



Point of you!

21st Annual Report ■ 2012-13
Heritage Foods (India) Limited

Caution regarding forward-looking statements

This document contains statements about expected future events and financial and operating results of Heritage Foods (India) Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of the Heritage Foods (India) Limited Annual Report 2012-13.



Inside the report

AGM Notice **01** Directors' Report **10** Management Discussion and Analysis **16**
 Report on Corporate Governance **24** Corporate Governance Certificate of Auditors and
 CEO & CFO **36** Secretarial Auditor Report **37** Independent Auditors' Report on
 Standalone Financial Statements **39** Standalone Balance Sheet **42** Standalone
 Statement of Profit & Loss **43** Standalone Cash Flow Statement **44** Significant of
 Accounting Policies on Standalone Financial Statements **46** Notes on Standalone
 Financial Statements **49** Auditors' Report on Consolidated Financial Statements **77**
 Consolidated Balance Sheet **78** Consolidated Statement of Profit & Loss **79**
 Consolidated Cash Flow Statement **80** Significant of Accounting Policies on Consolidated
 Accounts **82** Notes on Consolidated Financial Statements **86** Attendance Slip & Proxy
 Form **115**

For some, we are an alarm clock.

For many, we are away by just a block.

For some, we are the spring of wealth.

For many, we are the source of health.

For some, we are the glorious past.

For many, we are the glowing future.

Our point of view is

actually our point of you!



We are South India's first Dairy Company listed on the country's largest Stock Exchanges (BSE and NSE).

With a responsible 'farm to fork' approach to business through the Dairy and Retail, we reach out to over 15 lakh customers every single day.



At Heritage Foods, our business is built on the foundation of three pillars:

1

An enduring connection of trust with consumers through the strength of the 'Heritage' brand

- Our extensive product basket comprises milk and other value-added products including curd, ice cream, paneer, flavoured milk and sweets, among others
- We are the only packaging partner for curd for Nestle in South India.
- We also operate 1,176 Heritage Parlours (modern stores selling Heritage products and other authorized products) and 67 Heritage Fresh stores (large-size multi-product retail formats)

2

A track record of growth, profitability and shareholder value creation

- We are among the top private sector dairy companies in India in terms of both volumes and sales
- We enjoy one of the highest operating margins in the dairy business (6.46 percent overall EBIDTA margin and 10.92 percent margin in value-added milk products in 2012-13)
- Our turnover and net profit have grown at a substantial CAGR of 22.19 percent and 121.36 percent, respectively over the last five years (ending 2012-13)

3

Positioned for sustainable growth

- We enjoy an entrenched regional presence through operations and sales in states of Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra, Kerala and Odisha
- We are committed to enhancing our milk processing capacities and retail presence, especially in markets outside of south India also.
- We are focused on growing sales of our branded value-added product categories to emerge as the most-preferred choice for these products among our consumers and enhance our overall margins

Our mission

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

Our vision

- To be a progressive billion dollar organization with a pan-India footprint by 2015
- To achieve this by delighting customers with 'Fresh and Healthy'

food products, which represent 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

Our founder

Heritage Foods was founded by Shri N Chandrababu Naidu in 1992 with the express objective of assuring remunerative prices to milk producers, who needed better marketing opportunities.



Our point of view on business and sustainability

"The year 2012-13 has seen considerable success for Heritage Foods and I am excited when I look at our strengths. We have great brands and our marketing is based on powerful consumer insights, supported by superior products and market-leading innovations."

Sri D. Seetharamaiah, *Chairman*



Dear fellow stakeholders,

At Heritage Foods (India) Limited, our overarching objective is to build the corporate with a relentless focus on our customers, our societies and our neighbourhoods.

Our intent is derived from the fact that we are one of the few companies in India to be a direct reference and touch-point for thousands at the grassroots (milk producers) and several thousands more across a wide range of demographics (our consumers). This inherent responsibility has given us the impetus to supply consistently high-quality, nutritious and wholesome milk, dairy and other consumer food products just when and where our customers need them.

It is precisely this reason that we have continually invested in the creation of state-of-the-art milk processing assets and distribution infrastructure that is perhaps the best anywhere in India. Our daily milk procurement of 9 lakh litres is well-complemented by our chilling capacity of 14 lakh litres per day across 123 chilling units and 13 packing plants with a packing capacity of 12.50 lakh litres per day (as on 31 March 2013). In addition to this, we also operate 1,176 Heritage Parlours exclusively stocking our Heritage brand of dairy and other authorised products and 67 company-owned Heritage Fresh stores stocking a wide range of consumer products strategically spread across south India (as on 31 March 2013).

With
a basket of 22
products, Heritage Foods
possesses the widest
range of dairy products
in India

Corporate performance 2012-13

To counter the headwinds in terms of economic and consumer-centric slowdown, we continued to improve our productivity in 2012-13 as we further addressed our cost base through optimum resource utilisation, systems standardization, productivity savings and focus on increasing sales of value-added products. This helped us achieve a respectable increase in operating margins from 3.77 percent in 2011-12 to 6.46 percent in 2012-13. We also reported a 14.96 percent increase in turnover to our highest-ever level of ₹1,601.81 cr and 435.48 percent growth in net profit to ₹49.96 cr in 2012-13. To reward shareholders for their faith in our performance, we have proposed a dividend of ₹3 per equity share (face value of ₹10) for 2012-13, which will absorb a total outgo of ₹3.46 cr (excluding dividend distribution tax) subject to approval by the shareholders.

Strengthening our business, migrating up the value chain

At Heritage Foods, we are focused on strengthening the bonds we have created with our consumers and to this extent, are introducing value-added extensions of existing products in addition to undertaking several other measures.

- Focusing on branded margins—accretive milk products comprising pouch curd, ice cream, paneer, flavoured milk and sweets, among others, resulting in their proportion of sales going up from 6.01 percent in 2008-09 to 14.96 percent in 2012-13, strengthening our overall EBITDA margins

- Focusing on reinforcing the price premium (pegged approximately 8 percent higher in 2012-13) vis-à-vis other players through the consistent supply of high-quality dairy products

- Focusing on enhancing retail penetration through expanding our Heritage Parlours, which is a modern kirana format that is positioned as the only organized chain of parlours to sell non-dairy products as well. The number of Heritage Parlours stood at 963 (1.25 lakh sq. ft) in 2011-12 with the addition of 213 Heritage Parlours (0.27 lakh sq. ft) in 2012-13

- Focusing on strengthening same-store sales and revenue per sq. ft at our company-owned Heritage Fresh stores (67 with a trading space of 2.15 lakh sq. ft) in 2012-13

- Focusing on consolidating our distribution network and infrastructure for continual replenishment directly to our customers as

well as through our Heritage Parlours and Heritage Fresh stores

Outlook

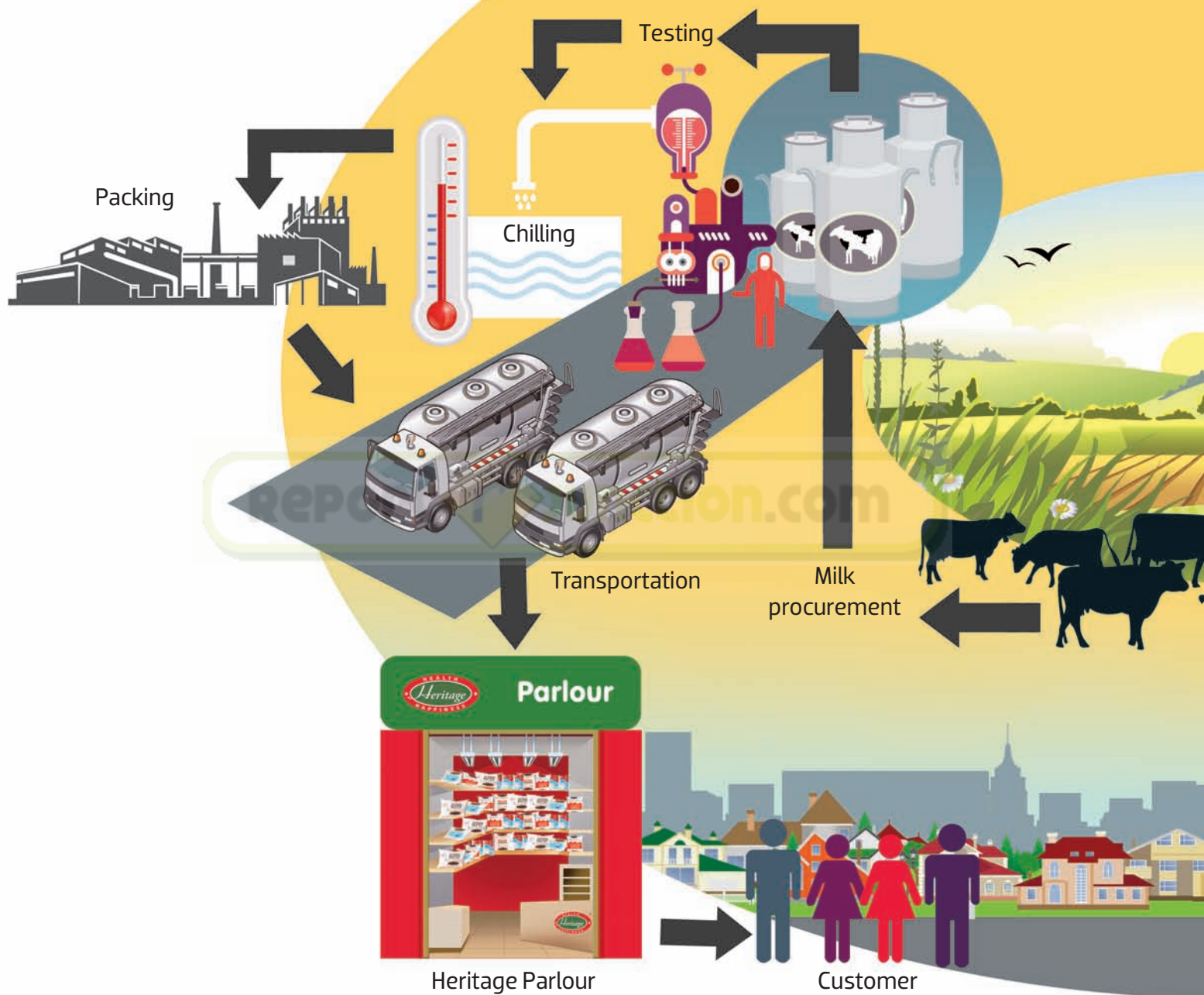
Leveraging our high-quality products, wide product basket and robust distribution infrastructure, we will continue to create in-roads into markets, strengthen penetration across our existing points of presence and introduce new value-added products/product variants. Through these initiatives, we will continue to ride the dairy and retail markets and continue to make meaningful difference to the lives of our stakeholders.

Acknowledgement

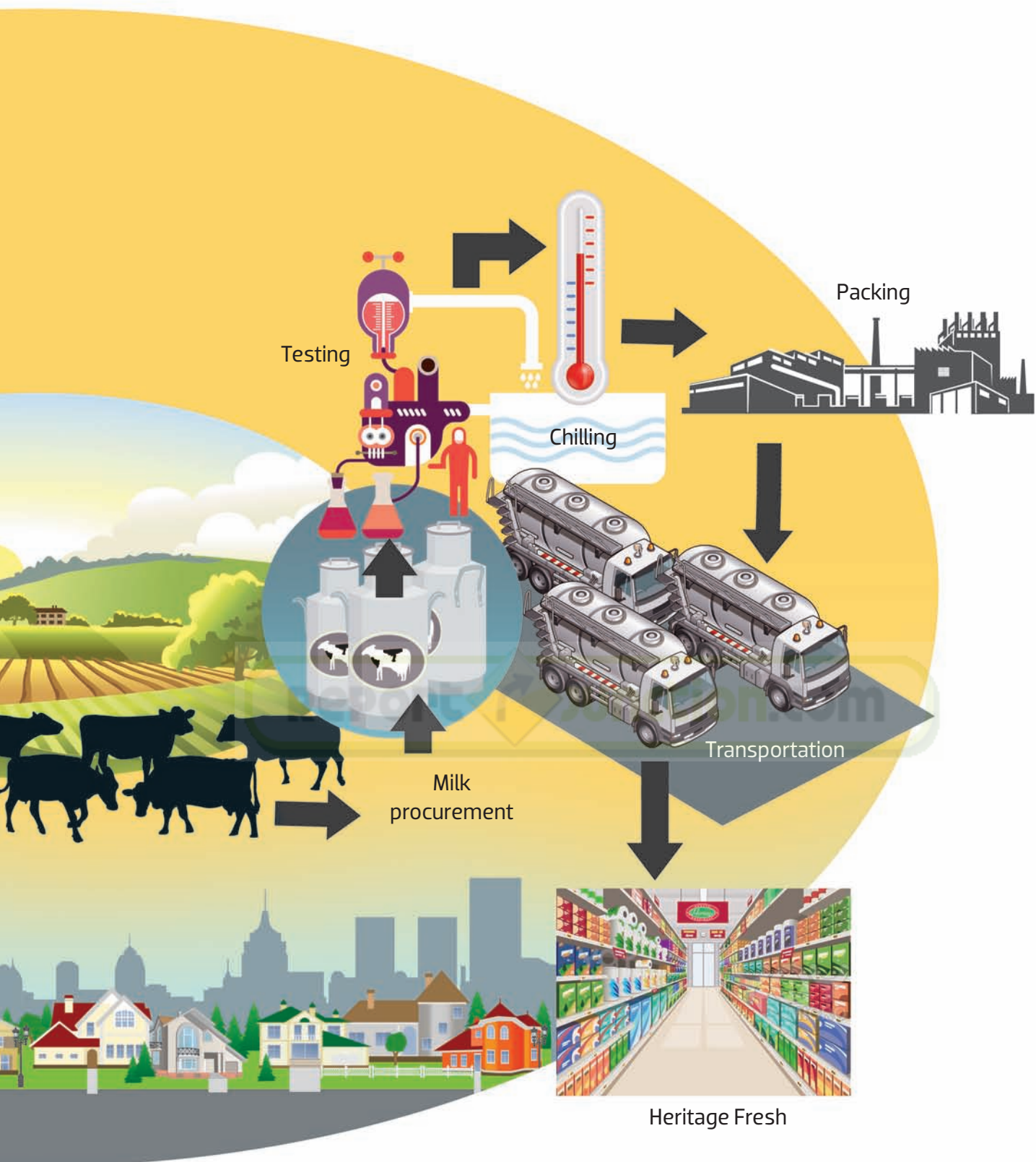
I am grateful to the Board of Directors for their steadfast support and guidance and I take this opportunity to express my deep gratitude to all our stakeholders who have reposed trust in us and extended their constant support. We will continue to deliver value to all those who depend upon us and invest in us.

With my very best regards,

D. Seetharamaiah
Chairman



Our value chain



At Heritage Foods, our value chain commences right from the grassroots as we engage with over 3 lakh farmers to procure 9 lakh litres of milk daily, process and deliver this milk to over 15 lakh customers located across India as well as supply milk and a bouquet of value-added milk products to our 1,176 Heritage Parlours and 67 Heritage Fresh stores.

Key financial highlights, 2012-13

Net turnover (₹ cr)

1,601.81

14.96 percent increase
over 2011-12

EBIDTA (₹ cr)

103.43

96.71 percent increase
over 2011-12

EBIDTA margin
(percent)

6.46

269 basis points increase
over 2011-12

Cash profit (₹ cr)

71.98

136 percent increase
over 2011-12

Net profit (₹ cr)

49.96

435.48 percent increase
over 2011-12

ROCE (percent)

19.50

532 basis points increase
over 2011-12