

# Prabhat Dairy Ltd.



**RESULT UPDATE**

24th May, 2017

# Prabhat Dairy Ltd.

**Growth Path ahead**

|                         |                          |                                  |                                       |                              |                               |
|-------------------------|--------------------------|----------------------------------|---------------------------------------|------------------------------|-------------------------------|
| CMP<br><b>INR 109.4</b> | Target<br><b>INR 139</b> | Potential Upside<br><b>26.8%</b> | Market Cap (INR Mn)<br><b>11330.4</b> | Recommendation<br><b>BUY</b> | Sector<br><b>FMCG - Dairy</b> |
|-------------------------|--------------------------|----------------------------------|---------------------------------------|------------------------------|-------------------------------|

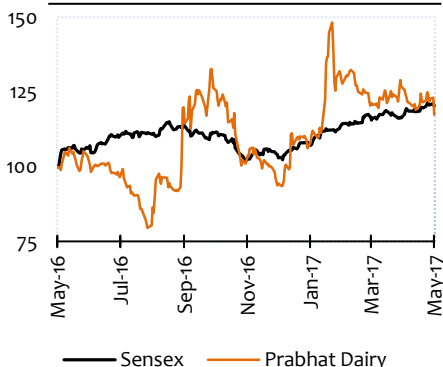
## Result highlights

Prabhat dairy posted its Q4FY17 results which were below our estimates and margins were affected mainly due to higher tax expense. Its Net sales posted was INR 3771.8 Mn which is the growth of 23.0% yoy was below our estimate of projected net sales growth of 39%. EBITDA stood at INR 298.4 Mn which is a growth of 17.0% yoy and de-growth of 21% qoq. EBITDA margins stood at 7.9% as against 8.3% yoy and 9.2% qoq. PAT for Q4FY17 posted loss of INR 17.8 Mn, was mainly due to higher deferred tax expense during the quarter of INR 99.04 Mn

## MARKET DATA

|                    |            |
|--------------------|------------|
| Shares outs (Mn)   | 98         |
| EquityCap (INR Mn) | 977        |
| Mkt Cap (INR Mn)   | 11330      |
| 52 Wk H/L (INR)    | 150/77     |
| Volume Avg (3m K)  | 370.0      |
| Face Value (INR)   | 10         |
| Bloomberg Code     | PRABHAT IN |

## SHARE PRICE PERFORMANCE



## KEY FINANCIALS

| Particulars (INR Mn) | FY15    | FY16    | FY17E   | FY18E   | FY19E   |
|----------------------|---------|---------|---------|---------|---------|
| Sales                | 10033.6 | 11677.0 | 14098.6 | 16495.4 | 19299.6 |
| EBITDA               | 1035.1  | 1152.5  | 1267.9  | 1526.8  | 1856.0  |
| PAT                  | 259.9   | 230.4   | 280.3   | 420.0   | 564.8   |
| EBITDA Margins %     | 10.3%   | 9.9%    | 9.0%    | 9.3%    | 9.6%    |
| PAT Margins %        | 2.6%    | 2.0%    | 2.0%    | 2.5%    | 2.9%    |
| EPS                  | 3.6     | 2.4     | 2.9     | 4.3     | 5.8     |
| ROE                  | 7.4%    | 3.6%    | 4.1%    | 5.8%    | 7.3%    |
| Debt/Equity          | 1.1     | 0.2     | 0.5     | 0.5     | 0.5     |
| EV/EBITDA            | 11.0    | 10.5    | 9.9     | 8.4     | 7.1     |

Source: Company, KRChoksey Research

**Revenue growth continued in double digit (yoy):** Prabhat dairy ltd Q4FY17 posted growth of 23.0% yoy and de-growth of 7.6% qoq, with revenue of INR 3771.8Mn. Revenue remained higher during the quarter due to change in mix of value added product which increased to 88%. Q4FY17 milk procurement remained at 9 lac liters and also we saw increase in milk price by 5% (from INR 27.2 to INR 28.6) which led to drag down its gross margins to 18.9% from 19.3% in Q4FY16. For FY17 revenue stood at INR 14098.7 Mn as compared to INR 11677.0 with growth of 20.7% yoy. In FY17, contribution from value added segment remained at 86%, milk Procurement stood at 8 lac Liters and milk price saw increase by 32% from INR 19.5 to INR 28.6.

**Decline in margins:** EBITDA for Q4FY17 stood at INR 298.4 Mn with growth of 17% yoy and de-growth of 21% qoq which was mainly due to advertisement and promotional expense incurred during the quarter as a part of its strategy to grow in value added products and also focus on B2C segment. EBITDA margins remained at 7.9% as compared to 8.3% in Q4FY16 and 9.2 as compared to Q3FY16 which was and decrease of 40bps yoy and 132bps qoq. PAT reported for Q4FY17, was a loss of 17.8 Mn which was due to higher deferred tax expense. In FY17 EBITDA stood at INR 1267.9Mn with growth of 9.7% yoy. EBITDA margins stood at 9.0% as compared to 9.9% in FY16 due to higher raw material cost and also high advertisement and promotional expense. PAT for FY17, was 469.4 Mn with growth of 102.8% yoy due to exceptional item and also due to higher deferred tax expense.

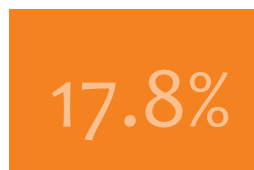
## MARKET INFO

|        |       |
|--------|-------|
| SENSEX | 30302 |
| NIFTY  | 9361  |

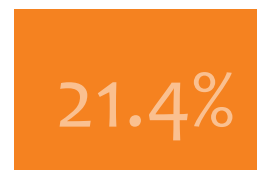
**Valuations & Outlook:** Prabhat Dairy Ltd focuses on changing its business model from B2B to B2C. It is a company which has contract with farmers from whom they directly procure milk. Its focus to improve direct procurement, expand distribution network reach and be a pan India player. Prabhat Dairy Ltd plans to increase presence in value added segment because of better margins in the segment that milk segment. We remain positive on the stock going forward with its integrated business model, the kinds of products made of only cow milk, change in Business model from B2B to B2C, creating strong distribution network, innovating new products and branding it. We expect revenue growth to be around 17-18% for FY18E and FY19E. EBITDA and PAT margin to improve with more products in B2C and value added segment. We expect EBITDA margins to be around 9.3% to 9.6% and PAT margins to be in range of 2.5% to 3.0%. At CMP of INR 109.4, we have a "BUY" rating on the stock with target price of INR 139 and upside of 26.8%

## SHARE HOLDING PATTERN (%)

| Particulars | Mar 17 | Dec 16 | Sep16 |
|-------------|--------|--------|-------|
| Promoters   | 48.94  | 44.37  | 44.37 |
| FIIIs       | 2.62   | 2.76   | 3.28  |
| DIIIs       | 3.86   | 2.94   | 3.25  |
| Others      | 44.57  | 49.93  | 49.11 |
| Total       | 100    | 100    | 100   |



Revenue CAGR between FY15 and FY19E



PAT CAGR between FY15 and FY19E

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# Prabhat Dairy Ltd.

## Q4FY17 Result Snapshot

### Exhibit 1 – Q4FY17 Quarterly Income Statement (INR Mn)

| Particulars                                   | Q4<br>FY17    | Q3<br>FY17    | Q4<br>FY16    | Q-o-Q<br>% Change | Y-o-Y<br>% Change |
|---|---------------|---------------|---------------|-------------------|-------------------|
| <b>Net Sales &amp; Other Operating Income</b> | <b>3771.8</b> | <b>4081.0</b> | <b>3067.6</b> | <b>-7.6%</b>      | <b>23.0%</b>      |
| Total Expenditure                             | 3473.4        | 3704.4        | 2812.6        | -6.2%             | 23.5%             |
| Cost of Raw Materials                         | 3242.1        | 3304.4        | 2461.8        | -1.9%             | 31.7%             |
| Purchase of Finished Goods                    | 34.4          | 68.3          | 69.2          | -49.7%            | -50.3%            |
| (Increase) / Decrease In Stocks               | -211.9        | -82.4         | -54.9         | 157.2%            | -286.0%           |
| Employee Cost                                 | 96.2          | 87.2          | 77.7          | 10.3%             | 23.8%             |
| Operating & Manufacturing Expenses            | 312.6         | 326.9         | 258.8         | -4.4%             | 20.8%             |
| <b>EBIDTA</b>                                 | <b>298.4</b>  | <b>376.6</b>  | <b>255.0</b>  | <b>-20.8%</b>     | <b>17.0%</b>      |
| <b>EBITDA Margins (%)</b>                     | <b>7.9%</b>   | <b>9.2%</b>   | <b>8.3%</b>   | <b>-132bps</b>    | <b>-40bps</b>     |
| Depreciation                                  | 109.1         | 109.5         | 103.4         | -0.4%             | 5.5%              |
| EBIT  | 189.3         | 267.1         | 151.6         | -29.1%            | 76.2%             |
| Other Income                                  | 5.0           | 2.2           | 2.5           | 127.3%            | 102.5%            |
| Interest                                      | 75.5          | 79.2          | 59.2          | -4.6%             | 27.6%             |
| PBT   | 118.8         | 190.1         | 94.9          | -37.5%            | 25.2%             |
| Tax   | 136.5         | 108.5         | 36.4          | 25.8%             | 275.1%            |
| <b>PAT before Exceptional</b>                 | <b>-17.8</b>  | <b>81.6</b>   | <b>58.5</b>   | <b>-121.8%</b>    | <b>-130.3%</b>    |
| <b>PAT Margin (%)</b>                         | <b>-0.5%</b>  | <b>2.0%</b>   | <b>1.9%</b>   | <b>-247bps</b>    | <b>-238bps</b>    |
| Exceptional Items                             | 0.0           | 255.9         | 0.0           | -                 | -                 |
| <b>PAT after Exceptional</b>                  | <b>-17.8</b>  | <b>337.5</b>  | <b>58.5</b>   | <b>-105.3%</b>    | <b>-130.3%</b>    |
| <b>PAT Margin (%)</b>                         | <b>-0.5%</b>  | <b>8.3%</b>   | <b>1.9%</b>   | <b>-874bps</b>    | <b>-238bps</b>    |
| <b>EPS</b>                                    | <b>-0.2</b>   | <b>3.5</b>    | <b>0.6</b>    | <b>-105.3%</b>    | <b>-130.3%</b>    |

Source: Company, KRChoksey Research

### Concall Highlights:

Management believes that company has strong presence in B2B segment but with strong growth in B2C it focus to change its mix of B2B and B2C segment is on track with current share of 70% and 30% respectively and targets it to change to 50:50 by FY20. With plan to gain in higher margins company has increase its contribution in value added segment to 86.3% in FY17 from 53.3% in FY12 and this mix would be on similar line till FY20. Further to it focus remains on expanding distribution channel and be a pan India player. Currently it is present in 26 states with 12000 distributors and around 1 lakh touch points. Management remains positive for long term on the growth of the company with its business model, client base and gain in modern trade business. Also they believe that there would be price increase on certain products in FY18.

**Future Plans:** Management plans to enter new products category like beverages and more varieties of cheese in next 2 years. Cheese capacity utilization is around 20-25% and plans to reach around 40% in FY18. Ghee capacity utilization is highest among all its products around 70-75% and it plans to maintain it at same level or above it. With distribution the target is to reach 1000+ retail outlets through modern trade channels.

### Concerns during Q4FY17 and FY17:

During Q4FY17 and FY17, there was an increase of milk procurement price, increase of advertisement and promotional expense for growth of B2C business and also increase in deferred tax expense which led to drag down the margins.

Products like ghee, paneer, dahi, Chaas, Lassi, shrikhand etc are gaining in popularity in modern trade and also company plans to expand in Maharashtra and Gujarat. Also expansion of long shelf life product across North, South and Western markets.

**New launches:** Popular range of ice creams launch under the Brand 'Volup' and premium range with brand 'Volup Sinsane'.

**Appointment of Business head:** Appointed Mr. Muthar Basha (ex – HUL, 25+ years of experience) as Consumer Business Head and appointed Mr. Sridhar Vishwanath (ex – Mondelez, 16+ years of experience) as Commercial Director.

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# Prabhat Dairy Ltd.

## Exhibit 2 – Income Statement

| INR Mn                                       | FY15           | FY16           | FY17           | FY18E          | FY19E          |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Net Sales</b>                             | <b>10033.6</b> | <b>11677.0</b> | <b>14098.6</b> | <b>16495.4</b> | <b>19299.6</b> |
| <b>EXPENDITURE :</b>                         |                |                |                |                |                |
| Cost of Materials Consumed                   | 7750.5         | 9344.3         | 11502.7        | 13414.2        | 15635.9        |
| Purchase of Stock In Trade                   | 242.1          | 223.6          | 238.1          | 277.7          | 323.6          |
| (Increase) / Decrease In Stocks              | -230.7         | -284.4         | -382.5         | -446.0         | -519.9         |
| Total RM Costs                               | 7761.9         | 9283.4         | 11358.3        | 13245.8        | 15439.7        |
| <b>Gross Profit</b>                          | <b>2271.7</b>  | <b>2393.5</b>  | <b>2740.3</b>  | <b>3249.6</b>  | <b>3859.9</b>  |
| Gross margins %                              | 22.6%          | 20.5%          | 19.4%          | 19.7%          | 20.0%          |
| Employee Cost                                | 256.0          | 282.6          | 346.9          | 405.9          | 463.2          |
| Other Expenses                               | 980.6          | 958.4          | 1125.5         | 1316.9         | 1540.8         |
| <b>Operating Profit (EBIDTA)</b>             | <b>1035.1</b>  | <b>1152.5</b>  | <b>1267.9</b>  | <b>1526.8</b>  | <b>1856.0</b>  |
| EBIDTA Margin %                              | 10.3%          | 9.9%           | 9.0%           | 9.3%           | 9.6%           |
| Depreciation                                 | 344.0          | 395.7          | 432.0          | 511.4          | 598.3          |
| Operating Profit (EBIT)                      | 691.1          | 756.8          | 835.8          | 1015.5         | 1257.7         |
| Other Income                                 | 9.7            | 14.7           | 12.6           | 16.5           | 19.3           |
| Interest                                     | 412.0          | 405.2          | 294.4          | 375.7          | 394.5          |
| PBT (Excl'd Exceptional)                     | 288.9          | 366.2          | 554.1          | 656.2          | 882.5          |
| Provision for Tax                            | 29.0           | 135.9          | 273.9          | 236.2          | 317.7          |
| <b>Profit After Tax (before Exceptional)</b> | <b>259.9</b>   | <b>230.4</b>   | <b>280.3</b>   | <b>420.0</b>   | <b>564.8</b>   |
| PAT Margin %                                 | 2.6%           | 2.0%           | 2.0%           | 2.5%           | 2.9%           |
| Exceptional Income / Expenses                | 0.0            | 0.0            | 189.1          | 0.0            | 0.0            |
| <b>Profit After Tax &amp; Exceptional</b>    | <b>259.9</b>   | <b>230.4</b>   | <b>469.4</b>   | <b>420.0</b>   | <b>564.8</b>   |
| PAT Margin %                                 | 2.6%           | 2.0%           | 3.3%           | 2.5%           | 2.9%           |

Source: Company, KRChoksey Research

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# Prabhat Dairy Ltd.

## Exhibit 3 - Balance Sheet

| INR Mn                               | FY15          | FY16          | FY17           | FY18E          | FY19E          |
|--------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>EQUITY AND LIABILITIES</b>        |               |               |                |                |                |
| Share Capital                        | 714.3         | 976.8         | 976.8          | 976.8          | 976.8          |
| Total Reserves                       | 2802.1        | 5479.6        | 5905.4         | 6280.1         | 6799.5         |
| <b>Shareholder's Funds</b>           | <b>3516.4</b> | <b>6456.4</b> | <b>6882.2</b>  | <b>7256.8</b>  | <b>7776.3</b>  |
| <b>Long-Term Borrowings</b>          | <b>2159.4</b> | <b>384.5</b>  | <b>386.0</b>   | <b>375.7</b>   | <b>394.5</b>   |
| Deferred Tax Assets / Liabilities    | 177.6         | 57.2          | 158.8          | 158.8          | 158.8          |
| Long Term Provisions                 | 10.7          | 14.3          | 14.3           | 16.7           | 19.6           |
| <b>Total Non-Current Liabilities</b> | <b>2347.7</b> | <b>456.0</b>  | <b>559.0</b>   | <b>551.3</b>   | <b>572.9</b>   |
| <b>Current Liabilities</b>           |               |               |                |                |                |
| Trade Payables                       | 622.0         | 521.3         | 537.8          | 762.1          | 888.3          |
| Short Term Borrowings                | 1656.1        | 1193.3        | 3192.6         | 3352.2         | 3519.8         |
| Short Term Provisions                | 49.9          | 4.7           | 4.7            | 5.4            | 6.4            |
| Other Current Liabilities            | 443.2         | 151.9         | 310.1          | 362.9          | 424.6          |
| <b>Total Current Liabilities</b>     | <b>2771.2</b> | <b>1871.2</b> | <b>4045.2</b>  | <b>4482.6</b>  | <b>4839.0</b>  |
| <b>Total Liabilities</b>             | <b>8635.4</b> | <b>8783.6</b> | <b>11486.4</b> | <b>12290.6</b> | <b>13188.2</b> |
| <b>ASSETS</b>                        |               |               |                |                |                |
| <b>Net Block</b>                     | <b>4648.9</b> | <b>4376.7</b> | <b>4415.6</b>  | <b>4503.9</b>  | <b>4592.2</b>  |
| Non Current Investments              | 0.73          | 0.61          | 0.03           | 0.03           | 0.03           |
| Long Term Loans & Advances           | 680.3         | 162.9         | 265.39         | 310.51         | 363.30         |
| Other Non Current Assets             | 4.7           | 160.9         | 98.89          | 115.70         | 135.37         |
| <b>Total Non-Current Assets</b>      | <b>5334.7</b> | <b>4701.2</b> | <b>4779.9</b>  | <b>4930.2</b>  | <b>5090.9</b>  |
| <b>Current Assets</b>                |               |               |                |                |                |
| Inventories                          | 634.4         | 879.1         | 1332.5         | 1415.3         | 1649.7         |
| Sundry Debtors                       | 2084.0        | 2263.3        | 2711.1         | 3163.5         | 3701.3         |
| Cash and Bank                        | 215.4         | 119.7         | 1655.8         | 1610.5         | 1376.0         |
| Currents Investments                 | 0.0           | 0.0           | 0.0            | 0.0            | 0.0            |
| Short Term Loans and Advances        | 284.3         | 808.1         | 997.6          | 1154.7         | 1351.0         |
| Other Current Assets                 | 82.6          | 12.1          | 9.4            | 16.5           | 19.3           |
| <b>Total Current Assets</b>          | <b>3300.7</b> | <b>4082.4</b> | <b>6706.4</b>  | <b>7360.5</b>  | <b>8097.3</b>  |
| <b>Total Assets</b>                  | <b>8635.4</b> | <b>8783.6</b> | <b>11486.4</b> | <b>12290.6</b> | <b>13188.2</b> |

Source: Company, KRChoksey Research

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# Prabhat Dairy Ltd.

## Exhibit 4 - Cash flow statement

| INR Mn                              | FY15         | FY16         | FY17E         | FY18E         | FY19E         |
|-------------------------------------|--------------|--------------|---------------|---------------|---------------|
| PBT                                 | 259.9        | 230.4        | 469.4         | 420.0         | 564.8         |
| Add: Depreciation                   | 344.0        | 395.7        | 432.0         | 511.4         | 598.3         |
| Add: Interest                       | 412.0        | 405.2        | 294.4         | 375.7         | 394.5         |
| Cash flow from Operations           | -14.8        | 113.2        | 355.1         | 590.1         | 388.2         |
| Cash flow from Investing Activity   | -532.6       | -242.8       | -26.2         | -71.8         | -69.0         |
| Cash flow from Financing Activity   | 680.8        | 46.9         | 1207.1        | -563.6        | -553.7        |
| Net change in Cash (Inflow/Outflow) | 173.0        | -82.6        | 1536.0        | -45.3         | -234.5        |
| Opening Cash balance                | 29.4         | 202.3        | 119.7         | 1655.8        | 1610.5        |
| <b>Closing Cash Balance</b>         | <b>202.3</b> | <b>119.7</b> | <b>1655.8</b> | <b>1610.5</b> | <b>1376.0</b> |

Source: Company, KRChoksey Research

## Exhibit 5 - Ratio Analysis

| INR Mn             | FY15  | FY16   | FY17E | FY18E | FY19E |
|--------------------|-------|--------|-------|-------|-------|
| EPS                | 3.6   | 2.4    | 2.9   | 4.3   | 5.8   |
| BV                 | 49.2  | 66.1   | 70.5  | 74.3  | 79.6  |
| EBITDA Margin (%)  | 10.3% | 9.9%   | 9.0%  | 9.3%  | 9.6%  |
| PAT Margin (%)     | 2.6%  | 2.0%   | 2.0%  | 2.5%  | 2.9%  |
| Net Sales Growth % | -     | 16.4%  | 20.7% | 17.0% | 17.0% |
| EBIDTA Growth %    | -     | 11.3%  | 10.0% | 20.4% | 21.6% |
| PAT Growth %       | -     | -11.4% | 21.7% | 49.9% | 34.5% |
| PE (x)             | 30.1  | 46.4   | 38.1  | 25.4  | 18.9  |
| Price/BV           | 2.2   | 1.7    | 1.6   | 1.5   | 1.4   |
| EV/EBITDA          | 11.0  | 10.5   | 9.9   | 8.4   | 7.1   |
| EV/Sales           | 1.1   | 1.0    | 0.9   | 0.8   | 0.7   |
| ROE (%)            | 7.4%  | 3.6%   | 4.1%  | 5.8%  | 7.3%  |
| Debt/Equity        | 1.1   | 0.2    | 0.5   | 0.5   | 0.5   |
| Payable Days       | 29.3  | 20.5   | 21.0  | 21.0  | 21.0  |
| Inventories Days   | 29.8  | 34.6   | 42.8  | 39.0  | 39.0  |
| Debtors Days       | 75.8  | 70.7   | 70.2  | 70.0  | 70.0  |
| WC Days            | 76.4  | 84.8   | 92.0  | 88.0  | 88.0  |

Source: Company, KRChoksey Research

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Prabhat Dairy Ltd.

| Prabhat Dairy Ltd. |           |          |                | Rating Legend |                |
|--------------------|-----------|----------|----------------|---------------|----------------|
| Date               | CMP (INR) | TP (INR) | Recommendation | Our Rating    | Upside         |
| 24-May-17          | 109.4     | 139      | BUY            | Buy           | More than 15%  |
| 16-Feb-17          | 124       | 139      | ACCUMULATE     | Accumulate    | 5% – 15%       |
| 10-Jan-17          | 107       | 119      | ACCUMULATE     | Hold          | 0 – 5%         |
| 3-Oct-16           | 117       | 126      | ACCUMULATE     | Reduce        | -5% – 0        |
|                    |           |          |                | Sell          | Less than – 5% |

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