

POSTAL BALLOT NOTICE

(Pursuant to Section 192A of the Companies Act, 1956)



HERITAGE FOODS (INDIA) LIMITED

Regd. Office: 6-3-541/C, Panjagutta, Hyderabad-500082. Andhra Pradesh

Ph. No. 91 - 40 - 23391221 / 2, Fax No.: 91 - 40 - 23318090.

www.heritagefoods.co.in

POSTAL BALLOT NOTICE

(Pursuant to Section 192A of the Companies Act, 1956)

To,
The Member(s),

NOTICE is hereby given that pursuant to the provisions of Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolution by Postal Ballot) Rules, 2011, **M/s. Heritage Foods (India) Limited** (hereinafter referred to as the "Company") is seeking the consent of its members through Special Resolutions proposed to be passed by Postal Ballot in respect of the following Special Business:

The proposed Special resolutions and explanatory statements stating all material facts and reasons for the proposal is appended below and the postal ballot form is enclosed for your consideration. The Company has appointed Mrs. Savita Jyothi as the Scrutinizer for conducting the postal ballot process in a fair and transparent manner.

You are requested to carefully read the instructions printed in the Postal Ballot Form (appended hereto) and return the form duly completed in the attached self addressed postage prepaid envelope, so as to reach the Scrutinizer before the closing of working hours on or before Thursday, the 6th day of December, 2012. Please note that Postal Ballot Form(s) received after the said date will be treated as not having been received.

The Scrutinizer will submit her report to the Chairman of the Company after completion of the scrutiny and the result of the voting by Postal Ballot will be announced by the Chairman of the Company on Saturday the 8th day of December, 2012 at 10.30 A.M at the Corporate office of the Company at 6-3-541/C, Panjagutta, Hyderabad-500 082.

SPECIAL BUSINESS

1. ALTERATION OF ARTICLES OF ASSOCIATION OF THE COMPANY

To consider and if thought fit, to pass with or without modification(s) the following resolution as a **Special Resolution** Insertion of Article 9A.

"RESOLVED THAT pursuant to provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof for the time being in force) the Articles of Association of the company be and is hereby altered with insertion of Article 9A after the existing Article No. 9 is here by approved and adopted as follows:

"Article 9A: The Issue of Sweat Equity shares and stock option to the employees.

"Notwithstanding anything contained in these Articles, subject to the provisions of Section 79A and any other applicable provisions of any Act and/or any law for the time being in force, the Board of Directors may from time to time issue Sweat Equity shares and stock option to the employees of the Company."

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorised to take all such steps and actions and give such directions as may be in its absolute discretion deemed necessary and to settle any question that may arise in this regard."

2. ISSUE OF SWEAT EQUITY SHARES:

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

"RESOLVED THAT pursuant Provisions of the Sections 79A & 81(1A), and other applicable provisions of the Companies Act 1956 (including any statutory modification(s) or re-enactment thereof) and Securities Exchange Board of India (Issue of Sweat Equity) Regulations, 2002, and in accordance with the Articles of the Association of the Company to the extent applicable and subject to such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be necessary by the Board of Directors of the company or committee thereof as may be prescribed or imposed while granting such approvals, permissions, sanctions which may be accepted by the Board of Directors on its sole description. The consent of the company be and is hereby authorised to issue and allot as a Sweat Equity of 70,000 (Seventy Thousand) Equity Shares of the face value of ₹.10/- each for consideration other than the cash to Dr. M. Sambasiva Rao, Employee of the company designated as a President, the value {as per the SEBI (Issue of Sweat Equity) Regulation, 2002} of which should not exceed the value added by him to the business, since his joining in the Company after considering the remuneration & commission paid to him upto 30th September, 2012, as per the Valuation Report obtained in this regard.

RESOLVED FURTHER THAT the above said shares shall be rank *pari passu* in all respects with the existing Equity Shares of the company and shall be locked in for a period of 3 years from the date of allotment.



RESOLVED FURTHER THAT the 'Relevant Date' for the purpose of determining the price of share, in pursuance of SEBI (Issue of Sweat Equity) Regulations, 2002, is 9th November, 2012 being 30 days prior to the date of the declaration of result of the Postal ballot. (The date of declaration of the postal ballot result is on 8th December, 2012)

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to take necessary steps for listing the above said shares on the stock exchanges where the securities of the company are listed as per the provisions of the Listing Agreements with the Concerned Stock Exchanges.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors be and is hereby authorized to do all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in this regard."

3. RE-APPOINTMENT & REVISION OF REMUNERATION TO SRI. N. LOKESH, EXECUTIVE DIRECTOR

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

"RESOLVED THAT in supercession of the resolution passed on 29th September, 2011 and to pursuant to the provisions of Sections 198, 269, 309, 310, 311 and read with Schedule XIII and other applicable provisions of the Companies Act, 1956 including any statutory modification or re-enactment thereof, or any other law and such consent(s), approval(s) and permission(s) as may be necessary in this regard and subject to such conditions as may be imposed by any authority while granting such consent(s), permission(s) and approval(s) and as are agreed to by the Board of Directors (hereinafter referred to as the Board, which the term shall unless repugnant to the context or meaning thereof, be deemed to include any committee thereof and any person authorized by the Board in this behalf), consent of the members be and is hereby accorded for revision of remuneration to Sri. N. Lokesh, Executive Director of the company for a period of 3 years with effect from 1st October, 2012, on the remuneration, Perquisites & Allowances as set out in the Item No.3 of the Explanatory Statement.

"RESOLVED FURTHER THAT the Board be and is hereby authorized to vary, alter and modify the terms and condition of appointment including remuneration / remuneration structure of Sri. N. Lokesh, Executive Director within the limits prescribed in the Item No.3 of the Explanatory Statement subject to the approval of Central Government, if required.

RESOLVED FURTHER THAT Sri. N. Lokesh shall not be subject to retirement by rotation during his tenure as Executive Director and he is not eligible for sitting fee of any Board / Committee meeting.

RESOLVED FURTHER THAT the Board be and is hereby authorized to do all such acts, deeds, matters and things as may be deemed necessary to give effect to above resolution."

Registered Office:
6-3-541/C, Punjagutta,

Hyderabad – 500 082
Date: 30th October, 2012

By Order of the Board
For **HERITAGE FOODS (INDIA) LIMITED**

UMAKANTA BARIK
Company Secretary

Notes:

1. The relative Explanatory Statements for item no.1, 2 & 3 pursuant to Sections 173(2) and 192A(2) of the Companies Act, 1956 setting out material facts is annexed hereto.
2. The Board of Directors at their meeting held on 30th October, 2012 has appointed Mrs. Savita Jyoti, Practicing Company Secretary as the Scrutinizer to receive and scrutinize the Ballot Papers from the Members. The Postal Ballot Form and the self-addressed business reply envelope are enclosed for use of the Members. The Company provides Voting through Postal Ballot only.
3. The Chairman of the Company shall announce the result of the Postal Ballot at The Registered Office of the Company 6-3-541/C, Panjagutta, Hyderabad – 500 082 on 8th December, 2012 at 10.30 a.m. The date of declaration of the result of Postal Ballot will be taken to be the date of passing of the Resolutions.
4. All documents referred to in the accompanying Notice and the Explanatory Statement are kept open for inspection at the Registered Office of the Company during the office hours on all working days between 11.00 a.m. and 1.00 p.m., up to 30th November, 2012.



EXPLANATORY STATEMENT

Pursuant to Section 173(2) of the Companies Act, 1956

ITEM NO.01: ALTERATION OF ARTICLE OF ASSOCIATION OF THE COMPANY:

The Concept of sweat equity shares as per the provision of Section 79A was inserted in the Companies Act, 1956 through the Companies (Amendment) Act, 1999 w.e.f 31-10-1998 by the Govt. of India. The Securities Exchanges Board of India (SEBI) issue regulation subsequently by name SEBI (Issue of Sweat Equity) Regulations, 2002. Being our company incorporate prior to that the Articles of the Articles of Association ("the Articles") does not contain specifically the provision of further issue of Shares by way of Sweat Equity Shares as per the provisions of Section 79A of the Companies Act, 1956.

In order to empower the Board of Directors and the Company to issue of such shares it is required to insert new article, with respect to issue of Sweat Equity shares and stock option to the employees of the Company. Under Section 31 of the Companies Act, 1956 it requires the approval of the members of the Company by way of Special resolution.

Your approval is sought by voting by postal ballot in terms of the provisions of Section 31 and 192A of the Companies Act, 1956 read with the provisions of the Companies (Passing of Resolutions by Postal Ballot) Rules, 2011.

None of the Directors of the Company is, in any way, concerned or interested in the above said resolution.

ITEM NO. 02: ISSUE OF SWEAT EQUITY SHARES.

The Changing economic and business conditions and rapid technological innovation are creating an increasingly competitive market environment that is driving corporations to transform their operations. The expectation of Consumers has increased for products and services with accelerated delivery times and lower prices. Companies are focusing on their core competencies and are using outsourced technology, service providers to adequately address these needs. The role of technology has evolved from supporting corporations to transforming them. There is an increasing need for highly skilled Professionals in the markets in which we operate. To aware of the industrial scenario, being alert and focuses on long term goals, steady and profitable development also requires the dynamic and timely decision. The Industry in which Company operates is becoming increasingly crowded with smaller players offering their products in local markets. This entails a more challenging environment with increased competition and customer demands. Further dairy industry is still considered to be an unorganized sector, due to these small players who have little or no concern for the safety and quality practices.

The Company is well positioned to face these challenges as it has already created the infrastructure to leverage on economies of scale with the leadership of the dynamic personality called Dr.M.Sambasiva Rao, President of the Company. The company under supervision of President is continuously developing and applying scientific methods to improve the quality of the products and services.

Dr.M.Sambasiva Rao President of the Company is a Post Graduate and Doctorate in Zoology. He had served in various positions in the Govt. of Andhra Pradesh as well as Central Government for about two decades as a member of Indian Administrative Services (IAS). Before joining in M/s. Heritage Foods (India) Ltd, Dr Rao was Joint Secretary in Department of Commerce under Ministry of Commerce and Industry, Govt of India.

Dr. M. Sambasiva Rao has started his journey in the Heritage as president on 23th January, 2006 and till the date he conducted the business in an efficient manner. He managed the growth of the company in a strategic and efficient procedure. His enormous past experience helped the company to get achievements in various sectors. His success story and achievements are described in the Valuation Report, which is annexed to this notice.

For creating the aspiration and motivation to achieve the further growth of the company the Board of Directors at their meeting held on 30th October, 2012 had approved the issue and allot 70,000 (Seventy Thousand) Sweat Equity Shares of face value of ₹.10/- each for consideration other than cash for the value additions made to the Company since his appointment as per the provisions of Section 79 A of the Companies Act, 1956 and read with the SEBI (Issue of Sweat equity shares) Regulations, 2002. The value { as per the SEBI (Issue of Sweat Equity) Regulation, 2002 } of which should not exceed the value added by him to the business, since his joining in the Company after considering the remuneration & commission paid to him upto 30th September, 2012 as per the valuation report submitted by M/s BOB Capital Markets Limited, Mumbai, a Category 1 Merchant Banker. The Management of the company also taken a note that the value added by the other team members shall be rewarded with appropriate consideration in due course of time.

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The following information's are given below in compliance with the conditions specified in section 79A of the Companies Act, 1956 and the SEBI (Issue of Sweat equity shares) Regulations, 2002.

- **The objects of the issue:** For creating the aspiration and motivation to achieve the further growth of the company.
- **The total number of shares to be issued as Sweat Equity:** 70,000 (Seventy Thousand only) of face value of ₹.10/- each.
- **The Current market price of the shares of the Company:** The Market price of the shares as on 29th October, 2012 is as follows.

(Amount in ₹.)

Stock Exchange	Open	High	Low	Closing
BSE	375.00	376.85	347.30	349.30
NSE	373.00	376.75	345.30	350.10

- **The value of the intellectual property rights or technical know-how or other value addition to be received from the employee along with the valuation report/basis of valuation:** M/s. BOB Capital Markets Limited–Category 1 merchant Banker have submitted a valuation report for value added by Dr. M. Sambasiva Rao, President of the company. The copy which is annexed to Notice.
- **The names of the employees to whom the sweat equity shares shall be issued and their relationship with the company:**

Name, Address and Pan No. of Allottee	Relationship with the Company	Designation
Dr. M. Sambasiva Rao, S/o. M. Rama Koti, H. No. 242, Lane - 12, Prashasan Nagar, Road No. 72, JubileeHills, Hyderabad-500 033 PAN: AEDPM0491G	Employee	President

- **The Consideration to be paid for the Sweat Equity:** The proposed Sweat Equity's to be issued to Dr. M. Sambasiva Rao, Employee of the company designated as president for a consideration other than cash.
- **The relevant date for the purpose of the issue:** The relevant date for the purpose of Sweat Equity issue shall be 9th November, 2012 i.e. the thirty days prior to the date of declaration of result through postal ballot (The result of the postal ballot shall be declared on 8th December, 2012).
- **The price at which the Sweat Equity shares shall be issued:** The 70,000 (Seventy Thousand only) Equity Shares of face value of ₹.10/- each are issued / allot to Dr. M. Sambasiva Rao, Employee of the company and designated as a President for consideration other than the cash however, the notional price of the shares shall be calculated as per the provisions of the SEBI (Issue of Sweat equity shares) Regulations, 2002.
- **Ceiling on managerial remuneration, if any, which will be affected by issuance of such Sweat Equity:** Not Applicable being the proposed allottee is the employee of the company.
- **A statement to the effect that the company shall conform to the accounting policies as specified by the Board:** The Sweat Equity is proposed to be issued for consideration other than the cash for the value added to the Company by the allottee since his appointment. The non cash consideration shall be treated as an employee benefit expenditure and debited to the Statement of Profit and Loss during the year of allotment as per provisions of the applicable Accounting Standard (s) / guidance note issued by Institute of Chartered Accountants of India.

• **The shareholding pattern before and after the issue:**

S. No.	Category	Pre Issue Holding		Post Issue Holding	
		No. of shares	%	No. of shares	%
A. Promoter's Holding					
	Promoters & Promoters Group	5320747	46.419	5320747	45.870
	Sub Total - A	5320747	46.149	5320747	45.870
B. Non-Promoters Holding					
	Institutional Investors:				
	- Mutual Funds	81263	0.705	81263	0.701
	Financial Institutions:				
	- Foreign Institutional Investors	1076662	9.338	1076662	9.282
	Sub Total - B	1157925	10.043	1157925	9.983
C. Others					
	Private Corporate Bodies	1691815	14.674	1691815	14.585
	Indian Public	3050115	26.456	3050115	26.295
	NRIs/OCBs	104133	0.904	104133	0.898
	Overseas Corporate Bodies	5600	0.048	5600	0.048
	Employee	1706	0.015	71706	0.618
	Any other (Please specify)	197459	1.711	197459	1.702
	Sub Total - C	5050828	43.808	5120828	44.147
	Grand Total – (A + B + C)	11529500	100.000	11599500	100.000

- **The time within which the issue shall be completed:** The allotment shall be completed within the time specified in Sec. 79A of the Companies Act, 1956 read with SEBI (Issue of Sweat Equity Shares) Regulations, 2002 and the shares shall be locked in for a period of 3 years from the date of the allotment.

• **Diluted Earnings per Share:**

As on	No. of Equity Shares	Net Profit (Amount in Lakhs)	Earning per Share (EPS) (Amount in ₹.)	
			Basic	Diluted
31 st March, 2012	11529500	933.42	8.10	8.10
30 th September, 2012 [®]	11529500	2292.91	19.89	19.89
31 st March, 2013 [§]	11599500	4556.00	39.46	39.46

[®] Un Audited figures as on 30th September, 2012

[§] Projected figures and the new shares of 70,000 as assume to be allotted during the month of January, 2013.

Your approval is sought by voting by Postal Ballot in terms of the provisions of 192A of the Companies Act, 1956 read with the provisions of the Companies (Passing of Resolutions by Postal Ballot) Rules, 2011.

Item No. 3: RE-APPOINTMENT AND REVISION OF REMUNERATION TO SRI. N. LOKESH, EXECUTIVE DIRECTOR

Sri Nara Lokesh, aged 29 years, is a Post-Graduate in Business Administration and Management from the Stanford University, USA and had worked in the World Bank in various Projects and has about 6 years of Industry experience. He had joined the Company in 2006 as Vice President. Since 2008, he is working in the Company as Executive Director. During last 4 years he devoted his entire time, attention and abilities to achieve the targets fixed by the Board of Directors of the company and carried out the business with highest standards of business ethics, complied in all respects with the directions and regulations made by the Board and reliably served the company and used his skills to promote the interests of the company.

The shareholders of the company approved the re-appointment of Sri. N. Lokesh, Executive Director, at the 19th Annual General Meeting held on 29th September, 2011 for a period of 3 years with effect from 1st July, 2011. The Board also took note of the remuneration packages of Whole time Directors of the companies in the same industry. Their remuneration is higher than Sri. N. Lokesh, Executive Director of the company and the remuneration of certain employees of the company is higher than the existing salary of Executive Director. Since his appointment i.e. 1st July, 2008 his remuneration is not revised even though the company has achieved substantial growth in Turnover as well as profitability. Hence the Board decided to revise his salary based on the recommendation of the Remuneration

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Committee which is given below and based on the industry norms subject to approval of the Shareholders and the Central Government as per the terms and conditions contained in the agreement, which is executed with him. The Board recommends the resolution for approval of the Shareholders.

He is also a director in other Public Companies like M/s. Heritage Finlease Limited, M/s. Heritage Foods Retail Limited, M/s. Heritage Conpro Limited and M/s. Heritage International Limited and other Private Companies. The Company has not granted any stock option to him.

Remuneration:

- | | |
|--------------------------------------|---|
| 1. Basic Salary: | ₹.7.00 Lakhs per month |
| Perquisites & Allowances | |
| 2. Books & Periodicals: | Books & Periodicals and outfit requirements not exceeding of ₹.25,000/- per month |
| 3. Leave Travel Allowance: | For self and family, once a year subject to ceiling of one month's basic salary |
| 4. Car & Telephone : | The company shall provide car with driver and telephone at the residence and Mobile phone to the Executive Director, for the Company's business. |
| 5. Club Fees: | Fee of Clubs subject to a maximum of Two clubs. This will not include admission and Life Membership Fees |
| 6. Personal Accident Insurance: | For an amount, premium of which shall not exceed ₹.40,000 per annum |
| 7. Medical Reimbursement | Payment/reimbursement of medical expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years or as is provided by the Company's group medical insurance policy. |
| 8. PF Contribution: | Contribution to Provident Fund shall be as per Rules of the Company. |
| 9. Gratuity: | Gratuity payable shall not exceed half a month's basic salary for each completed year of service. |
| 10. Encashment of Un-availed leaves: | Encashment of un-availed leaves as per the rules of the company at the time of retirement / cession of service. |

Commission: 4% of Net Profit of the Company per annum computed as per the provisions of the Companies Act, 1956, if the company is having profits during his tenure.

Pursuant to the provisions of 198, 269, 309, 310, 311 and all other applicable provisions if any, of the Companies Act, 1956 (Act) read with Schedule XIII to the said Act, for reappointment and the increase in the remuneration requires the approval of the Members by a Special Resolution. Accordingly, the approval of the Members is being sought through Postal Ballot for passing the Special Resolution as set out in the above Notice.

The terms as set out in the resolution no. 3 and explanatory statement no. 3 may be treated as an abstract of the terms of appointment pursuant to Section 302 of the Companies Act, 1956.

Except, appointee and Smt. N. Bhuvaneswari, Vice Chairperson & Managing Director of the Company no other director of the Company is concerned or interested in the proposed resolution.

Your approval is sought by voting by Postal Ballot in terms of the provisions of Section 192A of the Companies Act, 1956 read with the provisions of the Companies (Passing of Resolutions by Postal Ballot) Rules, 2011.

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STATEMENT OF INFORMATION PURSUANT TO SCHEDULE XIII OF THE COMPANIES ACT, 1956 – PERTAINING TO ITEM NO. 3 OF THE NOTICE:

I. General Information:

- (1) *Nature of industry*
 - a. Procurement, Processing, Packaging and Distribution of Milk & Milk Products (Dairy Division)
 - b. Food & Grocery Retailing (Retail Division)
 - c. Custom Farming & Supply chain management (Agri Division)
 - d. Manufacturing (Other than Bread) & Trading of Bakery Products (Bakery Division)
- (2) *Date of commencement of commercial production*
 - i. Dairy Division – 26-04-1993
 - ii. Retail Division – 29-11-2006
 - iii. Agri Division – 10-03-2008
 - iv. Bakery Division – 01-06-2009
- (3) *In case of new Companies, expected date of commencement of activities as per project approved by Financial Institutions appearing in the prospectus: Not Applicable*
- (4) (i) *Financial Performance based on given indicators:*

Financial parameters	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover (₹.in lakhs)	58803	79255	90038	109608	139341
Net Profit as per Profit and Loss Account (₹.in lakhs)	94	(3561)	560	112	933
Amount of Dividend Paid (excluding dividend tax) (₹.in lakhs)	182	Nil	207	138	230
Rate of Dividend declared	18%	Nil	18%	12%	20%

(ii) *Effective Capital of the Company as on 31-03-2012*

(₹. In Lakhs)

Sl. No	Particulars	As on 31-03-2012	
		₹.	₹.
1	Paid up Share capital (excluding share application money or advances against shares)	1152.95	
2	Share premium	4659.75	
3	Reserves & Surplus (excluding revaluation reserve)	3499.88	
4	Long term loans & Deposits repayable after 1 year (excluding working capital loans, over drafts, interest during loans, bank guarantee and short-term arrangements)	6978.77	
	Sub-total (A)		16291.35
	Less:		
5	Investment	111.99	
6	Accumulated losses	-	
7	Preliminary Exp. not written off	-	
	Sub-total (B)		111.99
	Effective Capital (A-B)		16179.36

- (5) *Export performance and net foreign exchange collaborations: During the year 2011-12 company has exported the milk products of ₹.184.91 lakhs and have a plan to export more quantity in the coming years.*
- (6) *Foreign investments or collaborations, if any: NIL*

II. Information about the appointee:

(1) *Background:*

Sri. N. Lokesh, aged 29 years, is a Post-Graduate in Business Administration and Management from the Stanford University, USA and has worked in World Bank in various Projects and has about 6 years of Industry experience.

- (2) *Past Remuneration: ₹.40.20 Lakhs per annum (excluding perquisites and other benefits)*
- (3) *Recognition or Awards: NIL*

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- (4) *Job profile:* Being a Top level position the Job responsibility essentially requires a leader who is innovative, self motivated and result oriented. He shall exercise and perform such powers and duties as the Board of Directors of the company entrusted from time to time.
- (5) *Remuneration proposed:*
As set out in the explanatory note of the Notice, the remuneration was recommended by the Remuneration Committee and approved by the Board of Directors.
- (6) *Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be with respect to the country of his origin):*
Taking into consideration the size of the Company, the profile of Sri. N. Lokesh, the responsibilities shouldered by him, the aforesaid remuneration package is commensurate with the remuneration package paid to managerial position in other companies in the same Industry.
- (7) *Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any:*
The appointee is son of Smt. N Bhuvanewari, Vice Chairperson & Managing Director and Husband of Smt. Nara Brahmani, Vice President – Business Development of the company and he is holding 11,83,200 no. of Equity shares (10.26% of the total shares) of the Company.

III. Other information:

- (1) *Reasons of loss or inadequate profits:* The Company has been expanding the Retail Chain which is yet to reach the optimum level of operations and start up expenses of new stores has been charged to revenue as per the Accounting Standard (AS) 26.
- (2) *Steps taken or proposed to be taken for improvement:* With proposal of marketing existing dairy products more in consumer packs instead of bulk sales, introduction of more value added products besides overall increase in capacity utilization of the existing plants and increase of sales as well as margins and moreover scaling up of retail operations with strong support from back-end Agri division activities, the overall margins of the company would progress in the coming years and consequently improving profits.
- (3) *Expected increase in productivity and profits in measurable term:* During the year the company has taken certain measures to increase the net margin on the business of the company.

IV. Disclosures:

The Remuneration package of the Vice Chairperson & Managing Director, President and Head of Divisions of the company is as follows.

Name	Designation	No of years experience	CTC per month from 01/04/2012
Smt. N. Bhuvanewari	Vice Chairperson & Managing Director	18	7,50,000 [*]
Dr. M. Sambasiva Rao	President	27	6,24,967 [#]
Sri. K. Durga Prasada Rao	Chief Operating Officer - Dairy	46	2,57,461 [§]
Sri. S. Jagadish Krishnan	Chief Operating Officer - Retail & Bakery	11	6,87,193 [§]
Sri. Anil Kumar Srivastav	Chief Operating Officer - Agri	31	3,17,303 [§]

^{*} Excluding Perquisites & Allowances

[#] Excluding of 1% of commission on Operating Profit per annum

[§] Excluding of Variable Pay as per the policy of the company.

Registered Office:
6-3-541/C, Punjagutta

Hyderabad – 500 082
Date: 30th October, 2012

Encl: 1) Postal Ballot Form
2) Self addressed Postage prepaid Envelope

By Order of the Board
For **HERITAGE FOODS (INDIA) LIMITED**

UMAKANTA BARIK
Company Secretary

**Valuation Report
for
Issue of Sweat Equity Shares

For
Heritage Foods (India) Limited**

Dated : 17th October 2012

Report by BOB Capital Markets Limited



Category I Merchant Banker
SEBI Registration No: INM 000009926
3rd Floor, GN block, South Wing, UTI Tower, Bandra Kurla Complex,
Bandra East, Mumbai – 400051. India.
www.bobcaps.in

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1. PRELIMINARY

We, BOB Capital Markets Limited (BOBCAPS), have been requested by the Vice Chairperson & Managing Director of Heritage Foods (India) Limited ("HFIL" or the "Company") to submit a report on the Value Addition that can be attributed to the efforts and leadership of Dr. M. Sambasiva Rao, President for the purpose of Issue of Sweat Equity Shares for consideration other than cash to Dr. M. Sambasiva Rao in accordance with SEBI (Issue of Sweat Equity) Regulations, 2002 ("Regulations").

We have also consulted M/s. Ramasamy Koteswara Rao & Co, Chartered Accountants for carrying out the valuation of Intellectual Property Rights ("IPR") or of the know-how provided or other value addition in accordance with the Regulations for the issue of sweat equity shares for non-cash consideration, in particular, keeping in view the milestones achieved by the Company under the leadership of Dr. M. Sambasiva Rao.

2. RELIANCE OF INFORMATION

For the purpose of providing our Valuation Report, we have reviewed and analyzed:

- Audited Financial Results for past ten financial years since March 31, 2002 to March 31, 2012;
- Unaudited Provisional financial data for half year ended September 30, 2012
- Share price data of the Company as available on the website of the Bombay Stock Exchange limited.
- Management representation with respect to the growth of the Company over the period along with the key achievements of the Company under the leadership of Dr. M. Sambasiva Rao, President.
- List of the intellectual property rights used by the Company till date.
- Certified extracts of the board resolution dated December 23, 2005, January 31, 2006, March 30, 2007, March 30, 2009, March 30, 2010 and Remuneration committee resolution dated July 30, 2012.
- Valuation Report of M/s. Ramasamy Koteswara Rao & Co, Chartered Accountants dated October 10, 2012

We have carried out independent evaluation of aforesaid documents and information and have determined the valuation of Intellectual property rights or know how provided or other value addition for the purpose of Issue of Sweat Equity Shares.

We have also obtained explanations and information from the management of the Company and have also held discussions with the senior officials of the Company for clarifications and analysis of the information obtained

3. COMPANY PROFILE

BACKGROUND

- Heritage Foods (India) Limited (HFIL) was incorporated on June 5, 1992 as a Public Limited Company under the Companies Act, 1956 and obtained the certificate of commencement of business on July 10, 1992. The registered office of HFIL is located at 6-3-541/C, Panjagutta, Hyderabad – 500082
- The equity shares of HFIL are listed at Bombay Stock Exchange Limited ("BSE") and National Stock Exchange of India Limited ("NSE").
- HFIL was set-up with an objective to manufacture, process, prepare, preserve, refine, bottle, buy, sell and deal whether as wholesaler or retailers or as exporters or importers or as Principals or agents or as keepers or dealers in all kinds of milk products, including Cheese, Butter, Ghee, Ice creams, Baby foods, Instant foods and any by-products or co-products thereof and to carry on the business and setting up of Dairy Farms, Milk Processing Plants, Food Processing Plants, Cold Storage Plants, Research laboratories, Packing units, Bottling Plants and to manufacture and deal in all kinds and varieties of foods for human or animal consumption
- Over a period of time, the Company has widened its range of operations and currently HFIL is engaged in the business of:
 - ✦ Dairy Products ✦ Retail ✦ Agriculture and ✦ Bakery
- With the advent of successful execution of business model and increase in customer base in Andhra Pradesh, HFIL with an aim of further expansion of business and customer base, successfully established business with a strong marketing network across the states of Karnataka, Tamil Nadu, Maharashtra and Kerala for marketing its various products.

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List of intellectual property rights used by the Company:

S. No.	Trade Mark	Class	Date Since Used
1	HERITAGE REAL FRESH	29	1992
2	(H) REAL FRESH	29	1992
3	Heritage	29	1992
4	Logo (H)	29	1993
5	Heritage with logo H	Various Classes	1993
6	Logo H	30	1993
7	Heritage	Various Classes	1996
8	Health Heritage Happiness	31	1996
9	Heritage	32	1996
10	Heritage-H	29	1996
11	Heritage	29	1996
12	HERITAGE GOLDEN COW	29	2001
13	Bring Home Health & Happiness	29	2002
14	Heritage The Pride of India	29	2002
15	FRESH @	Various Classes	2007
16	Heritage	Various Classes	2009
17	Heritage Fresh (L)	Various Classes	2009
18	Bon Sante		2009
19	BLOSSOM	Various Classes	2009
20	SPIC	16	2009
21	SANISTAR	3	2009
22	H (logo)	Various Classes	2010
23	AROMA FACTORY (W.P)	30	2010
24	Chat Pate	30	2010
25	Phata Phat	30	2010
26	Halke Phulke	30	2010
27	COZY	3	2010
28	BAI	3	2010
29	MAID	3	2010
30	MAGIC MAID	3	2010
31	CALCI PLUS	3	2010
32	DENTAMATE	3	2010
33	GENIE	4, 16 & 21	2010
34	EMIT	4, 16 & 22	2010
35	SPLASH BLOSSOM	4 AND 16	2010
36	SPIC (W.P)	3	2010
37	Health Heritage Happiness (logo)	Various Classes	2011
38	EDGE	Various Classes	2011
39	DHOONI (WORD MARK)	3	2011
40	HERITAGE FARM FRESH (LABEL)	31	2012
41	KRAFT (WORD MARK)	16	2012
42	LITES (WORD MARK)	4	2012

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PRESENT CAPITAL STRUCTURE

The details of Authorised, Issued, Subscribed and Paid up Capital are as under:

Particulars	Amount ₹.
AUTHORISED CAPITAL	
1,80,00,000 Equity shares of ₹.10 each	180,000,000
20,00,000 Preference Shares of ₹.10 each	20,000,000
Total	200,000,000
ISSUED, SUBSCRIBED AND PAID UP CAPITAL	
1,15,29,500 Equity shares of ₹.10 each	115,295,000
Total	115,295,000

MANAGEMENT

HFIL is managed and directed by its Board of Directors comprising of:

Sr. No.	Name of the Director	Designation
1	Sri D Seetharamaiah	Non Executive Independent Chairman
2	Sri N P Ramakrishna	Non Executive Independent Director
3	Dr N R Sivaswamy	Non Executive Independent Director
4	Dr A Appa Rao	Non Executive Independent Director
5	Dr V Nagaraja Naidu	Non Executive Director
6	Smt N Bhuvaneswari	Vice Chairperson & Managing Director
7	Sri N Lokesh	Executive Director

FINANCIAL PERFORMANCE

The following table reflects the important financial indicators of the HFIL on a consolidated basis for the Financial Year (FY) ended on March 31:

(₹. Crores)

	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12
Turnover	165.1	192.8	234.5	266.1	292.1	346.33	588.03	796.02	900.38	1,096.08	1,393.41
Other Income	0.42	0.86	1.35	0.78	1.27	1.29	40.13	3.23	2.93	4.81	3.21
Total Income	165.5	193.7	235.8	266.9	293.3	347.62	628.16	799.25	903.31	1,100.89	1,396.61
Profit/(Loss) after Tax	11.11	14.91	17.62	10.16	13.64	1.72	0.94	(35.61)	5.60	1.12	9.33
Networth	34.92	44.52	55.83	62.64	72.49	69.30	115.70	80.77	86.88	86.87	93.13
Net Fixed Assets	32.96	38.82	45.49	50.38	53.33	95.38	162.41	203.68	215.24	221.72	230.26

4. BASIS OF VALUATION

The management of HFIL believes that the efforts and contributions of Dr. M. Sambasiva Rao since his induction on January 21, 2006 has helped the Company to gain various intangible benefits over and above the tangible benefits which paved the way for the Company for its growth and prosperity.

The management of the Company is keen to confer some tangible benefits to Dr. M. Sambasiva Rao, over and above the normal remuneration that is paid to him in terms of his terms of employment, to honor him for his expertise knowledge, practical approach and contribution.

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While an accurate quantification of the intangible gains made by the Company consequent to the contribution of Dr. M Sambasiva Rao is difficult to be ascertained in absolute numerical terms, the management of HFIL propose issue of upto 70,000 (Seventy Thousand) sweat equity shares for non-cash consideration, the value {as per the SEBI (Issue of Sweat Equity) Regulations, 2002} of which should not exceed the value added by him to the business, since his joining in the Company after considering the remuneration & commission paid to him.

Key achievements of the Company, since 2006, under the leadership of Dr. M. Sambasiva Rao, President of the Company

- Achieved the vision-2009 set out during 2005 for the organization i.e., achieving total sales revenue of ₹.700 Crores, including ₹.200 Crores, from the allied business (Retail and Agri).
- The Company has achieved an average sales growth of 62.85% yearly from ₹.292.07 crores in FY 2005-06 to ₹1,393.41 crores for the FY 2011-12 while strengthening the internal controls and various compliances.
- Set up retail division in 2006 across three major cities of south India (Chennai, Bangalore and Hyderabad)
- Acquired a closed unit of Indiana Dairy at Hyderabad in 2006 to meet the growing needs of the Hyderabad market and got it re-commissioned in 6 months.
- Set up a back end Agri division during the year 2007 with two integrated pack houses to support the front-end retail division and also to improve the rural economy with improvements in farming practices.
- Expanded Dairy division in 2007 to western India (Maharashtra) by purchasing a unit in Sangvi (near Pune) and launched sales in Mumbai and Pune.
- Initiated and set up two more Packing Stations at B. Kotha Kota in Chittoor District and Bobbili in Vijayanagaram District for value added products and milk and to spread market to Orissa respectively. Sweetened condensed Milk plant at B.Kotha Kota was commissioned.
- Set up a state of the art bakery unit at Hyderabad to cater to the front end needs of the retail stores.
- Launched various new categories of products like sweets, ice cream, lassi, fruit curd, etc., and spread strong marketing network across south and western India.
- Launched about 240 SKUs of own or private label products through Retail and parlors.
- Initiated sale of ghee consistently in small consumer packs throughout the year in South, West & North India.
- Have built a strong team of 3,750 direct and another 3,500 indirect team [from 650 & 1000 team respectively in 2005-06].
- Launched various social security schemes to cover various category of employees across HFIL, milk representatives, farmers & sales agents.
- Introduced Medical Insurance scheme to all employees.
- Designed the organization structure for effective functioning and to enable the employees to perform like entrepreneurs.
- Brought in series of changes in the operations of the units in reduction of process losses and energy conservation, and achieved 1st prize for energy conservation in Dairy sector in India during FY 2010-11.
- Introduced an innovative retailing model through Heritage Parlour where Company has a presence even in small locality and the products are available upto late evening.
- Due to the launch of parlour business the Company got lot of visibility in the market and increased the Brand awareness and value of the brand. Currently, the Company has setup nearly 1,032 parlours generating revenues of about ₹.18 Crores per month.
- Successful launch of parlour business has further facilitated the Company to launch more value added milk products and also facilitated for enhancing the turnover. It has also helped to further strengthen the private label business and the brand image of the Company.
- As a corporate social responsibility, the Company making the unemployed youth as entrepreneurs by giving Parlour Franchisee and contributing for their lively hood

5. APPROACH TO THE EXERCISE

The valuation of IPR or value additions is a complex process involving careful consideration and review of various parameters that directly and / or indirectly contribute to business expansion with consequent accretion in value.

To carry out a valuation analysis, we would consider certain fundamental factors that affect the wealth-generating capability of the Company. These include:

- The general economic outlook as well as the current and expected conditions in the business environment and the industry's relationship with the economy;
- The competitive environment prevailing within the industry;
- The relative competitive advantages of the business in terms of its service capability, management capabilities and the quality of the clients of the entity;
- The management of the Company
- The historical financial and operational performance of the business, etc.

We have considered the following two methods as appropriate for valuation of the "Value Addition" to the Company (HFIL) attributable to measures, initiatives, skill, knowledge and expertise imparted by Dr. M. Sambasiva Rao.

- Value based on Growth in Gross Revenue;
- Value based on Incremental Market Capitalisation;

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values can be arrived at for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose.

Accordingly, BOBCAPS believes that its analysis must be considered in its entirety and not based on any individual element or elements or without considering all associated narratives or descriptions of the analyses, which could create a misleading or incomplete view of the comprehensive nature of the processes underlying its analyses and Report

- 1) **Value Based on Growth in Gross Revenue:** Under this method, the compounded growth rate (CAGR) in the gross revenues of the firm is computed from the immediate financial year after induction of key person till the date of valuation and also the compounded growth rate (CAGR) in the revenues for past five years before the date of induction of key person is calculated. The past growth rate is extrapolated to arrive at the revenues till March 31, 2012. The difference between the extrapolated revenue so arrived and actual revenues of the Company is considered as the incremental growth in revenue. A portion out of the incremental revenue is considered towards the value addition created by strategies implemented by Key Managerial Person.
- 2) **Value Based on Incremental Market Capitalisation:** Market capitalization is based on a market estimate of a Company's value, based on perceived future prospects, economic and monetary conditions. Market capitalization method incorporates the market price of equity into its value for making the valuation of future economic benefits derived by the firm for various reasons including the value addition created by key managerial person. Under this method, the Incremental Market Capitalisation is adjusted for increase in equity. The adjusted incremental Market Capitalisation is considered as accruing because of value addition created by superior man power which can be apportioned based on weights for tactical and strategic level.

6. COMPUTATION OF VALUE ADDITION

Method 1: Value Based on Growth in Gross Revenue:

HFIL has registered significant growth in its total income since inception and particularly so, since the past 10 years. The total income of the Company was ₹.19,368 Lakhs in FY 2002-03 vis-a-vis ₹.139,661 Lakhs in FY 2011-12. The Company has transformed itself into a multi-product, multi-location Company.

In FY 2005-06, the Company had annual installed capacity as given hereunder:

Milk	3969 lakh litres
Ghee	3869 MT
Skimmed Milk Powder	2920 MT

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By FY 2011-12, the Company's product range and capacity had increased as under:

Sr. No.	Product	Capacity
1.	Milk	4726.12 Lakh litres
2.	Ghee	8784 MT
3.	Skimmed Milk Powder	2928 MT
4.	Doodh Peda	563.64 MT
5.	Paneer	1482.30 MT
6.	Curd	37368.60 MT
7.	Butter Milk	120.78 Lakh litres
8.	Lassi	29.28 Lakh litres
9.	Ice Cream	73 Lakh litres
10.	Flavoured Milk	44.36 Lakh litres

Besides, the Company also markets several items of food products and other consumer products including savorys, eggs, honey, water, tea, sugar, atta, rice, incense sticks, liquid hand wash, fruits and vegetables, bread, cookies, pulses, spice and dry fruits, spice powders, pickles, ketchup, jam and sauces etc. All these products are marketed through the Company's widely distributed network of retail stores under the brand name of "Heritage", thereby creating and enhancing the value of the Company's brand.

The creation of new business segments, establishing sustainable and scalable business models and setting up of optimal infrastructure on which these new business segments can be expected to grow, generate long-term value for the Company which cannot be quantified in absolute terms. The Company has been catering to the products that are consumer driven where generation of profits take time and the initial years involve much expenditure and hence the value creation cannot be co-related to profits made by the Company.

Considering all the aspects explained above, we have felt that the Company's business growth as captured in growth of its turnover would be an ideal benchmark to assess the value addition made by Dr. M. Sambasiva Rao.

It may be noted that the Company's total income grew from ₹.14,184 Lakhs in FY 2001, to ₹.29,334 Lakhs in FY 2006 and to ₹.139,661 Lakhs in FY 2012. This implies a CAGR of 15.64% between FY 2001 and FY 2006 and a CAGR of 29.70% between FY 2006 and FY 2012. According to submissions of the Company and information on record, part of the incremental growth in CAGR can be attributed to the new business strategies initiated and implemented by Dr. M. Sambasiva Rao with his innovative ideas. Had it not been so, the Company may have continued to grow at the same CAGR of 15.64%, in which event, its turnover in FY 2012 would have been of the order of ₹.70,140 Lakhs. Hence, the incremental growth of ₹.69,521 Lakhs in turnover during the period of FY 2006 to FY 2012 is attributable to the efforts put in by Dr. M. Sambasiva Rao.

In our opinion the value of efforts or contribution of Superior Managerial personnel can be reasonably estimated at 3.5% of the incremental growth in turnover of the Company.

Therefore, we arrive at valuation under this method as follows:

	₹.Crores
3.5% of incremental sales of ₹.695.21 crores	24.33
Less : 2/3 being attributable towards efforts of the other team members of the company	16.22
Total Value Additions	8.11
Less: Remuneration paid during the period 2006 till 2012 (As given below)	4.01
Net Valuation of Value Addition (1/3)	4.10

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The normal remuneration paid to Dr. M. Sambasiva Rao during the period 2005-06 to 2011-12 is as under:

₹.lakhs

Year	Salary paid	Commission paid	Total
2005-06	9.58	3.55	13.13
2006-07	50.00	4.36	54.36
2007-08	50.21	Nil	50.21
2008-09	50.42	Nil	50.42
2009-10	50.47	11.25	61.72
2010-11	56.62	19.46	76.08
2011-12	63.38	31.39	88.21
Total	330.68	70.01	400.69

Method 2: Value Based on Incremental Market Capitalisation:

Market Capitalisation is an economic measure reflecting the value of network. Market Capitalisation approach is one of the fundamental metrics used in business valuation, financial modeling, accounting, portfolio analysis, etc. The valuation of the value additions have been considered keeping in view the increase in the Market Capitalisation from the end of immediate financial year after joining of Dr. M. Sambasiva Rao till September 30, 2012.

₹. Crores

Market Value of Equity as on September 30, 2012		351.07	
Less: Market Value of Equity as on March 31, 2006		174.28	
Incremental Market Capitalisation			176.80
Less: Incremental Market Capitalisation attributable to Incremental Equity Capital	49.06		141.7
Book Value of Equity as on September 30, 2012*	121.55		
Book Value of Equity as on March 31, 2006	72.49		
Incremental Market Capitalisation attributable to Value Addition created by Superior Management			35.1
Incremental Market Capitalisation attributable to Value Addition created by Dr. M. Sambasiva Rao (Based on Weight Given)			7.52
Less: Total Salary paid from 2006 upto September 2012			4.35
Net Value Additions			3.17

*includes provisional figure for half year ending September 2012

Assumptions:

1. The top level management is divided into two levels of managerial personnel, viz. the Strategic level and the Tactical level. The Strategic level consists of 3 persons viz. the Managing Director, President and Executive Directors. The Tactical Level consists of 10 persons including Chief Operating Officers of various divisions and the Chief Financial Officer along with the respective functional Head of the departments.
2. Weights have been assigned to the Strategic and tactical level personnel. Strategic level personnel have been assigned a weightage of 6 and the Tactical level personnel have been assigned a weightage of 1.

As both the above methods provide a fair basis of valuation of the value addition created because of induction of Dr. M. Sambasiva Rao, we have considered equal weightage for both the methods:

Sl. No	Methods	Weightage	₹. Crores
1.	Growth in Gross Revenue Method	1	4.10
2.	Market Capitalisation Method	1	3.17
	Average Value Addition		3.64

7. CONCLUSION

On due consideration of the above and on the basis of all relevant factors, in our opinion, the value of contribution by Dr. M. Sambasiva Rao calculated as per value based on Growth in Gross Revenue and value based on Incremental Market Capitalisation represents the fair value of the contributions as the methods consider the growth in the value of revenues and equity and calculates the extent of the value addition. Hence the value of the value-additions upto September 30, 2012 by Dr. M. Sambasiva Rao is **₹.3.64 Crores (Average of the two methods)** for the purpose of issuance of sweat equity shares to him.

8. LIMITATIONS & DISCLAIMERS

Our Report is subject to the limitations detailed herein after. As such, the Report is to be read in totality and not in parts, in conjunction with the relevant documents referred to therein.

The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information that was used during the course of our work. In addition, we do not take any responsibility for any changes in the information used for any reason, which may occur subsequent to the date of the Report.

This Report and the information contained herein are absolutely confidential and are intended for the sole use and information of the Shareholders and the Board of Directors of the Company. It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued.

Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as agreed as per terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

Valuation analysis and results are also specific to the date of this report. A valuation of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. As such, BOBCAPS' valuation results are, to a significant extent, subject to continuance of current trends beyond the date of the report. We, however, have no obligation to update this report for events, trends or transactions relating to the Company or the market/economy in general and occurring subsequent to the date of this report.

We provide no assurance that the slated purpose of this valuation will be achieved successfully at or close to our recommended valuation within a particular timeframe. Our valuation only represents the most likely price around which funds can be raised within a limited time-frame after our analysis

No investigation of the Company's claim to title of assets has been made for the purpose of this valuation and the Company's claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

This Report is based on the information received from the sources mentioned herein and the discussions with the management/representatives of the Companies. We have assumed that they have furnished to us all the information which they are aware of concerning the financial statements and the respective liabilities, which may have an impact on our Report.

Whilst all reasonable care has been taken to ensure that the facts stated in the report are accurate and the opinions given are fair and reasonable, neither BOBCAPS nor any of our Directors, Officers or Employees shall in any way be responsible for the contents stated herein.

Accordingly, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such statements. We expressly disclaim any and all liabilities which may arise based upon the information used in this Report. We are not liable to any third party in relation to the issue of this report.

It must be noted that the derivation of the value is an art and is not an exact science. Value is determined at a point in time, taking into consideration, the economic, social and market patterns existing at that point in time.

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