo milk due to its lower fat content and is

expected to account for a majority of the total milk consumed in line with the trend in developed nations.

Opportunities in Indian Dairy Industry: There are two structural themes that are expected to pan out in the Indian dairy industry owing to favourable demographics which will drive growth in the industry. The tailwinds arising with the shift from 'unorganized' to 'organized' market and consumer up gradation from 'pouch milk/ powders' to 'value-added dairy products' (VAP) will provide strong growth opportunities.

Shift from Unorganized to Organized Market: In India, the unorganized segment comprising of 'local vendors' and 'self-consumption' commands a lion's share of 80% by value. The organized segment is divided between 'cooperatives' and 'private dairy companies.

Structure of Dairy Industry in India - Largely Unorganized



Source: Emkay Research

The organized segment is expected to grow at a CAGR of 19.5% over 2015-20, and account for ~25.5% of the Indian dairy industry by 2020. The unorganized segment is expected to grow at a CAGR of 13.2% during the same period and is expected to account for 74.5% of the total Indian dairy industry by 2020.

Organized segment growth to outpace that of unorganized segment

Shift from raw milk/ milk powders to Value Added Dairy Products (VADP)

Raw milk, skimmed milk powders (SMP) and dairy whiteners (DW) are classified as traditional commodity-like low margin dairy products. However, with rising disposable incomes and burgeoning proportion of working women, there will be greater consumption of ready-to-eat, branded VADP like cheese, table butter, flavored milk, UHT milk, shrikhand, paneer, buttermilk, etc. VADP – The New White Renaissance

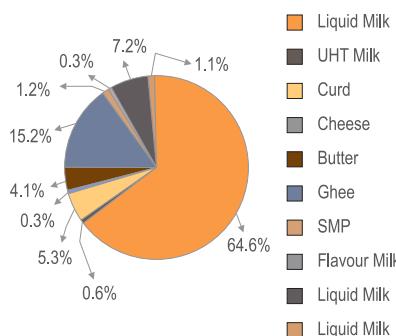
Shift in Value Added Products (VAP)



Source: Emkay Research

Owing to conventional dietary habits, around 65% of milk is consumed in the liquid form while ghee is the second largest consumed dairy product having a 15% share of the dairy market. Traditional value added dairy products like paneer, curd and butter, together constitute 32% of India's total dairy market. The emerging VADP account for a meagre 2.3% of the total dairy industry.

Product-wise break-up of Dairy Industry in India



Source: Emkay Research

Consolidation Mode, Putting Our Best Foot Forward

As your Company celebrate Silver Jubilee of its business operations, your company is getting into a consolidation mode both in the dairy and retail space so that Company can focus on its strengths and grow to the next level.

On the dairy front, your company have grown by leaps and bounds since inception. From a milk procurement level of 20,000 liters per day, today your Company have crossed 1 Million liters per day mark. Your Company had also successfully forayed into value added products and have established an enviable position in curd, butter milk, paneer, and flavoured milk segments.

The integration in dairy space with the acquisition of dairy business of Reliance Retail Ltd (RRL) is in the right direction. The dairy business of RRL does a milk procurement of about 2.25 lakh liters per day. The move strengthens not only in distribution but also milk procurement levels too. This apart, the acquisition gives an opportunity to add five new states to the fold are Punjab, Haryana, Himachal, Uttarakhand and Rajasthan.

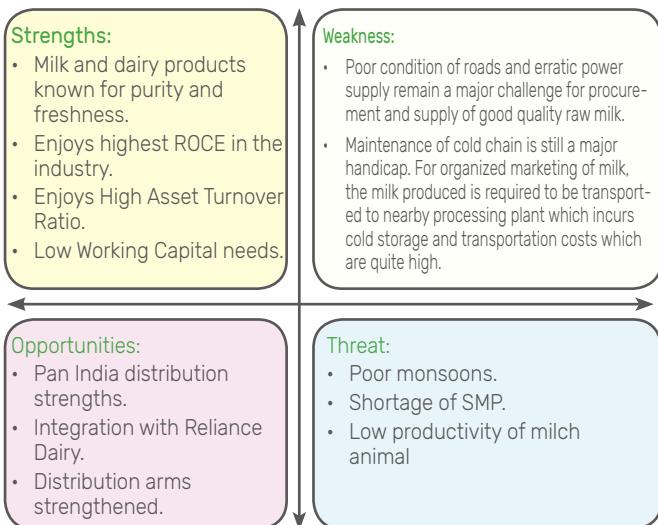
Yet another consolidation that has happened during the year that has gone by is in the Retail space. All the assets and liabilities of four business verticals (Retail, Agri, Bakery, and VetCa) have been transferred as a slump sale (on a going concern basis) to Heritage Food Retail Limited (HFRL), a wholly owned subsidiary and subsequently HFRL shall transfer three business verticals (Retail, Agri, and Bakery) to Future Retail Ltd (FRL) by way of demerger. All the above two process has consolidated through the Composite Scheme of Arrangement..

Tangible Results: (Standalone)

Total Revenue (₹ in Crore)	EBIDTA (₹ in Crore)	PAT (₹ in Crore)
FY17 ₹ 2273.40 Cr	FY17 ₹ 140.35 Cr	FY17 ₹ 66.82 Cr
FY16 ₹ 2,380.58 Cr	FY16 ₹ 135.14 Cr	FY16 ₹ 55.43 Cr
FY15 ₹ 2,072.97 Cr	FY15 ₹ 88.10 Cr	FY15 ₹ 28.21 Cr
FY14 ₹ 1,722.04 Cr	FY14 ₹ 95.00 Cr	FY14 ₹ 45.31 Cr
FY13 ₹ 1,601.80 Cr	FY13 ₹ 101.10 Cr	FY13 ₹ 49.90 Cr

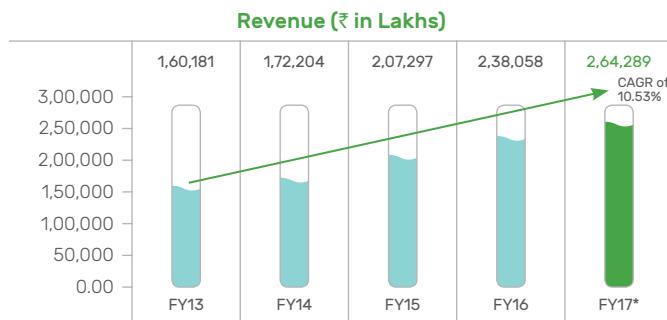
Your Company has set its aspiration to emerge as a 1 Billion dollar company by 2022. At the moment, all efforts are moving in that direction. Apart from the organic growth both in the liquid milk and value added products space, the acquisition of dairy business of RRL has been in the direction to scale up in the dairy space. Your Company is looking for growth both through the organic and inorganic route, provided there are synergies.

SWOT Analysis:



Review of Operations:

Your Company anticipated that the moderation in the growth rates will show steady recovery in the short term and the growth momentum will revive soon. In this volatile environment, your Company believes in long term profitable and sustainable growth. Your Company maintained a forward looking approach to ensure that it is well prepared to seize new opportunities and handle new challenges with speed. Since the success of your Company depends on the ability of the business to keep understanding the changing environment and to keep adapting its responses in a seamless manner it continued to focus on realigning its initiatives internally and externally. Your Company focused on the principles of continuous excellence to drive efficiencies. Therefore your Company has grown at CAGR of 10.53%.



Moving up value chain: The company is rapidly moving up the value chain as the contribution of Value Added Products (VAP) in Dairy vertical is improving on a Y-o-Y basis. The margin in VAP is almost double than that of Liquid Milk.

Making Rapid Strides: Was successful in making rapid strides in Mumbai and Delhi markets in Dairy business vertical. Attempts are on to add further capacities in Mumbai and Delhi market.

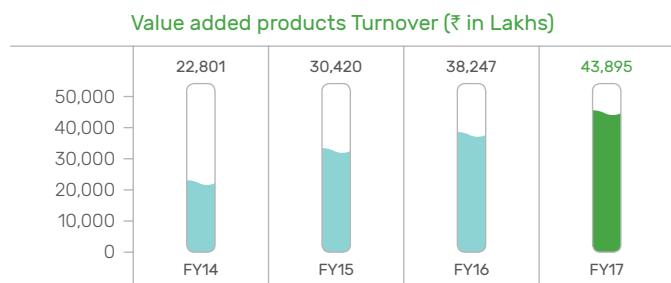
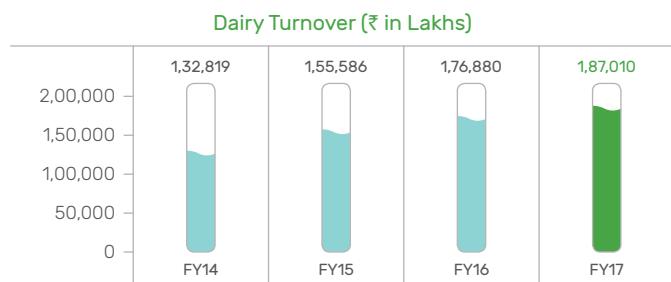
Renewable Energy: The Company increased its Renewable Energy Capacity to 8.2MW with 2.35MW Solar Power, 1.66MW Distributed Solar power and 4.20MW Wind Power in the states of Andhra Pradesh, Telangana, Maharashtra, Tamil Nadu and Karnataka for the captive consumption of its Dairy plants.

Farmers Welfare Fund: Since the company believes in adding value to its stakeholders, it has successfully created Farmers Welfare Fund for its Dairy Farmers who form an important constituent among its key stakeholders.

Dairy Business Vertical:

₹1,87,010 LAKHS Revenue	70.76% Revenue contribution
₹14,489 LAKHS EBITDA	₹24,299 LAKHS Capital employed
₹43,895 LAKHS Revenue from value added products	

The Dairy division accounting for 70.76% of revenue (₹ 1,87,010 Lakh) is the flagship business vertical for your Company. The Last 4 financial year's revenue of the Dairy vertical is given below:



With a surge in the value added products, from ₹ 22,801 lakhs in FY14 to ₹ 43,895 lakhs in the current fiscal year, the percentage of contribution to the dairy revenue has improved from a mere 12% to nearly 23% in the current year. The value added products have been growing at a CAGR of 17.79% over the last 4 years.

These products indeed attract the attention of stakeholders as the profit margins among these are almost double compared to that of the liquid milk. Among these value added products, it's the curd that forms a significant portion. The rest include: ice cream/Forzen Desert, paneer, butter milk, flavored milk, and others. Attempts are on to add newer value added products like yoghurt, cheese, whey protein, and other beverages.

Renewable Energy Business Vertical:

Your Renewable Energy Division strongly recognizes the responsibility towards protecting the environment. As a forward-looking enterprise, it is strongly committed to extending our 'Green' footprint. In line with this thinking, the division has increased its Renewable Energy Capacity to 8.2MW with 2.35MW Solar Power, 1.66MW Distributed Solar power and 4.20MW Wind Power in the states of Andhra Pradesh, Telangana, Maharashtra, Tamil Nadu and Karnataka for the captive consumption of its Dairy plants:

₹521 LAKHS

Revenue from renewable energy

₹4,721 LAKHS

Capital employed in renewable energy

Way Forward:

As per the vision & mission statement, the Company is set to emerge with a topline of ₹ 600,000 lakhs in 5 years. Towards this end, the Company is set to emerge as a pan India player. Our current relationships with as many as 3 lakh dairy farmers and nearly 12 lakh consumer households are set to double.

Discussion on financial And Operational performances

Your Company has created significant wealth for its shareholders as the Company continues to maintain its growth momentum to become a nationally recognized brand for healthy and fresh products. Given below is the Company's performance for the last five years in various parameters.

Net worth Trend:

The net worth (Consolidated) has shown a steady and constant ascent from ₹ 30067.51 lakhs to ₹ 23990.26 lakhs in the last five years.

Net worth (₹ in Lakhs)

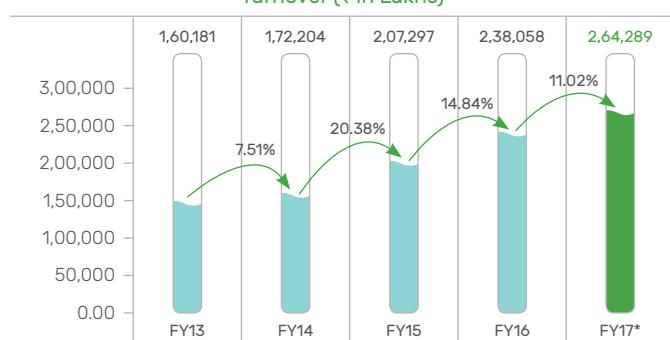


* The FY17 figures are consolidated

Revenue Trend

The focused approach helped the Company to deliver an industry leading performance with a revenue growth of 11.02% in FY17.

Turnover (₹ in Lakhs)

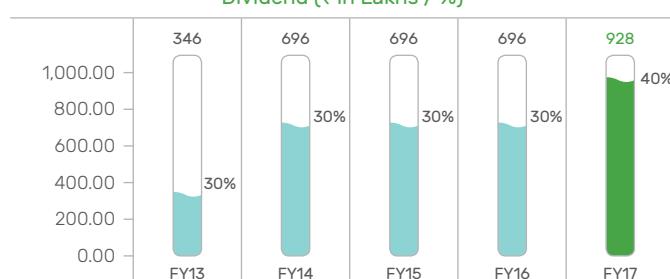


* The FY17 figures are consolidated

Dividend Payment History

The Dividend and the payout ratio computed on consolidated profits have remained high. The dividend appropriated has increased steadily from 30% in FY13 to 40% in FY17.

Dividend (₹ in Lakhs / %)



• The Board of Director allotted 1:1 bonus shares on 30th July 2013.

Earnings per Share

Earnings per share (EPS) (Equity Shares of the face value of ₹ 10/- each)

EPS



• The Board of Director allotted 1:1 bonus shares on 30th July 2013.

STANDALONE FINANCIAL PERFORMANCE REVIEW

A. FINANCIAL PERFORMANCE

The following information is a Standalone information of your company and it should be read in conjunction with the financial statements and related notes for the Financial Year ended March 31, 2017.

Overview of Standalone Financial Results

Particulars	2016 - 17		2015 - 16		FY 2017 Vs 2016
	₹ In Lakhs	% of Revenue	₹ In Lakhs	% of Revenue	% of Growth
Net Sales	223810.49	98.45	232895.32	97.83	(3.90)
Other operating income	3529.67	1.55	5163.01	2.17	(31.64)
Total Revenue	227340.16	100.00	238058.33	100.00	(4.50)
Less: Total Expenditure	213677.66	93.99	224977.62	94.51	(5.02)
Add: Other Income	445.17	0.20	654.96	0.28	(32.03)
Profit before Interest, Depreciation and Tax	14107.68	6.21	13735.67	5.77	2.71
Less: Finance costs	1114.17	0.49	1549.27	0.65	(28.08)
Depreciation & Amortisation	3251.87	1.43	3451.21	1.45	(5.78)
Profit / (Loss) before tax	9741.64	4.29	8735.20	3.67	11.52
Less: Extraordinary / Exceptional items	-	-	136.95	0.06	-
	9741.64	4.29	8598.25	3.61	13.30
Less: Provision for current taxation([Incl.tax.earlier yrs])	2600.07	1.14	3068.44	1.29	(15.26)
Less: Provision for deferred taxation	459.11	0.20	(13.34)	(0.01)	(3541.98)
Profit / (Loss) after tax	6682.46	2.94	5543.15	2.33	20.55

Standalone Segment results:

Particulars	2016 - 17 ₹ In Lakhs	% of Revenue	2015 - 16 ₹ In Lakhs	% of Revenue
	₹ In Lakhs		₹ In Lakhs	
1. Total Revenue				
a. Dairy	187010.33		176880.13	
b. Retail	40987.85		58286.49	
c. Agri	2991.22		3872.14	
d. Bakery	750.79		812.04	
e. Renewable Energy	521.30		304.30	
f. Vetca	3213.77		5695.58	
Total Revenue	235475.26		245850.68	
2. Inter-segment Revenue				
a. Dairy	3759.63		2603.18	
b. Retail	170.06		244.95	
c. Agri	1599.09		1896.90	
d. Bakery	299.66		210.19	
e. Renewable Energy	449.43		244.80	
f. Vetca	1857.22		2592.32	
Total Inter-segment Revenue	8135.09		7792.34	

Particulars	2016 - 17 ₹ In Lakhs	% of Revenue	2015 - 16 ₹ In Lakhs	% of Revenue
3. External Revenue				
(Incl other operating income)				
a. Dairy	183250.70		174276.95	
b. Retail	40817.79		58041.54	
c. Agri	1392.13		1975.24	
d. Bakery	451.13		601.85	
e. Renewable Energy	71.86		59.50	
f. Vetca	1356.55		3103.26	
Net Sales / Income from Operations	227340.16		238058.33	
4. Segment Results				
(Profit (+) / (Loss) (-) before tax and finance costs)				
a. Dairy	12169.46	6.64	11532.20	6.62
b. Retail	(1463.97)	(3.59)	(1380.99)	(2.38)
c. Agri	(197.96)	(14.22)	(309.78)	(15.68)
d. Bakery	(9.12)	(2.02)	(61.52)	(10.22)
e. Renewable Energy	250.24	348.22	126.17	212.05
f. Vetca	69.47	5.12	177.37	5.72
Total Segment Results	10818.13	4.76	10083.45	4.24
Less: i. Finance Cost	1114.17	0.49	1549.27	0.65
ii. Interest income	33.68	0.01	61.00	-
Add: iii. Other un-allocable Income /(expenditure)	4.00	-	3.06	-
Total Profit before Tax	9741.64	4.29	8598.25	3.61

CASH FLOW ANALYSIS

Cash inflows

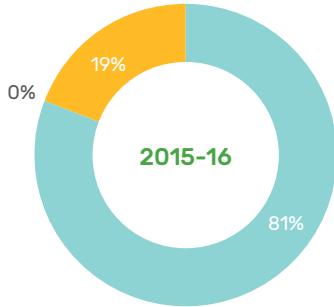
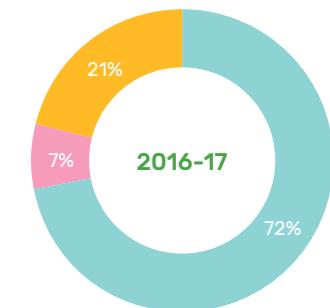
Particulars	2016 - 17		2015 - 16	
	₹ In Lakhs	%	₹ In Lakhs	%
Operating Cashflow	14008.69	71.90	13905.26	81.09
Change in working capital (net)	1272.56	6.53	-	-
Interest & Dividend on Investments	37.68	0.19	64.08	0.37
Earmarked balances redemption	-	-	6.78	0.04
Proceeds from Long Term Borrowings	4165.04	21.38	3171.75	18.50
Total	19483.97	100.00	17147.87	100.00

Cash Outflows

Particulars	2016 - 17		2015 - 16	
	₹ In Lakhs	%	₹ In Lakhs	%
Repayment of Long Term Borrowings	3878.28	20.89	1560.96	9.35
Change in Working capital (net)	-	-	3199.12	19.16
Taxes paid	2874.18	15.48	2962.39	17.74
Capital Expenditure	9860.66	53.11	6657.01	39.86
Net Investments	19.58	0.11	0.25	-
Unclaimed Dividend	16.44	0.09	11.65	0.07

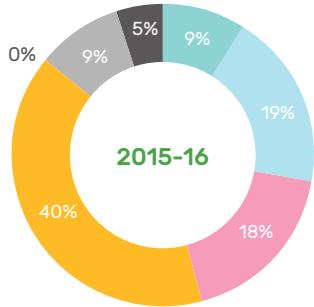
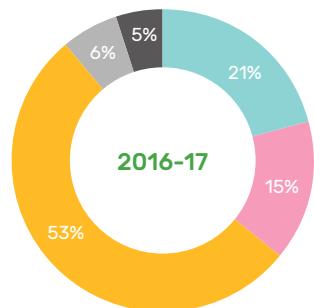
Particulars	2016 - 17		2015 - 16	
	₹ In Lakhs	%	₹ In Lakhs	%
Extra-ordinary items	-	-	-	-
Interest Paid	1079.73	5.82	1470.35	8.80
Dividend Paid	837.65	4.51	837.65	5.02
Total	18566.53	100.00	16699.38	100.00
Net increase /(decrease) in cash and cash equivalents	917.44		448.49	
Add: Opening Cash and Cash Equivalents	4440.19		3993.70	
Cash and cash equivalents adjustment in pursuant to the Composite Scheme of Arrangement (Ref Note 43)	(859.86)		-	
Effect of foreign exchange gain / (loss)	(12.21)		(1.99)	
Cash and Cash Equivalents at the end of the period	4485.57		4440.19	

Cash Inflow



- Operating cashflow
- Change in working capital (net)
- Interest & Dividend on Investments
- Proceeds from long-term borrowings

Cash Outflow



- Repayment of long-term borrowings
- Capital expenditure
- Unclaimed dividend
- Interest paid
- Dividend paid
- Taxes paid

FORWARD LOOKING STATEMENTS

Statements in this report describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations that involve risks and uncertainties. Such statements represent the intention of the Management and the efforts being put into place by them to achieve certain goals. 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.