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COMPANY INFORMATION



BOARD OF DIRECTORS

Sri D Seetharamaiah, Non Executive Independent Chairman
Sri N P Ramakrishna, Independent Director
Dr N R Sivaswamy, Independent Director
Dr A Appa Rao, Independent Director
Smt N Bhuvaneswari, Vice Chairman & Managing Director
Dr V Nagaraja Naidu, Managing Director

PRESIDENT

Dr M Sambasiva Rao

SENIOR EXECUTIVES DAIRY DIVISION

Sri K Durga Prasada Rao, Senior Vice President - Operations
Sri N Venkat Rao, Vice President - Procurement & Inputs
Sri T Venkateswara Rao, Vice President - Plant & Engineering
Sri A Jeevaratnam Naidu, GM - Procurement & Inputs
Sri P A Anil Kumar, GM - Quality Assurance & Control
CA A Prabhakara Naidu, GM - Finance & Accounts
Sri K Rama Moorthy, DGM - Marketing & Sales
Sri C V S Kaleswara Rao, DGM - Personnel & Admin
Sri D V R K Prasad, DGM - Plant & Engineering
Sri S S Patil, DGM - Plant & Engineering
Sri M Brahmaiah, DGM - Plant & Engineering
Sri R D Gopinath Reddy, AGM - Systems
Sri G Vinod Kumar, Manager - Materials

SENIOR EXECUTIVES RETAIL DIVISION

Sri N Lokesh, Vice President
Sri G P Subramanya Sarma, Head - Logistics & Warehousing
Sri Santhosh Unni, Head - Marketing & Operations
Sri P Harish Kumar, Head - Merchandising

COMPANY SECRETARY

Sri Murali Krishna Narne, FCS

AUDITORS

M/s. Raju & Prasad, Chartered Accountants, 401, "DAIMOND HOUSE"
Adj. Amrutha Hills, Panjagutta, Hyderabad - 500 082

BANKERS

Bank of Baroda
Andhra Bank

LISTED WITH

The Stock Exchange, Mumbai
National Stock Exchange of India Limited

REGISTRARS

Karvy Computershare Private Limited,
Plot No. 17 to 24, Vittalarao Nagar, Madhapur, Hyderabad - 500 081

REGISTERED OFFICE

6-3-541/C, Panjagutta, Hyderabad-500082

COMPANY LOCATIONS

Refer Page No. 22

Website: www.heritagefoods.co.in

NOTICE OF 14TH AGM



Members of Heritage Foods (India) Limited are hereby given notice for the 14th Annual General Meeting of the Company, the schedule of which and the business to be transacted therein, are given below:

Day and Date : **Monday, 31st July, 2006**
Time : **10.00 a.m.**
Venue : **'Our Place', No. 8-2-602/E,
Charan Pahadi Road,
Road No.10, Banjara Hills,
HYDERABAD - 500 034**
Phone: 040-23353422, 23354234

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 and Profit and Loss Account for the year ended as on that date and the Reports of the Directors' and the Auditors' thereon.
2. To declare dividend for the year.
3. To appoint a Director in place of Dr. A. Appa Rao who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri N P Rama Krishna who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors of the Company and to fix their remuneration.

To consider and, if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution.

"RESOLVED THAT M/s. Raju & Prasad, Chartered Accountants, Hyderabad, who retire at this meeting, being eligible and willing to act as Auditors, be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company, at a remuneration to be fixed by the Board of Directors of the Company."

By Order of the Board

Registered Office:
6-3-541/C, Panjagutta,
Hyderabad - 500 082

Date : 28th June, 2006

MURALI KRISHNA NARNE
Company Secretary

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES TO BE EFFECTIVE, SHOULD BE DULY STAMPED, COMPLETED, SIGNED AND DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY OR ITS REGISTRAR AND SHARE TRANSFER AGENT NOT LESS THAN FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF MEETING.**
2. **MEMBERS/PROXIES SHOULD PRODUCE AT THE ENTRANCE OF THE VENUE DULY FILLED ATTENDANCE SLIP FOR ATTENDING THE MEETING.**
3. M/s Karvy Computershare Private Limited (Karvy) is the Registrar and Share Transfer Agent for physical shares of the Company. Karvy is also the depository interface of the Company with NSDL and CDSL.
4. The Register of Members and the Transfer Books of the Company will remain closed from Friday, the 21st July 2006 to Tuesday, the 25th July 2006 (both days inclusive)
5. The dividend as recommended by the Board of Directors for the year ended 31st March 2006, when declared at the Annual General Meeting will be paid on or after 31st July 2006 to the members whose names appear:
 - i) As beneficial Owners as per list to be furnished by the Depositories in respect of the shares held in demat form; and
 - ii) As members on the Register of Members of the Company on 25th July 2006 after giving effect to all valid share transfers in physical form which would be received by the Company upto end of business hours on 20th July 2006.
6. In order to provide protection against fraudulent encashment of the warrants, shareholders holding shares in physical form are requested to intimate the company under the signature of the sole / first & joint holder, the following information to be incorporated on the Dividend Warrants:
 - (i) Name of the sole / first & joint holder and the folio number.
 - (ii) Particulars of Bank Account, viz.:
 - a. Name of the Bank, Branch and Complete Address of the Bank
 - b. Account type, whether Savings (SB) or Current Account (CA)
 - c. Bank Account Number allotted by the Bank
7. Shareholders holding shares in electronic form may kindly note that their bank account details as furnished by their Depositories to the Company will be printed on the Dividend Warrants and the Company will not entertain any direct request



from such shareholders for deletion of / change in such bank account details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in electronic mode. Shareholders who wish to change such Bank Account details are therefore requested to advise their Depository Participants about such change along with details of Bank Account

8. Electronic Clearing Service (ECS) Facility:

With respect to payment of dividend, the Company provides the facility of ECS to the shareholders residing in the following cities :

Ahmedabad, Bangalore, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagapur, New Delhi, Patna and Thiruvananthapuram.

Shareholders holding shares in physical form, who wish to avail ECS facility, may authorise the Company with their ECS mandate in the prescribed form given at the end of this Annual Report and requests for payment of dividend through ECS should be lodged with M/s Karvy Computershare Private Limited on or before 15th July 2006.

9. Pursuant to provisions of sub-section (5) of Section 205A the Companies Act, 1956 the dividend, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956. The Company has already transferred unclaimed amounts of dividends declared upto the financial year 1997-98 to the General Revenue Account / Investor Education and Protection Fund of the Central Government as required under section 205A and 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend and the last date for claiming the same are given below:-

Financial year	Date of declaration of Dividend	Last date for claiming unpaid Dividend
1998-99	22.09.1999	21.09.2006
1999-2K	22.09.2000	21.09.2007
2000-01	28.09.2001	27.09.2008
2001-02	22.08.2002	21.08.2009
2002-03	30-07-2003	29-07-2010
2003-04	29-07-2004	28-07-2011
2004-05	15-07-2005	14-07-2012

Shareholders, who have not so far encashed the dividend warrant(s) are requested to seek issue of duplicate warrant(s) by writing to the Company's Registrar and Transfer Agents, M/s Karvy Computershare Private Limited immediately.

Shareholders are requested to note that no claims lie against the Company or the said fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the date that they first became due for payment and no payment shall be made in respect of any such claims.

10. Non-resident Indian shareholders are requested to inform M/s Karvy Computershare Private Limited immediately:

- The change in the residential status on return to India for permanent settlement; and
- The particulars of Bank Account maintained in India with complete name, branch, account type, account number and address of the bank, if not furnished earlier.

11. Corporate Members intending to send their authorised representatives are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting

12. Shareholders, holding shares in physical form, are requested to notify immediately change of address, if any, to the Company's Registrar & Share Transfer Agent, M/s. Karvy Computershare Private Limited.

13. The documents referred to in the proposed resolutions are available for inspection at the Registered Office of the Company during working hours between 10.00 A.M. to 1.00 P.M. except on holidays.

14. The Register of Directors' shareholdings shall be open for inspection to any member of the Company during the period beginning 14 days before the date of Company's Annual General Meeting and ending 3 days after the date of its conclusion. The said register shall also remain open and accessible during the Annual General Meeting to any person having right to attend the meeting.

15. Brief resume of all Directors is provided in the Corporate Governance Report, which forms part of this Annual Report

16. Members seeking any information relating to the Accounts may write to the Company at 6-3-541/C, Panjagutta, Hyderabad - 500082 at the earliest.

By Order of the Board

Registered Office:
6-3-541/C, Panjagutta,
Hyderabad - 500 082

Date : 28th June, 2006

MURALI KRISHNA NARNE
Company Secretary



Dear Shareholders,

Your Directors are pleased to present the 14th Annual Report and the audited accounts for the year ended 31st March 2006.

Financial Results

	(Rupees in lakhs)	
Particulars	2005-06	2004-05
Net Sales/Income from Operations	29206.63	26613.20
Other Income	126.91	78.11
Total Expenditure	26811.06	24600.21
Profit before Interest, Depreciation and Tax	2522.48	2091.10
Interest	40.12	59.89
Depreciation	480.00	401.48
Profit before tax	2002.36	1629.73
Provision for Taxation:		
Current Taxation	655.00	515.00
Fringe Benefit Tax	10.49	-
Deferred Tax	(26.90)	98.87
Profit after tax	1363.77	1015.86
Less: Prior period expenses and taxation	47.22	6.26
Profit after prior period items	1316.55	1009.60
Add: Balance brought forward	1484.49	1316.62
Balance available for appropriation	2801.04	2326.22
Appropriations		
General Reserve	750.00	500.00
Dividend	299.70	299.70
Tax on Dividend	42.03	42.03
Balance carried to Balance Sheet	1709.31	1484.49

In spite of uneven climatic conditions, severe competition in milk procurement and stagnant selling prices though increase in procurement price of liquid milk, the overall performance of the Company is improved in all aspects when compared to previous year. The Turnover for the year has gone up by 9.74 percent from Rs.26613.20 Lakhs to Rs. 29206.63 Lakhs. The Profit after Tax is more by 34.25 percent when compared to previous year.

Dividend

The Board of Directors are happy to recommend a dividend for the year 2005-06 at 30 percent i.e. Rs. 3 per Equity Share on 99,90,000 Equity Shares of Rs.10/- each. The dividend, if approved at the forthcoming Annual General Meeting, will be paid to all eligible Equity Shareholders on or after 31st July 2006. Electronic Clearing Service (ECS) Facility is also provided at specified centres to pay dividend directly to the Bank Accounts of the shareholders.

The dividend pay out for the year under review has been formulated in accordance with the Company's Policy of striving to maintain a stable dividend linked to performance and keeping in view the Company's need for capital to finance its growth plans through internal accruals to the maximum. Your Directors believe that this

would increase shareholders value and eventually lead to a higher return and wealth creation to all shareholders.

Equity Share Capital

There was no change in the equity share capital during the year 2005-06. The Authorised Capital has been increased from Rs.12 Crores divided into 1 Crore 20 Lakhs equity shares of Rs. 10/- each to Rs.15 Crores divided into 1 Crore 50 Lakhs equity shares of Rs. 10/- each at the Extra-ordinary General Meeting of the Company held on 22nd May 2006. There is no change in the Paid-up Share Capital of the Company.

Management Discussion and Analysis

A detailed discussion on the Industry Structure, development, opportunities, threats, review of operational performance and risk factors is provided, which forms part of this report.

Corporate Governance

A separate section on Corporate Governance and a certificate from the Statutory Auditors regarding the compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, are annexed to and form part of this Annual Report.

Secretarial Audit Report

In tune with your Company's belief in transparent Corporate Governance practices, your Company has voluntarily subjected to Audit all its secretarial records maintained under various statutes, rules, regulations, bye-laws etc. made there under. The audit report given by Ms. Savita Jyoti, Practicing Company Secretary, forms part of this Annual Report.

Demat of Shares

Your Company's shares have been made available for dematerialisation through the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). As on 31st March 2006, 87% of the shares in your company have been dematerialised.

Transfer of Un-Claimed Dividends

Pursuant to section 205C (2) of the Companies Act, 1956 read with The Investor Education and Protection Fund (awareness and protection of Investors) Rules, 2001, the unclaimed dividend amount for the year 1997-98 was transferred to the Investor Education and Protection Fund during the year and the unclaimed dividend for the year 1998-99 is due for transfer in September 2006. The dividend once transferred to Investor Education and Protection Fund cannot be claimed. Your Company has already sent letters individually to all the shareholders, who have not claimed the said dividends.

Fixed Deposits

Your Company has not accepted any fixed deposits from the public during the year.

Business Growth Plans

The Board of Directors in line with the growth strategies of your Company approved the following major decisions:

1. Increase of existing Dairy Operations substantially in the next three years



2. Enter into Retail Business in Food Products and FMCG
3. Float an Infrastructure Company

Dairy Business

In order to achieve the first objective, Your Company proposes to invest about Rs.25 crores during the current financial year for setting up of two procurement, processing and packing plants, four procurement and processing plants, ten mini chilling plants and three bulk cooling units to support the existing market demand and to cater the new markets targeting over 25% growth during the Current Financial Year.

Against the proposed expansion, your Company has already commenced operations at 1) Metcheri, Salem District, Tamil Nadu, 2) Vinukonda, Guntur District, Andhra Pradesh, 3) Satyawada, West Godavari District, Andhra Pradesh and 4) Kothavalasa, Vijayanagaram District, Andhra Pradesh. Your Company will complete total expansion plans of the current year and commence operations before December 2006 and with this the capacity will be increased by about 2 lakh liters per day.

Retail Business

In order to expand the size of business and also to enter into high growth areas, your Directors decided to enter into food retail business. Your Company is establishing facilities for retail business in Farm Products, Processed Foods, FMCG etc. by taking advantage of its existing rural and urban network and facilities both in procurement and distribution areas. Your Directors are confident that this retail initiative will yield a very good value to all stakeholders of the Company in the long run.

Infrastructure Business

Your Directors decided to float an Infrastructure Company with 51% investment by your Company. Accordingly Heritage Infra Developers Limited was incorporated. The commencement of the first project of the said Company is in final stage of obtaining clearances from the concerned Government and Local Authorities.

Purchase of Milk Processing Plant in Hyderabad

Your Company has purchased a milk processing plant (sick unit) of M/s Indiana Dairy Specialities Limited (in liquidation) situated in about 2.69 acres at Plot No. C-10, Road No.7, IDA, Uppal, Hyderabad through the Official Liquidator, Honourable High Court of Karnataka. The unit is under revival and is expected to commence operations by September 2006.

The said acquisition will facilitate to increase your company's market share in the fast growing twin cities of Hyderabad and Secunderabad and to have a plant close to the market for serving better the customers timely and conveniently.

Directors

In accordance with Article 107 of the Articles of Association of your Company and provisions of Section 255, 256 and other applicable provisions, if any, of the Companies Act, 1956, Dr. A Appa Rao and Sri N P Ramakrishna retire by rotation and being eligible, offers themselves for re-appointment.

Auditors

M/s. Raju & Prasad, the Statutory Auditors of your Company, hold office until the conclusion of this Annual General Meeting and are eligible for re-appointment.

Conservation of Energy/Technology Absorption, Foreign Exchange Earnings and Outgo

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, is set out in Annexure-1, which forms part of this Report.

Personnel

Your Directors would like to place on record their deep sense of appreciation of the devoted services of the executives, staff and workers of your Company. Industrial Relations continued to be cordial throughout the year. The information required under Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, is given in Annexure - 2 forming part of this Report.

Director's Responsibility Statement

In accordance with Section 217(2AA) of the Companies Act, 1956 the Directors of your Company hereby state that:

- In the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- Your Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit or loss of your Company for that period;
- Your Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
- Your Directors have prepared the annual accounts on a going concern basis.

Acknowledgements

Your Directors would like to express their grateful appreciation for the continued co-operation, support and patronage received from the Customers, Shareholders, Suppliers, Bankers, Legal Advisors, and Consultants.

For and on behalf of
HERITAGE FOODS (INDIA) LIMITED

D. SEETHARAMAIAH
Chairman

Place : Hyderabad
Date : 28th June, 2006

DIRECTORS' REPORT



ANNEXURE - 1

FORM A

(Form for disclosure of particulars with respect to Conservation of Energy)

	2005-06	2004-05
A. POWER AND FUEL CONSUMPTION		
1. Electricity		
a. Purchased		
Units - KWH	12897257	12116537
Total Amount	52321097	49500697
Rate/Unit - Rs.	4.06	4.09
b. Own generation		
Through Diesel generator		
Units - KWH	2549127	2570653
Unit per liter of diesel oil	3.09	3.07
Cost/Unit - Rs.	10.33	9.08
2. Furnace Oil		
Quantity (Ltr)	1200586	1343514
Total cost	21672858	18400538
Average rate - Rs.	18.05	13.70
B. CONSUMPTION PER UNIT OF PRODUCTION STANDARD		
Electricity (KWH/Ltr of milk)	0.08	0.08
Furnace oil (Ltr of milk)	0.01	0.01

FORM B

(Form for disclosure of particulars with respect to absorption)

	2005-06	2004-05
Research & Development (R & D)	Nil	Nil
Technology absorption, adaptation & innovation	Nil	Nil
Foreign Exchange Earnings	Nil	Nil
Foreign Exchange Outgo	8981	9452
(\$200 paid to American Quality Accessories (USA) towards ISO - 9001 Fee)		

ANNEXURE - 2

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of Director's Report for the year ended March 31, 2006.

(a). Employed throughout the year:

Name of the Employee	Age (Yrs.)	Designation & Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Yrs.)	Date of Commencement of Employment	Last Employment
N Bhuvaneswari	44	Vice Chairman & Managing Director	94,07,384	B.A	11	12.12.1994	-
V Nagaraja Naidu	58	Managing Director	65,80,654	M.Com, PhD	34	01.02.1995	Director Dr B R Ambedkar University

(b). Employed for part of the year:

Name of the Employee	Age (Yrs.)	Designation & Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Yrs.)	Date of Commencement of Employment	Last Employment
M Sambasiva Rao	49	President Dairy and Retail Operations	13,64,405	M.Sc., Ph. D. in Zoology	22	23-01-2006	Joint Secretary, Department of Commerce, Ministry of Commerce and Industry

Bring Home Health and Happiness



Forward Looking Statements

This report contains forward looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, products development, market position, expenditures, and financial results, are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

"We have grown, and intend to grow, focusing on harnessing our willingness to experiment and innovate, our ability to transform, our drive towards excellence in quality, our people-first attitude and our Strategic direction. The future of the Organization rests on these enablers, which shall be the investment Heritage makes for carving itself."

Background

Heritage Foods (HFIL) is one of the largest private sector Dairy businesses in India. Beginning with a humble annual turnover of just Rs.4.38 crores in 1993-94, the sales turnover has crossed Rs.292 crores during the financial year 2005-2006. Today Heritage distributes quality milk and milk products in the states of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu and Union Territory of Pondicherry. In order to speed up this growth momentum and emerge as leading market player, your Company is undertaking major expansion in dairy business in the coming years and also being venturing into retail business.

Retail Business

Indian retail business, as per the recent estimates, accounts for 10% of the GDP and 8 percent of employment although it is still one of the least developed sectors. India has been touted as the next big retail destination. The retail market in India is growing at an average of 10 percent since 2000. The sheer size of the population demands attention from retailers worldwide and the potential for growth is tremendous. According to a study conducted by the Associated Chambers of Commerce and Industry (ASSOCHAM), the annual retail sale is close to USD 6 billion currently and is expected to reach USD 17 billion by 2010. Indian organized retailing constitutes only 3.5% of the total Indian retail market, but is estimated to grow at the rate of 25-30% per annum in the next five years.

In developed markets the share of organized retail is as high as 80% and even for the

semi-developed markets, the typical share of organized retailing is in the range of 20-40%.

Moreover the Indian economy is growing at a staggering pace which is mainly fueled by private consumption. Private consumption accounts for 64% of the GDP in which retail has a 56% contribution.

The total urban market is estimated to be Rs 3.7 Lakh crores with 38% of total market and the total rural market making up for the balance Rs. 6.2 Lakh crores i.e.62% of the total market.

On the urban side the shopping environment is currently dominated by over the counter sales and there are very few pan-India organized retailers operating in the country. Whereas on the rural side, there has been significant rise in the consumption of FMCG products along with the commodities. The current need gaps in the rural areas are in quality and hygiene standards and depth and width of product.

Hence a large opportunity exists in the retail sector particularly in the Food & Grocery retailing that can be capitalized by your Company.

Strategy Elements

Before taking a call on the retail strategy for HFIL, an in-depth study was conducted and some of the key highlights of the study are given below

Need gaps in the grocery-shopping environment

On studying the shopping trends and consumer behavior prevalent in the grocery-shopping environment in Hyderabad, Bangalore, Chennai & some other smaller cities in Southern India; various primary need gaps were found:

- Very few or no full-fledged 'All Under One Roof' options in grocery retail for the Urban consumer.
- Lack of value retailers who provide a consistent value proposition to the consumer
- Number of stores that offer huge variety in terms of price points, brands and sizes is still low
- Over the counter sales is still dominant
- Unavailability of organized home delivery system
- Lack or in-fact no push from retailer side to promote home delivery
- Also no loyalty program is running to retain the customers

Consumer Research Insights - some of the key insights from our target consumer segment i.e. SEC A & B:

- Doesn't have sufficient options for organized retail chains focusing on 'Fresh' in grocery.
- Values Convenience over Discounts i.e. home delivery format is given more preference on discount format.
- Has no comprehensive home delivery solution from organized retailers.
- "Caveat Emptor" principle in Fresh and Perishables has forced the consumer to do "touch and feel" in the perishables category.
- For packaged and branded products, consumers are ready to trust the home delivery model.



- In 'fresh' products, there is an absence of a brand promise and retailer performance on product standardization and quality. This has made the consumer go for self buying.
- However, it would take some time before the customer could change their attitudes in fresh category. Hence in the initial phase, retail interface is also required to build trust with the consumer.

Based on the understanding of the consumers & current retail options, we arrived at the following strategy for retail interface.

Strategy - Urban

The objective of the urban strategy is to address the planned food & grocery purchases of household with an element of convenience built into the model through Home deliveries. Moreover the business aims to retain & attract new customers through quality of Fresh as well as Agri products. The value proposition is not to be an ELVP (Everyday Low Value Prices) Retailer but to provide value to the customer through quality, exceptional service & convenience.

Due to the high importance of touch & feel factor, it was decided to have some retail interface that will help HFIL to connect to the consumers through their traditional buying process and then gradually work towards converting them to the home delivery model. It would require consistent interaction with the customer that would be facilitated through detailed business procedures, training & IT initiatives.

To touch base with consumers, your company will have 2 types of retail formats;

- 1) **Flagship stores:** These flagship stores will serve twin objective; first they will act as a retail interface to aid consumers in shopping as it clearly came out in our research that currently touch & feel is a very important factor in some of the product categories. Second home deliveries will also be effected from these stores. Looking at our model where focus is on home delivery initially driven by the store interactions, we would be opening 25 to 30 stores in each of the cities.

Each store will be of approximately 3000 Sq.ft size (with 500 sq feet dedicated for home deliveries). These stores will provide home deliveries to a primary catchment area of 2 Km radius with the objective to carve out an economical viable model for the home deliveries; as we would not be charging the customers for home deliveries and would like to build the cost in the retail price.

- 2) **Cash & Carry Stores:** These stores will be located at the Distribution centers and will primarily target at the B2B segment. Typically the store will be of 15000 sq feet and will cater to the smaller retailers, wholesale home purchases and even institutional buyers.

Strategy - Rural

HFIL has an established supply chain of their dairy business, which procures milk from farmers in Rural Areas (mainly in AP and some parts of Karnataka and Tamil Nadu). The starting point will be to harness the current infrastructure to penetrate into the rural market.

e.g. instead of direct retail presence milk collection agents will be mobilized for selling products, reverse logistics in the supply chain can be used to transfer goods from the Urban markets to rural markets; thus able to dis-intermediate the supply chain cost, provide benefits to the rural customer & improve better penetration on the rural areas.

It will connect to consumers through Agents (predominantly current Milk Collection Agents of HFIL) who will sell the goods (mainly FMCG) to the consumers. The value proposition for the rural customer will be the availability of the quality/genuine FMCG products mostly branded ones at a better price. This will also provide opportunity to HFIL to launch & strengthen their private label in rural markets which is slightly easier turf for private label than the urban markets.

Organized food retail current scenario & HFIL preposition

The majority of organized players operate at city/region level, with very few national players. Some of the big retailers with somehow national footprint in grocery business with outlets mainly located in larger cities like Mumbai, Bangalore, and Hyderabad, where they compete with local/regional players.

HFIL has planned a retail foray into the Food & Grocery sector with a business objective of creating an integrated solution for both rural & urban customers by leveraging the consumer reach, distribution agents & brand proposition.

After studying the consumer insight it is very much visible that consumers do not have sufficient options for organized retail chains focusing on 'Fresh' in grocery, and have no comprehensive home delivery solutions from organized retailers. The Unique Value proposition of the business is excellent product quality, competitive price and convenience.

Roll out of Stores

The objective of the store rollout is to provide the maximum visibility to the customers about Heritage retail initiative by leveraging the optimum retail interface.

Hence the roll out is aimed at leveraging the retail interface to enhance customer confidence and thereby building up thrust towards the home delivery business. Apart from stores purchases customers will also have the option to order online or through a call centre or through a distribution agent or can personally come and give the list at the store.

The Urban Roll out will cover all major residential clusters in Hyderabad, Chennai & Bangalore.

Dairy Business

Industry Structure and Developments

India occupies number one position in the world milk production with 15% share. Milk production in the country increased to 91 million tonnes in 2004 as against 87 million tonnes during the previous year and estimated at 95 million tonnes for 2005. The milk production in India accounted for more than 13% of the world's total output and 57% of Asia's total production. However the animal productivity in India is very poor. The world's average milk yield



per animal per year is 2100 kgs whereas India's average milk yield per animal per year is 1000 kgs. In India still the unorganised sector dominates the Liquid Milk Segment. Reportedly, only 46% of milk produced is used as liquid milk (less than 30% of milk is packaged), 50% of the milk produced is used for making indigenous products as dahi, ghee, paneer, etc and 4% is used for other products such as SMP, cheese, etc.

Opportunities

India is at the top position amongst 30 emerging markets as per the annual Global Retail Development Index (GRDI) for 2005. Developed by AT Kearney, this index measures the attractiveness of retail investment. India is the world's 4th largest economy in terms of Purchasing Power Parity, after USA, China and Japan. There has been sharp increase in the urban population due to strong growth of Indian Economy both in Industrial and Service sectors particularly the Business Process Outsourcing (BPO) and Information Technology (IT). India's GDP growth rate is expected at 8%, next to China, in the coming years. By 2006-07, the urban population is expected to increase by more than 100 million to touch 340 million a growth rate of about 30 percent. The expected rise in urban population and their purchasing power would be a boon to Indian Dairy. Also out of the 3700 cities and towns in India, only about 800 cities and towns are served by the organized milk sector. This leaves the organized sector with huge untapped market. As your company is predominantly in the liquid milk market, there exists a vast opportunity for increasing the share in the liquid milk market.

Threats

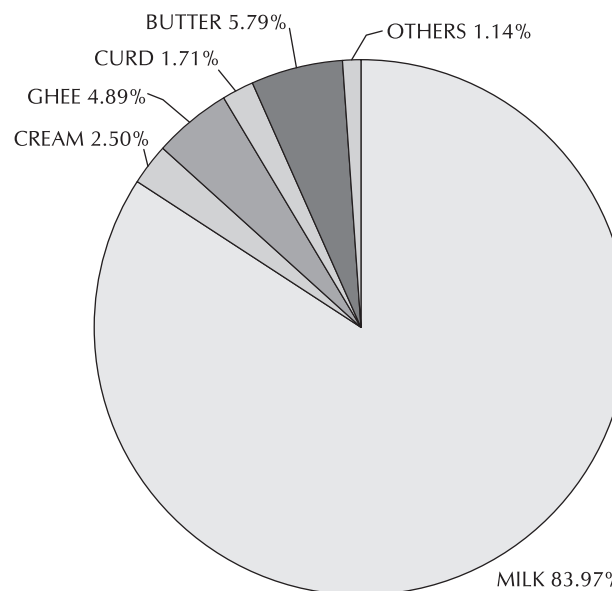
The unpredictable Monsoon conditions are testing times for the existence of Agriculture including Dairy Industry. Non-availability of green fodder and water resources will result in decrease in milk availability and increase in procurement cost.

Outlook

Considering the growth potential in the liquid milk market, your company has drawn plans to double its revenues in Dairy Business in the next three years. To achieve this object, your Company is undertaking major expansion in Dairy Business during the current year to strengthen the milk procurement, modernising all its plants with the latest IT Developments for better management decision support system (MDSS) and entering into new uncovered markets and also expanding existing markets in South India.

Product / Market wise Performance

During the year 2005-06, liquid milk sale was Rs. 24525.05 lakhs against Rs. 21680.21 lakhs in the previous year. The Sales of Cream, Ghee, Butter and Curd were recorded Rs. 729.77 lakhs, Rs. 1428.48 lakhs, Rs. 1691.01 lakhs and Rs. 499.03 lakhs respectively during the year 2005-2006. The other product sales (includes SMP, Flavoured Milk, Paneer, Khova, Doodh Peda, Butter Milk etc.) were Rs. 333.29 lakhs.



Your Company's presence in south India is mainly in the States of Andhra Pradesh, Karnataka and Tamil Nadu. The Market wise contribution is as follows:

