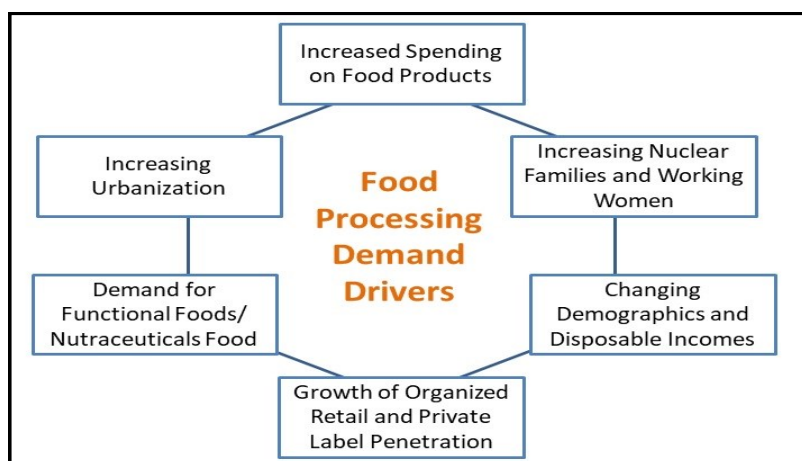


**About the Industry:**

**The Food Processing Industry:** provides linkages and synergies among all the sectors of the economy i.e primary (agriculture), secondary (industry) and tertiary (transportation of goods, R&D in agro-processing etc). In India, this sunrise sector has gained importance in the recent years owing to availability of raw materials, changing lifestyles and appropriate fiscal policies. The industry as a whole supports the economy, optimizes the country's GDP (from the agricultural produce), helps reduce agriculture waste and provides employment to a large number of people with minimum skills. The industry provides the critical links and synergies between the two pillars of the economy i.e. agriculture and industry. Some of the key factors which the industry addresses to while playing a very significant role in boosting the GDP includes employment generation, exponential rise of farmers' income, reduce malnutrition, efficient utilizing of the surplus in agriculture production, reduce food wastage, boosts trade and earn foreign exchange, curbing migration, curbing food inflation, crop-diversification, preserve nutritional quality of food, extend its shelf life, enhances the quality and taste of food, enhanced consumer choices, bifurcation of the industry and opportunities. The estimated market size of the food processing industry in India is ~32% of India's food market (as per ASSOCHAM) with a current aggregate output of the sector being at around ~USD158.69bn which is expected to reach USD535bn by the end of 2025-26.

**Exhibit 01: Demand Drivers**



Source: F&I AR2021, Progressive Research

The Indian food processing industry is mainly export oriented as India's geographical location gives it a unique advantage of connectivity to Europe, the Middle East, Japan, Singapore, Thailand, Malaysia and Korea. The improvements in hygienic processing and packaging are anticipated to help food exports. Post Covid-19, the industry looks promising as it recalibrates itself to capitalize on increased opportunities to capture new markets. In addition to this, the projected exponential growth in demand for processed food in rural areas and Tier 2/3 cities also supports this idea. The prominent features of the Indian food processing industry and associated opportunities are related to (a) early stage of growth cycle of the sector with low penetration and high potential, (b) some of the major players in the markets have not yet scaled up or totally integrated and (c) the unorganized players have low grade technology and investments. This industry is also gaining traction due to immense career opportunities with job security in a diverse industry environment including dairy processing, winery, bakery, meat processing, flavour production, etc. the salary opportunities includes high-paying jobs with a strong growth rate, travel opportunities (majority of the food industries are international) and recruitment by top brands. The **challenge for the Indian** companies will be to focus on global food quality standards, cost competitiveness, technologies and tap the global market of food processing.

SNAPSHOT				
52 week H / L		Mcap (INR mn)		
125 / 48		4329		
Face value: 1				
BSE Code		NSE CODE		
507552		FOODSIN		
Annual Performance				
(Rs mn)	FY19	FY20	FY21	FY22E
Total Revenue	3,386	3,923	3,708	5,716
EBITDA	236	314	218	457
EBITDA (%)	7.0	8.0	5.9	8.0
Other Income	28	39	106	58
Interest	134	114	144	162
Depreciation	115	124	125	133
PBT	15	115	55	220
PAT*	1,092	111	39	162
Equity (Rs mn)	17	50	50	50
EPS (INR)*	65.6	2.2	0.8	3.2
Quarterly Performance				
Parameters (Rs mn)	Mar-21	Jun-21	Sept-21	Dec-21
Sales (Net)	1,384	1,455	1,698	1,216
EBITDA	100	149	153	84
EBITDA (%)	7.2	10.2	9.0	6.9
Other Income	5	8	9	22
Interest	36	35	41	55
Depreciation	32	33	30	33
PAT	25	59	63	3
Equity (Rs mn)	50	50	50	50
Ratio Analysis				
Parameters (Rs mn)	FY19	FY20	FY21	FY22E
EV/EBITDA (x)	22.7	18.0	26.8	12.7
EV/Net Sales (x)	1.6	1.4	1.6	1.0
M Cap/Sales (x)	1.3	1.1	1.2	0.8
M Cap/EBITDA (x)	18.5	14.0	20.1	9.6
Debt/Equity (x)	0.6	0.8	0.9	0.9
ROCE (%)	11.6	12.3	10.3	15.4
Price/Book Value (x)	0.9	0.8	2.4	2.2
P/E (x)	(19.4)	13.2	111.4	27.1
Shareholding Pattern as on 31 December, 2021				
Parameters	No of Shares	%		
Promoters	2,27,60,120	45.21		
Institutions	0	0.00		
Public	2,75,78,140	54.79		
TOTAL	5,03,38,260	100.00		

Source: Annual Report, Progressive Research

Note: Data is calculated as on 25 Feb, 2022, \*FY19 had an exceptional item in PAT

About the Industry (contd.)

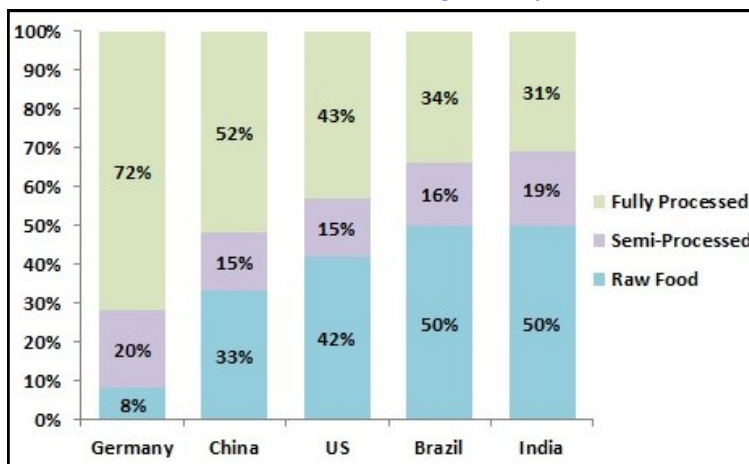
Exhibit 02: Barriers in Indian Food Processing Sector

Farm Level	Distribution Level	Consumer Level
<ul style="list-style-type: none"> <li>Conventional Methods</li> <li>Inadequate Food Quality</li> <li>Lack of Logistics</li> <li>Lack of Cold Storage</li> <li>Lack of Modernization</li> </ul>	<ul style="list-style-type: none"> <li>High Transport Cost</li> <li>High Cold Chain Cost</li> <li>High Packaging Cost</li> <li>Poor Coordination between farmer and processing units</li> </ul>	<ul style="list-style-type: none"> <li>Lack of Awareness</li> <li>Lack of Standardization</li> <li>Lack of Quality in processed food</li> <li>Conventional Food Habits</li> </ul>

Source: [link.springer.com/article/10.1007/s12597-021-00553-1](https://link.springer.com/article/10.1007/s12597-021-00553-1), Progressive Research

**The Global Fruit and Vegetable Processing Market:** can be divided into frozen, canned, dried, dehydrated and others where the canned fruits and vegetables (F&V) is the most preferred choice both in developing and developed countries and also has the highest share. The market was valued at USD304.50bn in 2020 and is likely to witness a ~7.3% CAGR growth during 2020-2028. North America is expected to witness the fastest growth rate due to rising demand from the US, Canada and Mexico. Some of the key growth drivers include the changing lifestyles & dietary patterns, growing health awareness, need for having longer shelf life of food products without altering its taste or nutrient content which ultimately encourages the producers to increase the production of pulp, increased demand from the ready-to-drink market (estimated to register a CAGR of 6.1% over 2021-2026) and rising demand for convenience food & beverages (F&B), rising working population, changes in lifestyles, shift in consumer mindset towards healthy organic options etc. All these factors are opening up immense opportunities for the countries producing F&V where countries like India hold an immense potential to capitalise on. After China, India is the second largest producer of F&V and the largest producer of fruits like mangoes, bananas, papaya, and guavas. India is also the second largest producer of vegetables like onions, potatoes, green peas, tomatoes, cabbage, etc. The GOI is also adding impetus to the industry via allowance of 100% FDI in food processing sector with a vision to setting up 41 Mega Food Parks (22 are already operational) and is also trying to boost investments via the Production Linked Incentive (PLI) schemes indicating great potential for the food processing sector.

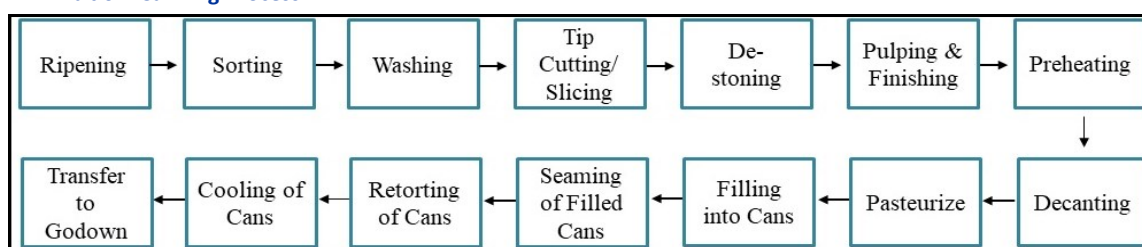
Exhibit 03: India Vs World Food Processing Break-up



Source: [business-standard.com/article/companies/india-s-food-processing-market-may-touch-470-billion-by-2025-kpmg-report-121050900881\\_1.html](https://business-standard.com/article/companies/india-s-food-processing-market-may-touch-470-billion-by-2025-kpmg-report-121050900881_1.html), Progressive Research

**Global Frozen Food Market:** In 2019, the global frozen food industry was valued at ~USD292bn and is currently looking at a CAGR of 4.2% over 2020-2027 to reach a value of ~USD405bn by 2027. The Frozen Food segment (products preserved under low temperature and used over a long period) comprises of various ready meals, F&V, meat-poultry, soup as well as packaged ready-to-eat (RTE) foods, bakery, snacks, and desserts. Increasing consumer spending on convenience food and RTE meals, increasing number of convenience stores along with cold chain logistics infrastructure, mounting popularity of vegan diets, plant-based nutrition food, frozen fruits and vegetables etc. are the key factors which are driving the growth of this segment. Frozen plant-based nuggets, strips, and cutlets etc. are anticipated to register a growth of 25% while those of plant-based burgers, frozen F&V are anticipated to grow at 10%, 8% and 5%, respectively.

Exhibit 04: Canning Process



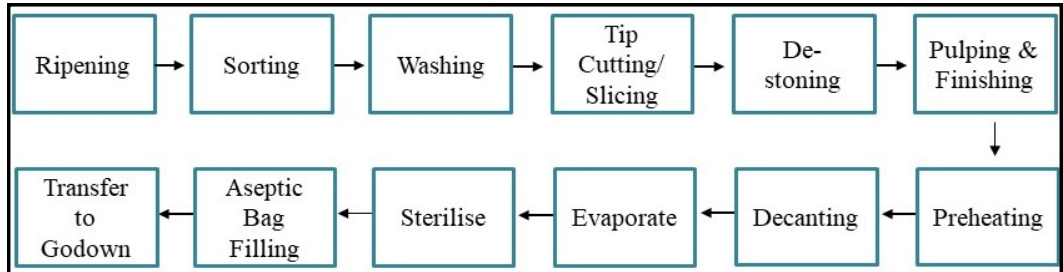
Source: Foods & Inns Red Herring, Progressive Research

**About the Industry (contd.)**

**Mango Pulp Facts:** Mango pulp or concentrate are converted to juices, nectars, drinks, jams, fruit cheese and many other beverages. It can also be used in bakery, fruit meals and flavours (for food industry), ice creams, yoghurt and confectionery business. The two main clusters of mango pulp in India are located at Chittoor (in Andhra Pradesh) and Krishnagiri (in Tamil Nadu). There are

~65 processing units with a backward linkage of Alphonso and Totapuri variety of mangoes. Some of the processing units are also seen in Maharashtra and Gujarat. India is one of the major exporters of mango pulp on a global level. Post harvesting the fully matured mangoes is quickly transported to the fruit processing plant where they are inspected and washed while the selected high quality fruits go to the controlled ripening chambers. The fully ripened mango fruits are washed, blanched, pulped, de-seeded, centrifuged, homogenized, and concentrated (when required), thermally processed and aseptically filled maintaining sterility. The preparation steps basically include cutting, de-stoning, refining and packing. In case of aseptic product, the pulp is sterilized and packed in aseptic bags; the refined pulp is also packed in cans while the frozen pulp is pasteurized and deep-frozen in plate freezers. All these processes ensure that the natural flavor and aroma of the fruit is retained in the final product. In 2020-21, India had exported ~98,369.74 MT of Mango Pulp (Source: apeda.gov.in) worth of Rs7144.1mn (~USD96.43mn). The major exports destinations included Saudi Arab, Yemen Republic, Netherland, Kuwait, Oman etc.

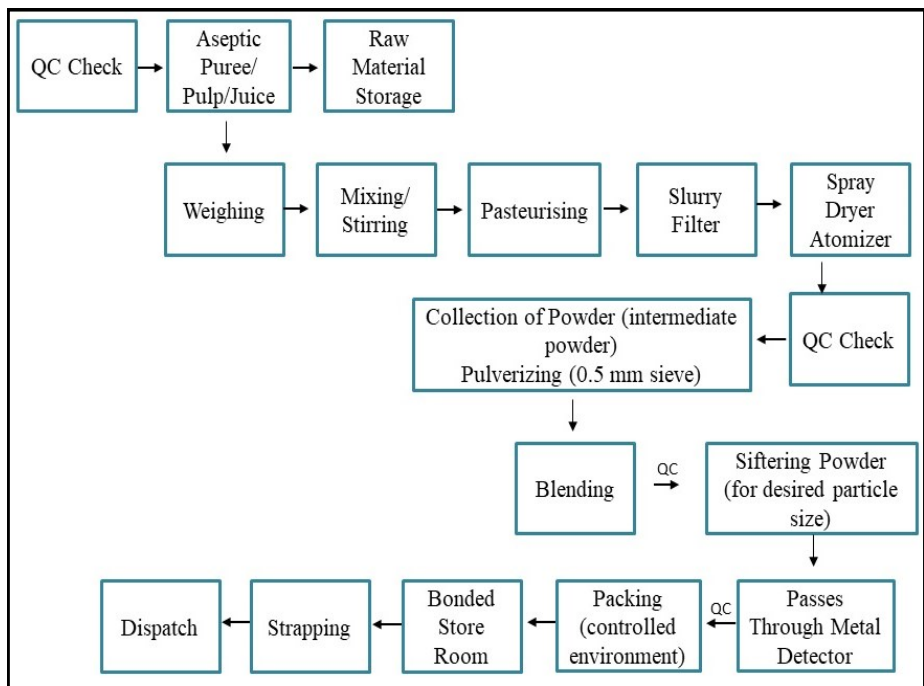
**Exhibit 05: Aseptic Food Processing**



Source: Foods & Inns Red Herring, Progressive Research

**Spray Drying Powder Market:** Growing population and the demand for F&B has significantly increased the opportunities and awareness related to several aspects of food industry and one of this is the spray dried powder market. Spray Drying is a process used for converting fruit and vegetable liquids into its powder form which helps in maintaining the quality of the product with low water activity, makes it easier to transport, store, handle while increasing the shelf life. Spray drying is used for enhancing taste and adding flavours & colour to the final product. The region of Asia Pacific enjoys the maximum share in the global spray dried food market and emerging economies like China and India are expected to drive the demand here whereas North America and Europe are expected to hold a significant proportion of the global market. Growth drivers of this market essentially includes the rising demand for RTE foods, demand for convenience foods, increasing opportunities in the F&B sector like those related to bakery, snacks, confectionery etc, and the need to increase or extend the shelf life of food products.

**Exhibit 06: Spray Drying Process**



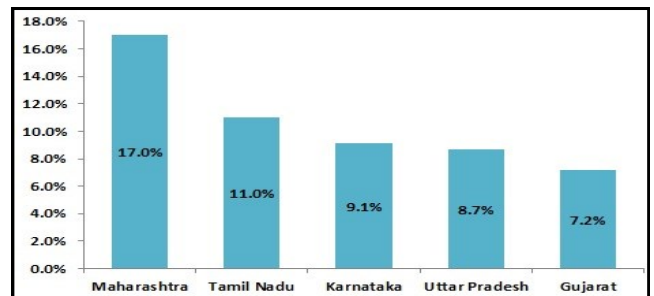
Source: Foods & Inns Red Herring, Progressive Research

**Global Spices and Masalas:** The global market for Spices and Masalas was valued at ~USD5.86bn in 2019 and is expected to register a CAGR of 6.5% over 2020-2027. It is estimated, powdered spices account for more than 50% of the global spices revenue where Asia Pacific accounts for the highest contribution share in terms of production as well as in exports. Growing consumer preference is likely to propel the demand and opportunities in this segment. Manufacturers are prompted to produce high-quality and reliable products that can maintain consistent global standards as there is increased liking towards various flavours in foods and snacks along with enhanced demand for seasoning, spices and for pre-mix packages.

**About the Industry (contd.)**

**Government Initiatives:** GOI has announced an outlay of Rs109bn under the PLI scheme for the food processing industry with a vision for an *Atmanirbhar Bharat* with enhanced manufacturing capabilities and exports. The MoFPI is providing PLI for F&V processors under this scheme. GOI intends to create global manufacturing players, strengthen the Indian brands abroad, increase off-farm jobs, ensure remunerative prices of farm produce and increase farmers' income. Under the scheme, the selected applicants will be required to undertake investment in the years FY22-23 and will get incentives based on sales over six years from 2021-22 to 2026-27.

**Exhibit 07: Food Processing Units (State-wise)**

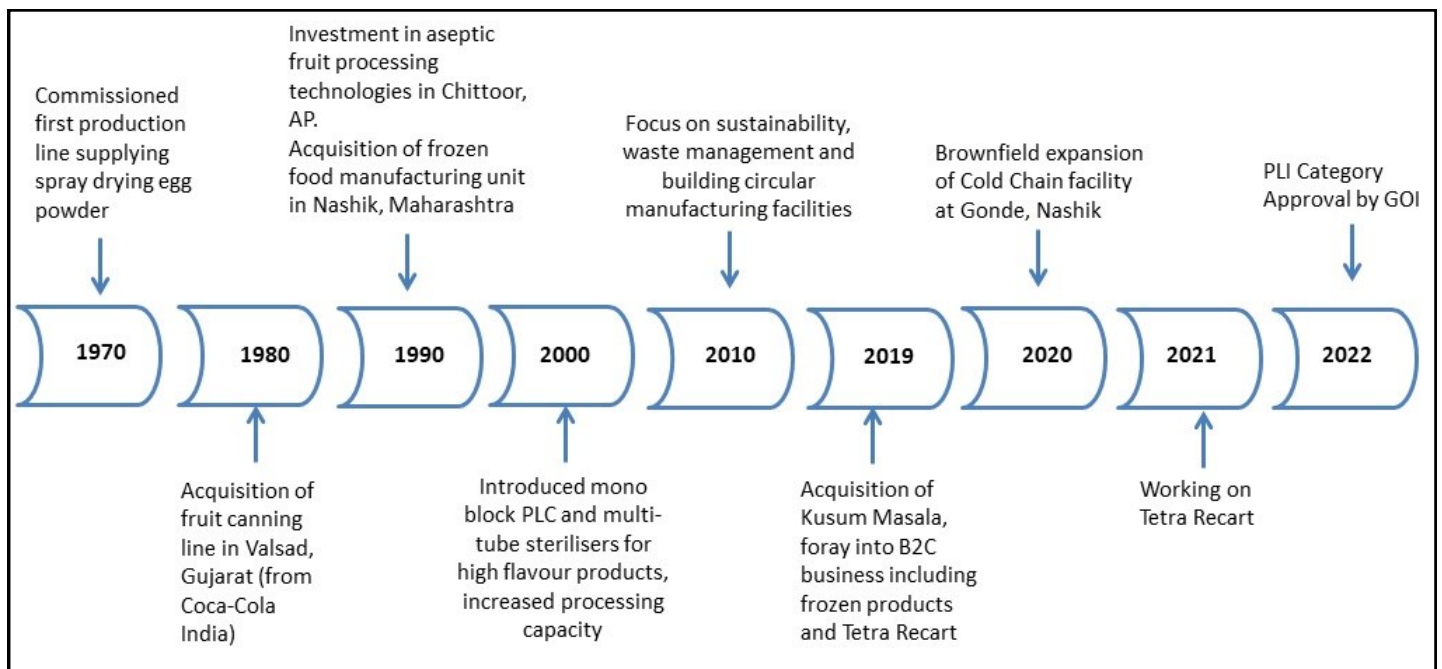


Source: [business-standard.com/article/companies/india-s-food-processing-market-may-touch-470-billion-by-2025-kpmg-report-121050900881\\_1.html](https://www.business-standard.com/article/companies/india-s-food-processing-market-may-touch-470-billion-by-2025-kpmg-report-121050900881_1.html), Progressive Research

**About the Company:**

Established in 1967, Foods and Inns Limited (F&I) is a well-known name that has pioneered in the food processing industry. The company primarily manufactures and markets a range of processed tropical fruit pulps, purees, and vegetables. The company commenced its journey ~50 years ago with mango processing business and today, F&I is one of the leading manufacturers of mango and guava pulp in India while catering to the Fortune-500 FMCG companies on a global level. F&I is a government recognized export house with a product basket including tropical fruit purees and concentrates of mango, guava, and papaya, apart from the tomato paste, natural fruit and vegetable powders. Over the years, F&I has grown to be a major exporter of aseptic, canned and frozen fruit pulp, F&V chunks, RTE food and processed spices with established markets in the USA, Europe, Australia, Middle East and some Asian destinations. The company has a rich experience and expertise of catering to more than 30 varieties of products processed via a workforce of 374 employees (March 31, 2021) and 3,000+ workers on contractual basis. Some of the marquee clients include Coca Cola, BARR, Nestle, Unilever, Pepsico, Riedel, Kraft Heinz, Lacnor, Symrise, Argana, Epigamia, Paper Boat, Dohler, Les vergers Boiron etc. Hindustan Coca Cola Products Limited and Pepsico India Private Limited constituted to around 27.92% of total operating income in FY21 as compared to 29.49% in FY20. The company also caters to foreign clients like Al Buheira Lacnor (UAE), AG Barr PLC (UK), Tropimco S.A. (France) etc. The company has a strong Management team coupled with many experienced independent directors from various fields. Mr. Bhupendra Dalal is the Chairman of the company and has been the driving force for converting the company into a food conglomerate. Mr. Milan Dalal, is the promoter, non-executive, non-independent director and is instrumental in head-gearing the capital restructuring and various acquisitions across the portfolio of the company.

**Exhibit 08: F&I Milestones**



Source: F&I Company website, Progressive Research

**About the Company (contd.)**

Headquartered in Mumbai (Maharashtra), the company has two state-of-the-art factories in Nashik i.e. Sinnar and Gonde, (Maharashtra), three factories in Chittoor, (Andhra Pradesh) and one factory in Valsad, (Gujarat). The company owns brands or trademarks like Madhu (Fruit Pulp), Green Top (IQF Vegetables), Kusum Masala (Spices), Triveni Global (Frozen Food) and Zatpat Zaldee (QSR and Frozen Food) and is selling products under these brands. Under the segment of fruit-vegetable pulp, concentrate & chutneys the company has introduced other fruits and vegetables like tomato, ginger, garlic, banana, chilli, tamarind, papaya etc. In October 2019, F&I became a 99.99% partner in Kusum spices (Spice brand established in 1972) and has widened its offerings in the foods segment. The Indian spice market is estimated to be ~Rs400bn industry (Source: APEDA). FNI Asia PTE Limited (Singapore) a wholly owned subsidiary company has struck-off from the register of companies w.e.f March 4, 2021 and August 31, 2020 was the last date the accounts were prepared. As an initiative towards sustainability and value addition, in April 2021, the company entered into a JV with a food technology company to convert its fruit waste into Pectin, Oils & Butter. This JV company is named Beyond Mango Pvt. Ltd. In May, 2021 the company also signed an agreement to undertake a factory premise on a job work basis to expand its capacities in the F&V processing segment. As the company adds new products, F&I also intends to add value by expanding its product portfolio where ~56-60% of the total revenue is earned from exports (footprint is in more than 50 countries). The market-wise percentage of revenue share of the total products basket consists of ~35% from Europe & UK, Middle East & Africa each, ~34% from India, ~10% from Japan, ~8% from China, ~4% from America and ~2% from Rest of Asia and Australia and New Zealand.

**Exhibit 09: Portfolio Spread (F&I)**

Pulp & Puree	Paste & Concentrates	Chutneys	Snacks	Vegetables	Spray Dried Powder	Spices & Masala	Tetra Recart*
<ul style="list-style-type: none"> <li>•Mango</li> <li>•Guava</li> <li>•Papaya</li> <li>•Grape</li> <li>•Tomato</li> <li>•Beetroot</li> <li>•Carrot</li> <li>•Chilly</li> </ul>	<ul style="list-style-type: none"> <li>•Mango</li> <li>•Tomato</li> <li>•Multi-fruit</li> <li>•Gauava</li> <li>•Tamarind</li> <li>•Ginger</li> <li>•Garlic</li> <li>•Papaya</li> <li>•Beetroot</li> </ul>	<ul style="list-style-type: none"> <li>•Mango</li> </ul>	<ul style="list-style-type: none"> <li>•Samosa</li> <li>•Onion Bhaji</li> <li>•Pakoras</li> <li>•Veg Roll</li> <li>•Nuggets</li> <li>•Burgers</li> </ul>	<ul style="list-style-type: none"> <li>•Okra</li> <li>•Beetroot</li> <li>•Cauliflower</li> <li>•French Beans</li> <li>•Green Peas</li> <li>•Carrot</li> <li>•Broccoli</li> </ul>	<ul style="list-style-type: none"> <li>•Mango</li> <li>•Tamarind</li> <li>•Lemon</li> <li>•Guava</li> <li>•Pomegranate</li> <li>•Yogurt</li> <li>•Cheese</li> <li>•Mint</li> <li>•Banana</li> </ul>	<ul style="list-style-type: none"> <li>•Aloo Chat Masala</li> <li>•Bhindi Masala</li> <li>•Biryani Masala</li> <li>•Clove Powder</li> </ul>	<ul style="list-style-type: none"> <li>•Purees &amp; Pulp</li> <li>•Soups</li> <li>•Ready Meals</li> <li>•Sauces &amp; Chutneys</li> <li>•Fruits &amp; Vegetables</li> </ul>

\*Tetra Recart will be added to the product range only from end of FY2022

Source: F&I Company website, Progressive Research

**Investment Rationale:**

**(A) Healthy Fundamentals:** F&I has an experience of more than 5 decades in the food processing industry. In the path to achieve greater heights, the company has been building strong capabilities as well as capacities under the guidance of its experienced Management team. Coupled with good capacities, F&I has also been growing via organic as well as inorganic acquisitions. F&I is gradually shifting from a pure-play B2B business to a diversified player with presence across B2B and B2C verticals. In pursuing the vision, the company has started selling its products under the following brands i.e Madhu (Fruit Pulp), Green Top (IQF Vegetables), Kusum Masala (Spices), Triveni Global (Frozen Food) and Zatpat Zaldee (QSR and Frozen Food).

**(i) Kusum Masala:** Strategic inorganic acquisitions have always been a part of the business strategies for F&I. F&I has been constantly looking at diversifying the business in the known domains and in October 2019, had acquired (a 49-year-old partnership firm) Kusum Masala (established in the year 1972), founded by Mr. Kusum Chandra Shah has been delivering superior quality products which are certified by USA FDA certification. The acquisition of Kusum Masala (a household name), has contributed significantly to the transition from being a purely B2B player to a B2C player in the branded spice business. With a spread of more than 70+ products (ground, whole and blended spices), a combined installed capacity for blending and grinding of ~10,080 MT, and a capacity utilization of ~60%, the company is poised to look at better operational revenue in times to come. The industry size in India is estimated to be more than ~Rs400bn. F&I is currently looking at bringing in synergies by expanding via Kusum's distribution channels and through brand extensions. The steps involved for making spices include **(a) Procurement** (experts select the best new crops from farmers), **(b) Drying** (care taken to preserve the aroma and flavor), **(c) Cleaning** (remove all organic and inorganic impurities), **(d) Grinding** (unique multi-stage grinding process with a controlled temperature system), **(e) Quality Control** (modern and fully equipped government approved laboratory to check quality of spices) and **(f) Packaging** (moisture proof convenient packs under fully automated packing systems). All these processes are diligently followed at Kusum Spices manufacturing plant. The company has been focusing to deliver the best products to its customers on the domestic as well on the international frontiers (including United States, United Kingdom, Oman, UAE, etc.). The company is also involved in contract manufacturing as per the needs and requirements of select key clients. The Management is anticipating Kusum's private labeling to grow in revenues as well as margins while creating value for all the stakeholders.

**Investment Rationale (contd.):**

(ii) **Frozen Food and F&I:** F&I has been in the business of packaging frozen food since 1992. The company is involved in co-packing frozen food for international brands across frozen snacks & breads as well as frozen F&V. The focus of the company is to grow through every possible opportunity available. The company has been experimenting and has launched innovative products in the Frozen Food segment and co-pack for some large retailers in Canada. The Export: Domestic Ratio in this domain is ~85:15. F&I aims to sell the frozen food under the brand names GreenTop, Triveni Foods and ZatPat Zaldee. In the long run, F&I is also looking at expanding the SKUs in this segment post the launch of the Tetra Recart vertical. **Triveni Global Foods** is involved in manufacturing, distributing and exporting RTE frozen foods. All the products here are prepared in hygienic condition using the best state of the art facility and the best processing techniques. The product manufacturing equipment includes automated machines like forming lines, vegetable washers, cutters, dicer, conveyor belts, dough mixers, hot plates, heavy-duty boilers, metal detectors coupled with a good laboratory for inspection. The facility also includes BLAST, SPIRAL, IQF, freezer and cold storage rooms. These products are certified with ISO 22000:2005, HASSAP & BRC certifications and are manufactured as per the requirement from the clients.

(iii) **Spray Dried Powder and F&I:** Spray Dried powder is the fastest growing segment for F&I. The company has a number of offerings for spray dried powder of mango, tamarind, guava, orange, tomato, lemon, cheese, caramel, apple, alma, papaya, banana, green mango, pomegranate, pineapple, beetroot, yogurt, honey, strawberry, ripe chikku, mint, ripe papaya, watermelon etc. The company has an extensive customer base which has led to a robust order book under this segment and is anticipated to be a significant value driver for F&I. As the current capacities are running full, the company has planned a brownfield expansion at the Gonde (Nashik) Spray Drying facility. The company is looking at almost doubling the existing capacity of 500 MTPA to ~1,050 MTPA by the end of Q1FY23.

(iv) **Future Expansions:** F&I continues to believe in India's consumer growth story and the Management continues to build its competence and capabilities around the same. The company is looking at gradually increasing its market share of the core products. In pursuit of the same, the Management is looking at deploying additional resources to become global leaders in this space. The company is already undertaking **greenfield** as well as **brownfield expansions** plans which are anticipated to be commissioned by end of FY22. In addition to this, the company is constantly looking at opportunities for inorganic expansions with a strategic fit to the existing business. F&I has already entered the journey to the next phase of growth via sustainable growth initiatives. All the segments are gradually entering into the expansion phase. The company has expansion plans for the Aseptic, Canning & Instant Quick Freeze (IQF), Tetra Recart, Plate Freezer, Blast Freezer, Jams and Chutney lines. The company is working for greenfield expansion for the state-of-the-art infrastructure at Vankal, (Gujarat); cold chain facilities expansion via a brownfield expansion in Gonde, (Nashik); doubling capacity at Gonde, (Nashik) for spray drying and expansion as well as shifting of capacities for Kusum spices. F&I has started focusing on sustainability initiatives via agricultural interventions with a vision to transform the fruit and agricultural value chain on a global level. In the journey towards growth, the formulated model concentrates on segments that can offer the best opportunities for returns with customers as the core.

**Exhibit 10: Future Expansion**

Segment	Expansion
Aseptic, Canning & Instant Quick Freeze (IQF), Tetra Recart, Plate Freezer, Blast Freezer, Jams and Chutney lines	<b>Greenfield Expansion:</b> State-of-the-art Infrastructure at Vankal, Gujarat
Cold Chain Facilities	<b>Brownfield Expansion</b> in Gonde, Nashik
Spray Drying	Doubling Capacity at Gonde, Nashik
Kusum Spices	Expansion and Shifting of Capacity

Source: F&I AR2021, Progressive Research

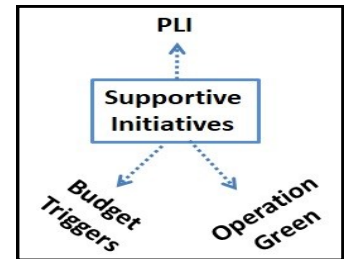
**(B) GOI Supportive Initiatives:**

**PLI:** GOI had announced a total outlay of Rs109bn under the PLI scheme for the food processing industry under the guidance of MoFPI. The scheme has been formulated to enhance the nation's manufacturing capabilities and exports under the *Aatmanirbhar Bharat* scheme. The main of GOI is to create global manufacturing base in India, increase farmers' income, increase off-the-farm jobs and also strengthen the Indian brands abroad. GOI has provided an encouraging platform to the domestic food processing sector. On the 5th of January 2022, F&I received an approval from GOI under Category 1 and Category 3 of the PLI scheme (for food processing industries). F&I can contribute immensely towards building a strong ecosystem for strengthening the agro processing space in India and in establishing its own brands abroad as well as provide a fillip to the B2C foray of F&I. Under both the categories, F&I stands to receive anywhere between Rs1100mn to Rs1500mn between FY22-FY27 based on the performance metrics. In order to do so, F&I is expected to grow its sales at a minimum CAGR of ~10% over FY22 to FY27 (to receive incentives under Category 1) with the maximum cap of incentives at a CAGR growth rate of ~15%. Under the Category 3 approval, F&I is expected to incur Branding & Marketing expenditure to build its own brands outside India during FY22-FY26. Under this incentive scheme, GOI will reimburse the company 50% of the branding & marketing spends on a yearly basis. These incentives will be in the form of direct bank transfers to the company upon achieving yearly milestones as committed under the scheme.

**Investment Rationale (contd.):**

**(B) GOI Supportive Initiatives:** In Union Budget FY22-23, GOI has enhanced its focus on **chemical-free natural farming** and has announced various programmes under the PPP mode with private agri-tech players and stake holders of agri value chain for delivery of digital and hi-tech services to farmers. These initiatives will benefit F&I as well, as the company has partnered with **IDH** from Netherlands to drive sustainable mango farming in India. This partnership will help the system by addressing environmental issues such as climate impact, pesticide management, crop traceability etc as well as aid increase smallholding farmer income. MoFPI has nominated F&I as the anchor for fruit 'Mango' as they are one of the largest processors of the fruit and have also asked the company to provide inputs under **Operation Greens** for setting up value chain development projects. This was launched by MoFPI with the idea to reduce post-harvest losses for the farmers by creating farm gate infrastructure, supporting suitable agro-logistics and help create storage capacity linking consumption centres. India is one the largest Mango processors and the ministry of food processing propose to capitalize on the same. The Ministry is looking at creating value chain development projects to help create significant value for the farmers, offer accessibility of farming technology, selling fresh produce at attractive prices, make inter-state trade barrier-free and facilitate e-trade of farm produce. This was initially introduced for a few fruits and vegetables only, but now the authorities intend to extend the same under the *AtmaNirbhar Bharat Abhiyaan*. **MoFPI** is taking all appropriate measures to raise investment in the food processing industry, approve food parks (under the Mega Food Parks Scheme) and promoting investment in the food processing value chain. GOI has drawn a development plan for the industry where some Indian companies have already entered the food processing market and some top international food product manufacturers are looking at introducing multiple processed products.

Exhibit 11: Triggers



Source: F&I website, Progressive Research

**(C) New Businesses:**

As mentioned earlier as well, F&I is committed to achieve growth via sustainable long-term strategies. In pursuit of the same, the company is looking setting up two more divisions' i.e.

**(i) Tetra Recart:** basically, is a sustainable carton packaging solution (made out of a new paperboard laminate material) for canned foods which is environmentally friendly option (has low carbon emissions than steel cans and glass jars) while being a good new business opportunity. It is a combined processing and carton-based packaging system (for in-container sterilization of food) as also an efficient way to store and transport (due to its rectangular shape and lesser weight). These packaging solutions help in reducing carbon footprint, improve growing commitment to sustainability via packaging made from responsibly managed forests and other sources. This technology can be a potential game changer for F&I as it is gradually emerging as a sustainable carton packaging solution for canned foods. These tetra recart packs help maximize product's potential and generate new business opportunities with eye-catching designs. F&I will be the 10th company globally with the technology to install such machinery and will have an exclusive agreement in India for a couple of years (at least first 2 years). The company is putting up this machine at the greenfield plant located at Vankal with an approximate investment of around ~Rs180mn. The operations of this business are also anticipated to commence soon. F&I is also looking at associating some prominent brands to fulfill their packaging needs via tetra recart.

**(ii) Pectin:** F&I has been an organization which believes in circular economy and tries its best to reduce the waste that is generated post processing. Under this project of Waste to Wealth (in April 2021), F&I has entered into joint venture agreement with D Technology Pvt Ltd (and Mr. Shree Krishna M Gupta) to convert the waste (from mango peels and kernels) into pectin, oil and butter. The joint venture company is named Beyond Mango Pvt. Ltd. Pectin is a vegetarian alternative to gelatin and is also used as a thickener with applications as a fat/sugar replacer in jams, jellies, frozen foods etc. It is estimated, that when pulped, ~50% of a mango goes into waste and has to be disposed-off (which is also a cost to the company). With this initiative of conversion of pulp waste into pectin, the company is looking at adding a value segment, while managing waste generated. The company via this idea will be able to address the post manufacturing waste from mango, dispose it effectively and convert it into pectin to generate some value from what would have otherwise been discarded waste. Though the management of waste is a huge pollution control challenge with a disposal cost, this initiative will help remove these challenges. Nearly 95% of India's Pectin requirement is met through imports from Brazil, China and the US. F&I is putting up a pectin manufacturing facility at the Chittoor facility, which is also one of India's largest mango pulping belt. Some large MNCs and companies in India have already approved the lab test results of the produce and the Management is looking at running this operation before the next mango season.

Exhibit 12: New Business Initiatives



Source: F&I AR2021, Progressive Research

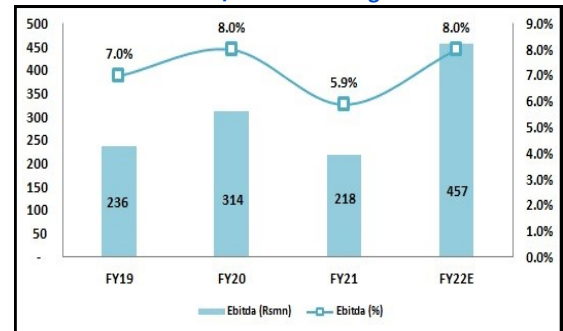
**(D) Sunshine Industry:** The pandemic has been a blessing in disguise for the food processing and packaging industry. This has sparked a wave of innovation within the food industry while facing many challenges to update processes (in terms of automation) to meet international benchmarks. The Indian food processing industry is sooner or later going to enter the boom stage where farm to fork concept will open avenues for many players in the industry as well as big brands. To tackle the issues related to labour availability more and more companies will be looking to incorporate top-of-the-line technologies and increase the level of automation, hygiene and global standards. The proximity to key export destinations and greater integration with the global economy can help the industry grow in India where many Indian manufacturers are already competing with global suppliers and serving international customers. Key growth drivers in the organised food retail sector include the increase in urbanisation, advancements in skills and technology of MSME's, shift in focus from loose packaging to branded packaging, online food ordering, high demand for packaged, government's 'Atmanirbhar Bharat' initiatives. With a focus on value addition, the increasing agricultural produce of India desperately needs a post-harvest food processing revolution. In pursuit of the same, it is critical that storage facilities and processing are available near the fields and many existing micro-processing units need to be equipped to expand. In addition to this, GOI also needs to increase the number of agro-industry clusters so that the agro based villagers can get employment and integrate the agricultural produce into a global processed foods market. The online food delivery market in India has reached a value of ~USD4.35bn in 2020 and is expected to register a CAGR of 30.1% over 2021-2026 further (Source: arcgroup.com/india online food delivery market). Rising disposable income, need for on-the-go foods, convenient foods, RTE, cheaper options for quick home delivery are some factors which can escalate the demand for online food delivery. As the demand and the opportunity size keeps soaring higher, the same will also benefit F&I which has a proven track record, decades of manufacturing experience and enhanced capabilities. F&I has already entered the journey to the next phase of growth via sustainable growth initiatives. All the segments are gradually entering to the expansion phase. The company has expansion plans for the Aseptic, Canning & Instant Quick Freeze (IQF), Tetra Recart, Plate Freezer, Blast Freezer, Jams and Chutney lines. The greenfield expansion for the state-of-the-art infrastructure at Vankal, (Gujarat); cold chain facilities expansion via a brownfield expansion in Gonde, (Nashik); doubling capacity at Gonde, (Nashik) for spray drying and expansion as well as shifting of capacities for Kusum Spices will definitely help push the revenues. The company seems to be exploring opportunities in new products and markets, trying to create a stronger digital backbone while being customer centric, strengthening the existing market presence and venturing into newer avenues. The key growth drivers for the company in times to come will include value based inorganic acquisitions which could be a strategic fit to the existing businesses, creation of own brands for retail customers (through subscription models, Tetra Recart and Pectin segment which are anticipated to aid in vertical integration initiatives ensuring sustainability. **Operation Greens** launched by MoFPI intends to reduce the post-harvest losses for the farmers by creating farm gate infrastructure, supporting suitable agro-logistics and help create storage capacity linking consumption centres, thereby, ensuring fair prices to all farmers. India's is one the largest Mango processors and the ministry proposes to capitalize on the same. The ministry wanted F&I to be the anchor for Mango fruit and has requested to share inputs under the operation for setting up value chain development projects to help create significant value for the farmers. Operation Green is also envisioned to offer accessibility of farming technology and selling fresh produce at attractive prices. As per the scheme, inter-state trade will become barrier-free and the GOI will facilitate e-trade of farm produce. This was initially introduced for a few F&V only, but now the authorities intend to extend the same under the *Atmanirbhar Bharat Abhiyaan*. As the prospects demonstrate a steady growth in demand, inclusion of products to F&I portfolio will fuel growth (in addition to the marquee clientele for Mango and Guava). The company is already in the process of greenfield expansion in Vankal for F&V pulp processing, tetra recart and cold chain facilities.

**Risk and Concerns:** The company faces constant threats related to economy and its associated risk which can lead to muted **consumer spending** and directly or indirectly affect the business. The company needs to constantly widen its reach to mitigate the risks. Fluctuations in **input costs** can lead to higher cost of production, which can be passed on to most of the B2B companies and better management as well as the economies of scale play a critical role here. The company gradually will have to increase its presence in the B2C market. The raw material required for food processing sector is seasonal and labor-intensive and the same requires creation of a risk fund that mitigates the stress in the food processing sector. Currency fluctuations can lead to **forex losses** as the company has substantial portion and exposure to the exports market. The company is under the constant threat of fluctuating or **changing regulatory norms** in the food space in the Indian as well as the global markets. The company has to maintain the **quality standards** for processing, handling, packaging and other associated fields related to the operations of the food products. Normalization of the **freight cost** is an essential factor for the export markets in order to be cost competitive as compared to competitor in other countries. Any changes in the **farm laws**, which does not favour the industry can have a negative impact on the overall anticipated prospects; such changes if any, can also affect the PLI schemes which are recently introduced. Some of the other factors which can affect growth prospects include the lack of standardization and quality in the processed food, rain-dependent farming, and the high cost of cold chain facilities. In addition to these, risks associated to farm level, distribution level or consumer level include, dependence on low yield or quality of food produce, conventional methods of farming, lack of proper logistics and handling facilities, lack of proper cold storage facilities near the farms, unaffordable mechanization, high advertising cost, high cost of packaging, poor coordination between farmers and food processing unit too are potential threats to the business.



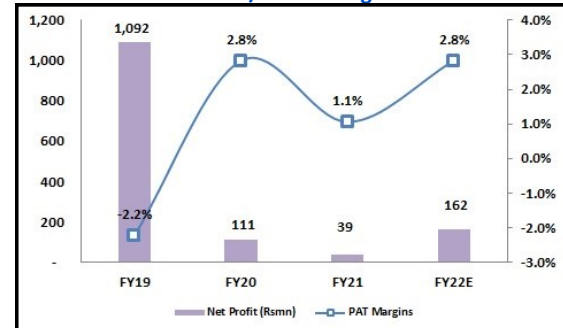
**Financials:** In the recent past, the company has seen deterioration in Net Profit Margins, Return on Net Worth, Interest Coverage Ratio, ROCE and ROI which was primarily because of Covid-19 led issues and lower production translating into lower sales and lower absorption of fixed cost. However, with the issues related to pandemic easing out and incurred capex (ongoing greenfield and brownfield expansions), **efforts are made** to increase the Ebitda margins, RONW, ROCE and ROI ratios. In FY21, the premium segment of naturally ripened alphonso mango pulp faced major production impact while the second half of the year was impacted by a steep increase in container freight cost and F&I had to absorb the incremental shipping cost due to the delivery duty paid (DDP) based shipping quotes given to B2B customers; the company is looking at mitigating these risks in the current scenario. Expansion of the capacities both organically and inorganically has been helping the growth of the company. Post Covid-19, the packed food and snacks demand is growing substantially which is resulting in increased demand for spray-dried product categories. To cater to the demand, the company intends to complete the brownfield expansion with commercial operations by end of Q1FY23. This is planned to help double the existing capacity for spray dried products. F&I has also installed the Tetra Recart plant at the new Vankal facility and is expected to be fully operational by April- May 2022. The company is already looking at associating with prominent brands to fulfill their packaging requirements in the Recart form. F&I has diversified its product portfolio to reduce its dependency on Mango business and is chalking out a strategic path to mitigate the same. The Management is taking proactive steps to **increase the return ratios** and tweaking the assets to generate higher returns. In FY19-20, the company had reported exceptional items to the tune of Rs1167mn, owing to sale of property in Chembur (Mumbai) and loss of intangible assets. Now, the company is in the process of shifting its spice manufacturing facility from Goregaon (Mumbai) its which was an acquired rented premise into its own campus in Gonde (Nashik). This will help save the rental costs incurred in the prime city space of Mumbai. As per the recent press release, the manufacturing activities in Gonde is also anticipated to be commenced in a months' time and further installation of sterilization and ETO units in the newly built campus under the PLI scheme are under consideration. With more or less favourable domestic markets F&I is looking at gaining market share from competitors. The Management is **working towards improving the EBITDA margins** on a sustainable basis by trying to increase the share of value added & branded products (across its food offerings), increasing the operating leverage by producing allied products during non-peak season and converting waste into value additive products. As per the recent press release in Feb 2022, the company is seeing good opportunities for growth in the EU, UK, US, Canada, Japan, Middle East & South Korean markets for products across its portfolio. This strong demand pipeline is not just restricted to the mango pulping business but also for other fruit pulp like guava, tomato etc.

**Exhibit 13: EBITDA v/s EBITDA Margin**



Source: F&I AR2021, Progressive Research

**Exhibit 14: Net Profit v/s PAT Margins**



Source: F&I AR2021, Progressive Research

**Exhibit 15: Industry SWOT Analysis (India)**

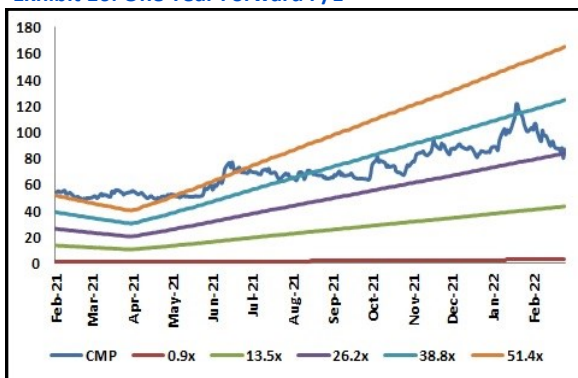
Strength	Weakness
<ul style="list-style-type: none"> <li>• Availability of Raw Material</li> <li>• Leading Producer of Agri-Products</li> <li>• Growing Domestic Market</li> <li>• Proximity to Export Markets</li> <li>• Wide Network of Manufacturing Facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Capital Intensive</li> <li>• High Working Capital Required</li> <li>• Price Rise and Wastage</li> <li>• Less Remuneration</li> <li>• Poor R&amp;D Linkages</li> <li>• Poor Coordination Inter-Industry Players</li> </ul>
Opportunity	Threat
<ul style="list-style-type: none"> <li>• Rising Income Levels</li> <li>• Gradually Changing Consumption Patterns</li> <li>• New Favorable Reforms</li> <li>• Vast Agro Processing opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Preference to Fresh Foods</li> <li>• Global Competition</li> <li>• Shortage of Skilled Manpower</li> <li>• Rapid Development Requirement can lead to Obsolescence</li> </ul>

Source: F&I AR2021, Progressive Research

**Outlook and Recommendation:**

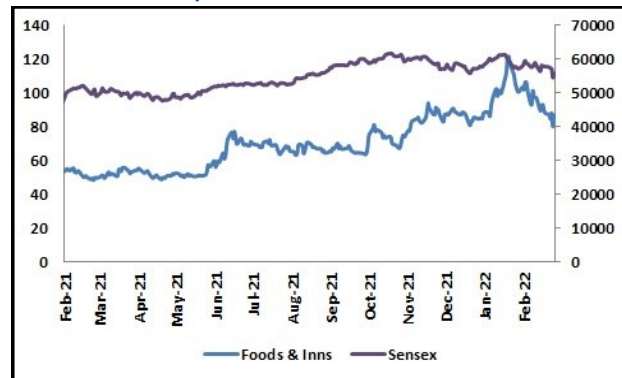
As India is gradually graduating from scarcity to surplus producer (food production) the processed food segment will continue to provide immense opportunities in the years to come. Growth in the food retail sector, favourable economic policies, and attractive fiscal incentives will be the key drivers for the growth of the budding Indian food ecosystem. The Management team of F&I has been constantly striving to create value while driving sustainable growth for the future which is backed by forward and backward integrated value chains to strengthen the existing businesses. The company continues to believe in India's consumer growth story and the Management continues to build its competencies and capabilities while gradually establishing its presence on online platforms. In addition to this, F&I is also looking at building world class manufacturing facilities with emphasis on indigenous sourcing, focusing on cost efficiencies (through economies of scale) and asset light operating models, establishing the company as the most trusted consumer brands with sharper execution, creating innovative and environmentally friendly products via R&D while adhering to high ethical standards. Driven by strong governance culture, highly motivated Management team, integrated infrastructure, competitive pricing, adherence to international quality standards, timely delivery, attention to packaging and hygiene to make the products offered attractive and competitive, the company is looking at becoming a pioneer in the Indian food processing industry. F&I with its professional yet very experienced Management team is trying to find opportunities for continuous growth while trying to unlock its intrinsic value with expansion plans via modern processing facilities and ensuring maintenance of high standards of product quality and consistency. In the long-term, the change in the attitude to grow is quite visible in terms of numbers, margins, profitability which will benefit the company; we envision F&I to be a significant player in the F&B sector and thus we initiate a **BUY** on the stock with a **target price of Rs128** with a horizon of 12 months.

**Exhibit 16: One Year Forward P/E**



Source: Ace Equity, Progressive Research

**Exhibit 17: Price v/s Sensex**



Source: Ace Equity, Progressive Research

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