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Freshtrop Fruits Ltd.

1st Sep. 2007

Buy		Expectation	2-3 Yrs	200%
Medium Risk		CMP: 110	244.52	18 months
Medium Return				

Rational

Freshtrop Fruits is set for some major expansion. Project implementation time is less than a year. The effect should be immediately be seen in revenues and earnings. The business model is scalable and competition today is not as aggressive as could be. The size of the co. in comparison to its largely unorganized competitors would be an added advantage. Past expansion drives have always contributed to EPS and you can expect the same this time too.

	2005	2006	2007	2008
Price H/L	72/8	171/44	134/70	
EPS	6.79	8.20	13.36	15.90
CEPS	7.40	9.00	14.55	17.31
Rev. GR	-	34%	45%	20%
EPS GR	-	17%	39%	16%
D/E	0.69	0.65		

Proof

Doubling the capacity of grapes exports from Sangli unit by Jan 2008.
Mango processing and exports from new plant expected by Mar 2008.
Placed order for equipments in August and expects delivery in Dec 07 for the new units.
Existing Facilities exempt from tax till Mar 09.
Expects JVs with other cos for supply to Indian Retailers in next 2-3 quarters. FFL would hold 51%
Juice plant in Nashik delayed to make it mutli products plant rather than just pomegranate juice.
Added new client for Pomegranate in Israel - Agrexco, a fruit dealer.
Full Impact of roll outs expected in FY'09
Mangoes will contribute mainly in Q2 and grapes sales preponement to contribute in Q4 & Q1.
Earlier it had 75% revenues in Q1.

Risk

Recurring draught & dependency on the vagaries of monsoon poses a risk to certainty in revenues.
Currently a seasonal business where first quarter produces 75% of revenues.
Upcoming retailers could go ahead and buy directly from growers. This could lead to price increase and derailment of domestic plans. Also possibility of FFL losing its growers.
Disease in plants could wipe of revenues (2 yrs back disease in pomegranate slowed exports)
Ensuring consistent supply for fresh produce at each of the units cannot be guaranteed.
17yrs back US banned all mango exports from India after finding infected mangoes. Though India now has the technology to tackle this, risk cannot be denied.

Turn over for detailed business analysis

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Business

FFL is engaged in the exports of grapes, pomegranates & mangoes mainly to European Supermarts.
Owns 9% of the total fruit exports of India of which grapes form 70% and rest mainly pomegrantes.
Works with 1000 growers spread across Maharashtra, Karnataka & A.P.
Started operations in Mangoes from the current fiscal.

Business Trend

Has been growing over 25% CAGR
Instant increase in revenues after commissioning of each facility in 2002 and 2005.
Seasonal business where max revenue comes in the first quarter of the year.

Company

Setup in 1992 and went public in 1994.
3 post harvesting facilties at Nashik, Sangli & Satara each with a capcity of 20 tons of fruit per day.
Total capacity of 150 tons of cold storage capacity and mechanized packing system.
Setup ERP & SCM for full treaceability of prodcuts from its origin.

Fin.

Rs. Mn	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Revenue	NC	232.75	311.05	452.56	543.072	705.9936	847.19232
EBITDA	-	39.51	50.48	85.4	102.48	133.224	159.8688
Interest	-	1.43	1.7	3.22	4.508	6.3112	8.83568
Dep.	-	2.76	3.79	5.95	7.14	9.282	11.1384
Tax	-	4.63	5.83	9.12	10.944	14.2272	17.07264
Net	-	30.71	39.16	67.11	79.888	103.4036	122.82208
Capital	-	45.23	47.73	50.23	50.23	50.23	50.23
Reserves	-	28.83	58.71	113.58	177.4904	260.21328	358.470944
Debt	-	50.81	69.03				
Liabilities	-	68.74	106.93				
Op. CF	-	-3.51	41.91				
Inv. CF	-	-8.79	-54.91				
Fin. CF	-	16.16	22.02				

Decision Criteria

Toned down estimate of revenue growth below the mgmt expectation of 30-40%

30% growth estimated in '09 as expansion drive should complete and contribute to topline and bottomline immediately. Very conservative estimate of 30% instead of the actual capacity increase of 100%

18 month target of 220/- on a conservative price multiple of 10 factoring in all possible risks and uncertainities in the downward revised growth rate estimates.

Slightly higher debt and debt equity taking in account expansion plans in the next 2 yrs.

Dilution of equity in the next two years seems less likely hence considered constant.

Value

Trading at an attractive valuations and significant opportunities lying ahead.
Past performance of >25% CAGR for last seven years boosts confidence.
Ideally positioned to benefit from the structural changes in the industry due to its past track record and bigger size as compared to the largely unorganized players.
Subsidies in air freight & other duties for fruit exporters;encouragement by govt; 2 units 100% EOU
Recently declared Bonus Issue.
Insider buying in the month of August.
Soros Fund & Goldman Sachs picking stakes would increase visibility to help fetch better valuations.

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Growth

Recent trends in demographic where customer is ready to pay high for safer and better quality.
Management is confident of continuting the past track record of 30-40%
The current client base like Wal-Mart & Tesco would increase confidence of potential customers.
Increasing the number of grower base to increase the supply.
Mango facility to begin in Mar 08; Grapes expansion in Sangli from Jan 2008.
Juice business plan expanded to mango, pomegranates and grapes (earlier just pomegranate)

Plans

Investing 50cr in post harvest facility in Nashik, Surat & Ahmedabad. Expected in FY08.
15cr capex for facility for 18tpd pomegranate juice concentrate. Expected in Nov 07.
Plans to get into manufacturing of fruit juices.
Wants to position itself as a branded fruit supplier to the upcoming supermarkets/chains in India.
After US has allowed imports of mangoes, sees mango export as a big opportunity in the west.

Mgmt.

Chairman & MD, Ashok Motiani is an IIT Mumbai alumnus & has 15 years experience in business.
Promoter Holding at 40%. No other venture of the promoter.
Closely associated with the growers - started school, workshop/training and regular grower meets.
Increasing the no of growers based on track record and produce quality to form a stronger base.

Value Enhancing Factors

Payback of each facility after commision is just 1-2 years i.e. instant contribution to revenues.
Took just 4 months to setup the last unit in Satara, so can rule out project delays etc.
Increased mango exports would spread revenues across different quarters other than Apr-Jun.

U.S. just opened up mango imports thus opening up a huge opportunity. This is also an indication that U.S. market would be opened up for grapes/pomegaranates in the near future. Current certification of EurepGap & BRC would help in easier clearance in U.S. and faster customer base.

The ERP and SCM would help in easier scalability for supermart operations & customer acquisition.

Indian's share in the world trade of fruits & vegetables was less than 1% due to lack of proper facilities like cold storage and pest treatment. This has improved considerably in recent times and India's share should improve considerably.

Lack of fresh prouduce due to logistical issues have been overcome off late improving availablity.

Turn over for detailed business analysis

Basis For Expectations

New facilities in Ahmedabad, Surat & Nashik.
Success in plans of supplying to domestic retailers
Success in the juice and juice concentrate business.
Imporving Cold storage infrastructre would improve availability of fresh produce.
Improving share of India in the global fruit trade and continues support by the govt.
Mgmt meets its expectation of 30-40% or past trend of >25% is maintained.
Increasing grower base and continued support from growers.
Opening up of new markets with mangoes expecially the U.S.

Risks

Recurring draught & dependency on the vagaries of monsoon poses a risk to certainty in revenues.
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Conclusion

A medium risk and return stock. Not for very conservative investors.
Invest with a time horizon of 18 months with price estimate of 220.
This estimate has been toned down to factor uncertainties in the underlying in the business.