



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

FRESHTROP FRUITS LTD.	BSE CODE: 530077
Industry: Food Processing	CMP: Rs. 116.95 (21/10/2018)
Market Cap: 142.04 (INR in Crore)	Target Price: Rs. 240.00
Date: Oct 21, 2018	Time Period: 12 – 24 months



Saral Gyan Capital Services

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An Independent Equity Research Firm

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1. Company Background



Established in 1992, Freshtrop Fruits is one of the first companies to enter into exporting fresh fruit to developed countries. The company has played a pioneering role in establishing exports

of grapes and pomegranates from India to Europe.

Freshtrop Fruits operates in two segments, fresh fruits and food processing. The company exports fresh fruits and vegetables to supermarket chains in various parts of Europe, Russia, and Far East, as well as in domestic markets. It also produces fruit pulp and concentrate for both the domestic and international customers. The company's focus on building and maintaining networks of growers at several different locations has enabled it to become a consistent and dependable supplier for the past 25 years.

Mr. Ashok Motiani is the Founder and Managing Director of the company. Under his leadership, Freshtrop Fruits has established a well reputed client base spread across Europe. Freshtrop has continuously and successfully supplied to Supermarkets such as ASDA, Tesco, Marks & Spencer, Albert Hynes, DelHaize, Carrefour, Migros and several others. Mr. Motiani initiated a systematic implementation of Information Technology across the operations of the company, making Freshtrop to have a highly evolved Internet enabled supply chain management and ERP system.

Freshtrop recognizes food safety as the single most essential concern in the fresh produce business. Freshtrop is the first in India and amongst a few in the world to offer 100% traceability of its produce through an online Internet based system which allows every entity of the fresh produce supply chain to track and know the complete history of the product right from its origin at a farm to the shelves of Supermarkets.

The company's system has been lauded as one of the best traceability and management systems by technologists from some of the world's most reputed retailers. 100% of Freshtrop's consignments for Europe are tested for pesticide residues before dispatch.

The company's registered office is in Ahmedabad, Gujarat, and plants are located at Nasik and Sangli, Maharashtra. Seeking to harness the existing backward linkages and with a view to bring the same high standards of quality and food safety to the processed domain, Freshtrop established a state-of-the-art juice processing plant at Nasik, Maharashtra in 2009. Freshtrop doubled the fruit handling capacity of its second post-harvest management facility in Sangli in 2012, it also doubled the fruit handling capacity of its oldest post-harvest management facility in Nasik in 2014. In 2017, the company completed expansion of the processing plant by setting up a cold extraction unit along with the latest HPP technology for shelf-life extension at Nasik.

Certifications:



Freshtrop's farmers were the first in India to be certified in 2003. 100% of the farms used for supply to Europe are certified to GlobalGAP standards.



BSCI is an initiative of the Foreign Trade Association (FTA). All BSCI participants are also FTA members and share the FTA vision of "Free Trade. Sustainable Trade". Freshtrop has been compliant with the requirements of BSCI since several years. Member of amfori, the leading global business association for open and sustainable trade. We participate in amfori BSCI.

Freshtrop's post-harvest facilities became the first such units to be certified for BRC standards in 2005 and have been consistently graded with high standards of safety and hygiene.



Freshtrop is a member of SEDEX (Supplier Ethical Data Exchange), an organization that enables member companies to manage efficiently the ethical and responsible practices of their global supply chains.



ISO 22000 is an international standard that defines the requirements of a food safety management system covering all organizations in the food chain from "farm to fork". A systematic and proactive approach to identification of food safety hazards, development and implementation of control measures. The standard complies with the Codex HACCP principles.



SGF International E.V. is regarded as a model of industrial self-control in the fruit juice industry and for other sectors of the food industry. This allows tracing not just the history of the products but also possible quality deviations back to their source where they can be eliminated.



This certificate indicates the adherence to Jewish Dietary Laws. Though Kosher is a religion based dietary law but it also ensures food safety by avoiding food contamination.

Halal is a Quranic term which means lawful, permissible or legal. This certificate enables export of fresh products to Islamic countries. The term Halal is used to designate food which is permissible according to Islamic / Shariat law.



Product Range:

POMEGRANATE ARILS – The company offers 52 week supply of Pomegranate Arils packed in shelf life extending MAP packaging available in consumer and bulk packs for retail as well as prepared food sector. Consumer find it difficult to manage the peeling and de-seeding. The company offers one of the best pomegranate varieties in the world, Bhagwa in an easy to consume pack with all the health benefits.



FRESH GRAPES – Naturally sweetened under abundant sunshine, grapes is a nourishing and mouthwatering fruit available from January to April. Freshtrop serves its customers from 2 BRC certified post-harvest facilities. These facilities are located in the two largest grapes producing areas of India – Nasik and Sangli, about 500km from each other. Freshtrop also offers Fairtrade Table Grapes sourced from certified small farms.



MANGO PULP – The company is also offering mango pulp, guava pulp and pomegranate juice packed in aseptic bags. The mangoes come from the production belts of Western India, well known for their distinctive quality. They are hygienically ripened in controlled conditions which are ideal for the fruit and then sorted such that only the fruit with optimal maturity reaches the production process.



SECOND NATURE – A range of 100% cold extracted fruit juices, fruit & veggie blends, fruit nectors and dairy free nut milks.



The company uses the latest international technology called HPP (High Pressure Processing) to maintain the quality of the juice. HPP is a natural environmental friendly process that respects the ingredients and ensures retention of the original flavour and nutrition of the fruits, veggies and nuts.

2. Recent Development

i) Govt to relax FDI regulations to boost food processing sector – Sept 2018

The government will relax foreign direct investment (FDI) regulations to give a boost to the food processing sector, which has attracted \$ 8.7 billion of investment.

As per ministry of commerce and industry DIPP joint secretary Rajiv Aggarwal, the government is in the process of removing bottlenecks as it sees huge FDI investment potential in the sector. The government will relax FDI regulations to give a boost to the sector.

MNCs and investors were facing some hurdles, which has now been removed in terms of modifications and harmonisation. They hope to provide ease of doing business in the sector. At present, 100 percent FDI in food processing sector is allowed in setting up of manufacturing unit. There is no permission required for wholesale business in the sector too.

The government is expected to announce a new industrial policy soon. The proposed policy will encompass the use of new technologies such as artificial intelligence and IoT which will open new avenues for investments in India.

The industry faces huge wastages from farm to table and need technology and investment in supply chain mechanism to boost the industry. Currently, India only process 7 percent of perishable goods as compared to 65 percent in US, 23 percent in China and 78 percent in Philippines.

The FDI in the food processing sector rose 24 percent in 2017-18 to \$904.9 million. According to an official data, FDI inflow into the sector stood at \$727.22 million during 2016-17 financial year. The sector attracted FDI worth \$505.88 million and \$515.86 million in 2015-16 and 2014-15 respectively

The government had in July also approved American e-commerce major Amazon's proposed \$500 million investment in retailing of food products in India.

ii) Freshtrop Fruits forays into juices segment – May 2018

Freshtrop Fruits Ltd, a leading exporter of grapes and pomegranates, has forayed into cold vacuum-extracted juices segment by introducing fresh fruit and vegetable juices under the brand Second Nature.

Freshtrop Fruits operates a modern juice processing plant at Nashik for Second Nature. The company has invested about Rs. 25 crore in the new project which had been funded through internal accruals and borrowings from banks.

The company's aim is to provide healthy and nutritious food with convenience and at reasonable price. The management believe that the best way to have fruits is when plucked from the tree. Under Second Nature, the company provides 100% cold extracted (not cold pressed) fruits and vegetable juices after sourcing them directly from the farmers.

To maintain the nutrition levels of fruits and vegetable range, the cold chain is essential. That is one of the reason why company has decided to go for a phase-wise expansion to supply its juices across the country. To begin with, the company has introduced its products in the Mumbai, Nashik and Pune markets in 14 flavours with plans to go in for pan-India retail expansion in a phased manner.

Healthy food movement is rapidly growing as a global trend and growing number of people are opting for fresh and high quality of products to improve and extend their quality of life. The company's products are priced between Rs. 80 to Rs. 150 for a 250 ml bottle and company's effort is to make it affordable so that more people can access its range.

3. Financial Performance

Freshtrop Fruits standalone net profit rises 29.49% in the June 2018 quarter

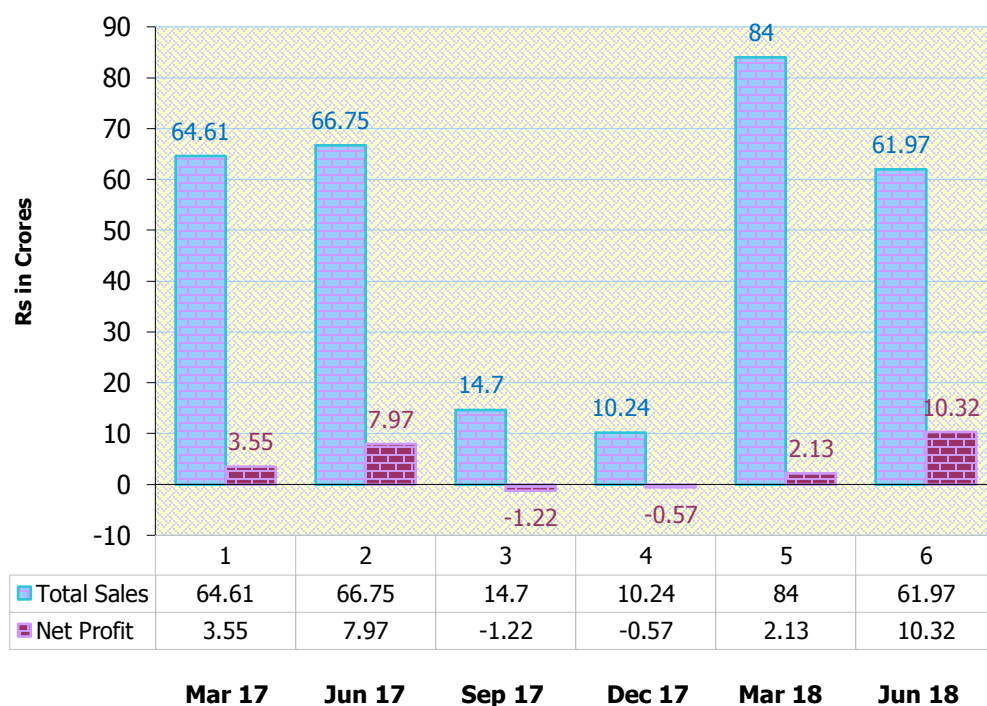
Net profit of Freshtrop Fruits rose 29.49% to Rs 10.32 crore in the quarter ended June 2018 as against Rs 7.97 crore during the previous quarter ended June 2017. Sales declined 7.16% to Rs 61.97 crore in the quarter ended June 2018 as against Rs 66.75 crore during the previous quarter ended June 2017.

Freshtrop Fruits standalone net profit declines 36.23% in the March 2018 quarter

Net profit of Freshtrop Fruits declined 36.23% to Rs 2.13 crore in the quarter ended March 2018 as against Rs 3.34 crore during the previous quarter ended March 2017. Sales rose 30.01% to Rs 84.00 crore in the quarter ended March 2018 as against Rs 64.61 crore during the previous quarter ended March 2017.

For the full year, net profit declined 7.05% to Rs 8.30 crore in the year ended March 2018 as against Rs 8.93 crore during the previous year ended March 2017. Sales rose 24.93% to Rs 175.69 crore in the year ended March 2018 as against Rs 140.63 crore during the previous year ended March 2017.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018 E	Dec 2018 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	14.7	10.24	84	61.97	15.73	12.05
Other Operating Income	--	--	--	--	--	--
Total Income – Operations	14.7	10.24	84	61.97	15.73	12.05
Raw Materials Consumed	5.58	2.73	75.4	23.98	5.76	2.96
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	3.04	2.64	-20.6	15.11	3.23	2.78
Power & Fuel	--	--	--	--	--	--
Employees Cost	2.34	2.63	5.13	3.6	2.46	2.87
Depreciation	0.97	0.97	1.26	1.26	1.26	1.21
Admin & Selling Expenses	--	--	--	--	--	--
R & D Expenses	--	--	--	--	--	--
Provisions & Contingencies	--	--	--	--	--	--
Other Expenses	2.8	3.61	18.73	6.24	2.84	3.55
P/L Before Other Income	-0.02	-2.35	4.12	11.78	0.18	-1.32
Other Income	0.44	0.26	0.17	1.6	0.34	0.29
P/L Before Int., E. Items & Tax	0.41	-2.09	4.29	13.38	0.52	-1.03
Interest	0.04	0.04	0.49	0.44	0.05	0.03
P/L Before E. Items & Tax	0.37	-2.13	3.8	12.93	0.47	-1.06
Exceptional Items	--	0.58	0	--	--	--
P/L Before Tax	0.37	-1.55	3.8	12.93	0.47	-1.06
Tax	1.59	-0.98	1.68	2.62	0.15	-0.34
P/L After Tax – Ord. Activities	-1.22	-0.57	2.13	10.32	0.32	-0.72
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	-1.22	-0.57	2.13	10.32	0.32	-0.72
Equity Share Capital	12.15	12.15	12.15	12.15	12.15	12.15
Reserves	--	--	--	--	--	--
Calculated EPS	-1	-0.47	1.75	8.49	0.26	-0.59
Calculated EPS (Annualised)	-4	-1.88	7	33.96	1.05	-2.37
Public Shares Holding	5098719	5097829	5097829	5097829	5097829	NA
Public Share Holding (%)	41.98	41.97	41.97	41.97	41.97	NA

As per our estimates, the company will improve its operating profit margins with higher revenue contribution from its ready to drink juice business over next 2 to 3 years reducing dependency on exports of seasonal fruits.

4. Peer Group Comparison

PEER GROUP	FRESHTROP FRUITS	MANPASAND BEVERAGES	FLEX FOODS	TASTY BITE EATABLES
CMP	116.95	95.10	71.00	8213.20
52 W H/L	209.40/91.95	498.90/93.20	169.15/64.00	11382.00/5211.30
Market Cap	142.04	1090.25	88.40	2109.18
Results (in Crores)	Jun-18	Jun-18	Jun-18	Jun-18
Sales	61.97	334.64	22.16	78.74
PAT	10.32	36.38	2.89	5.77
Equity	12.15	114.46	12.45	2.57
EPS (TTM)	8.77	8.74	6.39	111.91
P/E	13.34	10.90	11.11	73.45

5. Key Concerns / Risks

- Increasing quality and sustained optimum production of fruits like grapes under tropical conditions at competitive price is one of the major concerns in the industry. Abiotic and biotic stresses, like continuous drought, soil and water salinity, and the high incidence of diseases and pests are major factors that could affect the quality of grapes.
- Skilled manpower shortage, poor cold storage facilities, inefficient post-harvest management and minimal technological interventions have impacted the overall growth of this Industry in India.

6. Saral Gyan Recommendation

- ✚ The Indian food industry is poised for huge growth, increasing its contribution in world food trade every year. In India, the food sector has emerged as a high-profit sector on the back of the scope it offers for value addition, particularly with the food processing industry getting recognised as a high-priority area. The allocation of INR 1400 crores for food processing industries during the Union Budget FY 2018, set up of state-of-the-art testing facility at 42 Mega Food Park to promote agri-export from current USD 30 billion to USD 100 billion is all set to give a big boost to this sector in India.
- ✚ Freshrop Fruits have 25 years of experience in agri-business. The company has been a consistent supplier of fresh Indian grapes to some of the most demanding supermarkets in Europe for more than 2 decades. In these markets, food safety is the most critical requirement along with emphasis on retention of taste, freshness and nutrition of the fruits. The company works closely with its farmers using Good Agricultural Practices (GAP) and appropriate post-harvest management.
- ✚ The company maintains strict hygiene and food safety controls in its production facility. Its experienced and educated team of food technologists and microbiologists conduct regular checks to ensure these standards. Freshrop Fruits facilities are regularly audited by independent auditors and directly by some of the most demanding global customers. The facilities are certified to global hygiene and food safety standards such as FSSC 22000.
- ✚ The company has launched range of fruit juices, fruit & veggie blends, fruit nectors and dairy free nut milks under brand Second Nature. The company uses Cold Vacuum Extracted technology which is better than cold pressed. It does not use heat or any form of pasteurization or concentrates in its products. It uses a process of cold extraction which gently extracts the pulp from the fruits and vegetables along with the natural soluble fibres. While this is getting done in a reduced oxygen environment to minimise oxidation, vacuum is created to remove even the dissolved oxygen to ensure a long-lasting retention of natural taste, flavour and nutrients. This specialised process allows to retain far more fibre and avoid oxidation as compared to conventional pressing processes.
- ✚ The company has registered sales CAGR of 14%, profit CAGR of 19.3% with ROE of 17.5% over last 5 years. We expect company will deliver higher operating profits going forward with increase in revenue contribution from Ready to Drink juice segment.

KEY FINANCIALS	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018
Return on Equity (%)	16.52	18.96	17.28	16.17	13.44
ROCE (%)	13.26	15.61	15.24	23.49	17.71
Operating Profit Margin (%)	10.89	15.05	14.95	12.46	9.90
Net Profit Margin (%)	4.97	6.29	6.76	6.34	4.72
Debt to Equity (%)	0.64	0.54	0.46	0.47	0.62

- As on Sept'18, promoter's shareholding in the company is 58.03% without any pledging of shares. Promoters have increased their shareholding by 2.6% since March 2015. Institutional shareholding in the company is 2.06%.

QUARTER	Mar'15	Mar'16	Mar'17	Mar'18	Sep'18
Promoters Shareholding (In %)	55.43	56.78	57.87	58.03	58.03

- The company paid dividend of Rs. 1 per share from 2013 to 2016 but later skipped dividend due to lower profits and capex incurred towards capacity expansion. The company has rewarded shareholders by issuing bonus share in the ratio of 1:1 in the year 2008. We expect company will start rewarding minority shareholders by paying dividends with increase in profits going onward.
- As per our estimates, Freshtrop Fruits Ltd can deliver net profit of Rs. 15.30 crores in FY 2019-20 with annualized EPS of Rs. 12.6. At current price of 116.95, stock is available at forward P/E multiple of 9.3X based on FY19-20 earnings. Company's valuation looks attractive considering expected increase in profitability from its processed food business with foray into ready to drink juice segment.
- On equity of Rs. 12.15 crore, the estimated annualized EPS for FY 19-20 works out to Rs. 12.6 and the Book Value per share is Rs. 59.34. At current market price of Rs. 116.95, stock price to book value is 1.97.

Considering government thrust to increase investments in food processing sector in India by relaxing foreign direct investments regulation to boost growth, company's efforts towards reducing its seasonality of business by venturing into ready to drink juice segment through launch of Second Nature juices, experienced management with good business track record with reputed client base spread across Europe and attractive valuations of the company with comfortable debt to equity ratio, Saral Gyan team recommends **"Buy"** on **Freshtrop Fruits Ltd** at current market price of Rs. 116.95 for target of Rs. 240 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of Rs. 116.95
- 30% at price range of Rs. 85 – 95 (in case of correction in stock price)

Portfolio Allocation: 3% of your equity portfolio

7. Disclaimer

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- Buy recommendation:** This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- Hold recommendation:** This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- Buy at lower price:** This means that the investor should wait for some correction in the market price so that the stock can be bought at more attractive valuations keeping in mind the tenure and the objective of the service.
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