

## Prabhat Dairy (PRADAI)

₹ 134

### Entering new locations with new launches ...

Prabhat Dairy (Prabhat) is all set to enter new geographies (various northern, eastern, western and central Indian markets), primarily in the tier II and tier III towns with new value-added dairy products (VADPs). This is in line with the company's strategy to increase the B2C share from 30% in FY17 to 50% by FY20E. This would help the company increase its capacity utilisation substantially, mainly in the VADP category. We continue to maintain our revenue CAGR estimate of 16.0% over FY17-19E with EBITDA margin of 9.4% in FY19E.

#### Increasing focus on VADPs and B2C business to aid growth

Prabhat aims to double its retail revenue (from current ₹ 500 crore) in the next two years through introducing new products and entering newer geographical locations. The company already has the required infrastructure - depots, dealers and distributor network - in place. Prabhat recently unveiled its new logo and is in the process of launching new VADPs such as cheese, paneer, shrikhand, curd, ice-cream, flavoured and ultra-heat treated milk pan India. It has reorganised its product portfolio under four categories - a) Health, b) Taste, c) Health Plus and d) Taste Plus. The 'Health' and 'Taste' categories would include milk, curd, lassi, chhaas, paneer, ghee & shrikhand. Further, as the name suggests 'Health Plus' category would have fortified UHT products focussing on enhancing the health offerings. On the flip side, the 'Taste Plus' category would cater to the indulgence category with ice creams and milk shakes portfolio.

We continue to believe that with focus on a) the brand proposition, b) penetration in new markets (various tier II, tier III cities) and c) increase in utilisation levels of newly entered, high margin categories like cheese, ice cream, flavoured milk, curd and UHT, Prabhat would clock healthy revenue. We maintain our revenue CAGR estimate of 16.0% CAGR over FY17-19E to ₹ 1898.4 crore in FY20E. Further, we believe that utilisation of newly entered categories like cheese, shrikhand & paneer, ice cream, flavoured milk, curd and UHT would improve to 45%, 65%, 65%, 60% and 55%, respectively, by FY19E.

#### Lower milk procurement prices – short term relief

The milk procurement price has come down by 11% over the past two months on account of peak supply (the peak cow milk supply season begins late- August or early-September). The price reduction has happened over three tranches and current procurement price stands at ₹ 24/litre against ₹ 27/litre in Q1FY18. We believe this would provide the company short-term relief and would aid in reporting better profitability. Additionally, the company is continuously working with farmers to bring down their cost by promoting use of maize silage as cattle feed.

#### Maintain BUY; raise target price to ₹ 165/share

We maintain our estimates for Prabhat and expect revenues to grow at a CAGR of 16.0% with EBITDA margin of 9.4% in FY19E. Aided by a) no substantial increase in the interest cost (with completion of investment phase) and b) cumulative Indirect tax (GST / VAT) refund of ~42 cores in FY18E and FY19E, adjusted PAT is estimated to clock 43.8% CAGR over the same period. The recent updates about the company further give confidence. Hence, we raise our target price to ₹ 165/share based on triangulated valuation.

Rating matrix	
Rating	: Buy
Target	: ₹ 165
Target Period	: 12 months
Potential Upside	: 23%

What's Changed?	
Target	Changed from ₹ 145 to ₹ 165
EPS FY17E	Unchanged
EPS FY18E	Unchanged
Rating	Unchanged

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Sales	1,167.7	1,409.9	1,672.3	1,898.4
EBITDA	115.3	126.8	142.5	178.2
Net Profit	23.2	46.9	61.5	90.4
EPS (₹)	2.4	3.6	4.9	7.4

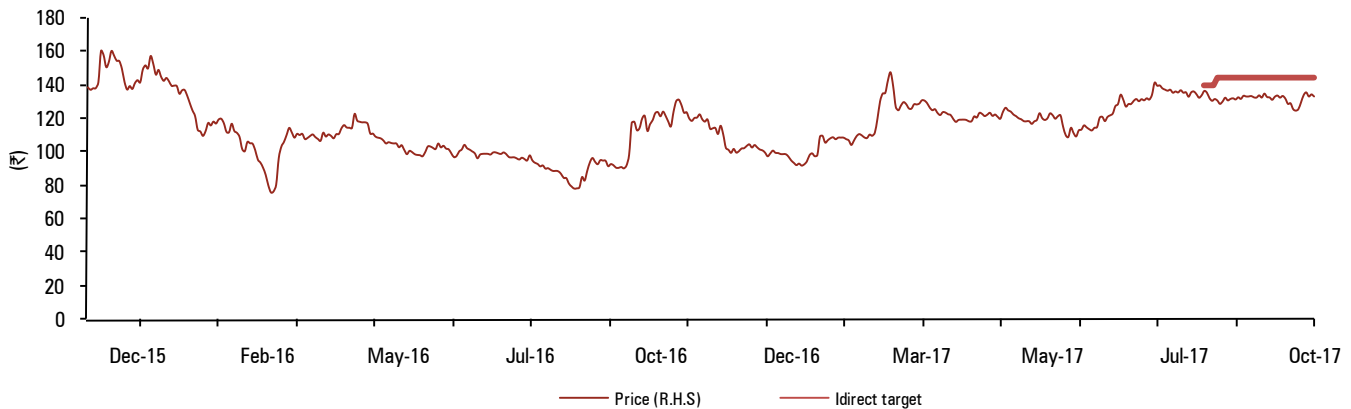
Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	56.6	27.9	21.3	14.5
Target P/E	69.4	34.2	26.1	17.8
Mcap/Sales	1.1	0.9	0.8	0.7
RoNW (%)	3.6	5.1	6.7	9.6
RoCE (%)	9.5	8.0	9.2	11.6

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	1,311.3
Total Debt (FY17) (₹ Crore)	319.3
Cash and Investments (FY17) (₹ Crore)	165.6
EV (₹ Crore)	1,465.0
52 week H/L	150 / 91
Equity capital	₹ 97.7 crore
Face value	₹ 10

Price performance				
	1M	3M	6M	12M
Prabhat Dairy	(1.4)	(0.3)	7.0	7.8
Parag Milk Foods	2.1	8.5	1.3	(17.0)
Heritage	9.2	46.9	50.3	81.8
Hatsun	18.3	16.3	39.7	118.9
Kwality	(13.1)	(31.8)	(36.6)	(32.8)

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### Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

### Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m) (in %)	Shareholding Pattern	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
1	Nirmal Family Trust	30-Jun-17	45.5	44.4	0.0	Promoter	44.2	44.4	44.4	48.9	48.9
2	Rabo Equity Advisors	30-Jun-17	14.4	14.0	0.0	FII	28.2	26.5	26.3	26.1	3.8
3	Societe de Promotion et de Participation pour la Cooperator	30-Jun-17	8.7	8.5	0.0	DII	3.5	3.3	2.9	3.9	3.6
4	Vistra ITCL India, Ltd.	30-Jun-17	7.6	7.4	0.0	Others	24.1	25.9	26.4	21.1	43.7
5	DSP BlackRock Investment Managers Pvt. Ltd.	30-Jun-17	3.5	3.4	0.5						
6	Wasatch Advisors, Inc.	30-Jun-17	2.5	2.5	0.2						
7	Styrax Commodities, Ltd.	30-Jun-17	1.9	1.8	0.0						
8	Alternative Investment Management, LLC	30-Jun-17	1.2	1.1	1.1						
9	Nirmal (Vivek Sarangdhar)	30-Jun-17	1.2	1.1	0.0						
10	Nirmal (Sarangdhar Ramchandra)	30-Jun-17	1.2	1.1	0.0						

Source: Reuters, ICICIdirect.com Research

### Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Alternative Investment Management, LLC	2.3m	1.13m	HDFC Asset Management Co., Ltd.	0.23m	0.11m
DSP BlackRock Investment Managers Pvt. Ltd.	0.96m	0.48m			
Wasatch Advisors, Inc.	0.4m	0.2m			
Alquity Investment Management Ltd.	0.23m	0.11m			
Van Eck Associates Corporation	0.01m	0m			

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement		₹ Crore			
	FY16	FY17	FY18E	FY19E	
Total operating Income	1167.7	1409.9	1672.3	1898.4	
Growth (%)	16.3	20.7	18.6	13.5	
Raw Material Expenses	928.3	1135.8	1319.1	1482.9	
Employee Expenses	28.3	34.7	48.5	47.5	
Other expenses	95.8	112.6	162.2	189.8	
Total Operating Expenditure	1052.4	1283.1	1529.8	1720.2	
EBITDA	115.3	126.8	142.5	178.2	
Growth (%)	11.0	10.0	12.4	25.0	
Depreciation	39.6	43.2	45.5	48.1	
Interest	40.5	29.4	36.3	35.9	
Other Income	1.5	1.3	4.6	3.6	
PBT	36.6	55.4	65.3	97.8	
Exceptional item	0	18.9	17.8	24.4	
Total Tax	13.5	27.4	21.6	31.8	
PAT	23.2	46.9	61.5	90.4	
Growth (%)	-11.7	51.2	38.1	49.7	
EPS (₹)	2.4	4.8	6.3	9.3	
Adj. PAT	23.2	35.0	48.3	72.4	
Adj. EPS (₹)	2.4	3.6	4.9	7.4	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit After Tax	23.1	46.9	61.5	90.4	
Add: Depreciation	39.9	43.2	45.5	48.1	
(Inc)/dec in Current Assets	30.5	-79.4	-90.9	-75.6	
Inc/(dec) in CL and Provisions	-11.4	7.3	17.5	11.5	
CF from operating activities	28.7	42.6	33.6	74.5	
(Inc)/dec in Investments	0.0	0.8	0.0	0.0	
(Inc)/dec in LT loans & advances	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-32.2	-47.1	-55.0	-25.0	
Others	2.2	0.0	0.0	0.0	
CF from investing activities	-24.3	-40.9	-21.4	-25.0	
Issue/(Buy back) of Equity	300.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-253.2	200.1	5.0	15.0	
Dividend paid & dividend tax	-0.00567	-18.8	-30.7	-54.3	
Inc/(dec) in Sec. premium					
Others	-59.8	-29.4	-36.3	-35.9	
CF from financing activities	-13.0	151.9	-62.0	-75.2	
Net Cash flow	-8.6	153.6	-49.8	-25.7	
Opening Cash	20.3	12.0	165.6	115.8	
Closing Cash	12.0	165.6	115.8	90.1	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	97.7	97.7	97.7	97.7	
Reserve and Surplus	548.0	590.5	621.3	657.5	
Total Shareholders funds	645.6	688.2	719.0	755.2	
LT Borrowings & Provisions	119.3	319.3	329.3	349.3	
Deferred Tax Liability	38.4	38.6	33.6	28.6	
Others Non-current Liabilities	0.0	0.0	0.0	0.0	
Total Liabilities	810.6	1063.4	1099.1	1150.3	
<b>Assets</b>					
Gross Block	545.9	590.9	632.5	687.5	
Less: Acc Depreciation	132.7	175.9	221.5	269.6	
Net Block	413.2	415.0	411.0	417.9	
Capital WIP	24.5	26.5	40.0	10.0	
Non-current Investments	0.0	0.0	0.0	0.0	
LT loans & advances	75.0	80.8	91.6	104.0	
<b>Current Assets</b>					
Inventory	87.9	133.3	174.1	218.4	
Debtors	226.3	271.1	343.6	395.3	
Loans and Advances	75.0	80.8	91.6	104.0	
Other Current Assets	7.0	19.9	22.9	26.0	
Cash	12.0	165.6	115.8	90.1	
Deferred Tax Assets	3.6	2.8	2.8	2.8	
<b>Current Liabilities</b>					
Creditors	52.1	53.8	68.7	78.0	
Provisions	0.5	0.5	0.5	0.6	
Short term debt & other CL	7.9	13.5	16.0	18.2	
Application of Funds	810.6	1,063.4	1,099.1	1,150.3	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Per share data (₹)</b>					
EPS	2.4	4.8	6.3	9.3	
Cash EPS	6.4	9.2	11.0	14.2	
BV	66.1	70.5	73.6	77.3	
DPS	0.5	1.9	3.1	5.6	
Cash Per Share	1.2	17.0	11.9	9.2	
<b>Operating Ratios (%)</b>					
EBITDA Margin	9.9	9.0	8.5	9.4	
PBT / Total Operating income	3.1	3.9	3.9	5.2	
PAT Margin	2.0	3.3	3.7	4.8	
Inventory days	27.5	34.5	38.0	42.0	
Debtor days	70.7	70.2	75.0	76.0	
Creditor days	16.3	13.9	15.0	15.0	
<b>Return Ratios (%)</b>					
RoE	3.6	5.1	6.7	9.6	
RoCE	9.5	8.0	9.2	11.6	
<b>Valuation Ratios (x)</b>					
P/E	56.6	27.9	21.3	14.5	
EV / EBITDA	12.6	11.9	10.9	9.0	
EV / Net Sales	1.2	1.1	0.9	0.8	
Market Cap / Sales	1.1	0.9	0.8	0.7	
Price to Book Value	2.0	1.9	1.8	1.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	1.4	2.8	2.5	2.1	
Debt / Equity	0.2	0.5	0.5	0.5	
Current Ratio	6.6	7.5	7.4	7.7	
Quick Ratio	5.1	5.5	5.4	5.4	

Source: Company, ICICIdirect.com Research

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Hold: Up to +/-10%;  
Sell: -10% or more;



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