

Prabhat Dairy Ltd.



Prabhat Dairy Ltd.

Under Expansion Mode

CMP INR 160	Target INR 220	Potential Upside 37.9%	Market Cap (INR Mn) 15,692	Recommendation BUY	Sector FMCG - Dairy
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Result highlights

During Q4FY18, revenue stood at INR 4.0 Bn (+7.4% YoY), which was below our estimates. For FY18, revenue stood at INR 15.5 Bn (10% YoY). The sales growth was driven by good momentum in value added products. EBITDA for the quarter, stood at INR 402 Mn (+34.8% YoY), with OPM at 9.9% (+202 bps YoY). During FY18 EBITDA was INR 1.4 Bn (+9% YoY), with OPM at 8.9%. Adjusted PAT for Q4FY18 stood at INR 175.9 Mn as against loss of 17.8 Mn during Q4FY17. PAT During FY18 PAT was INR 4.7 Bn (+0.7% YoY), with NPM at 3% (+5 bps YoY).

MARKET DATA

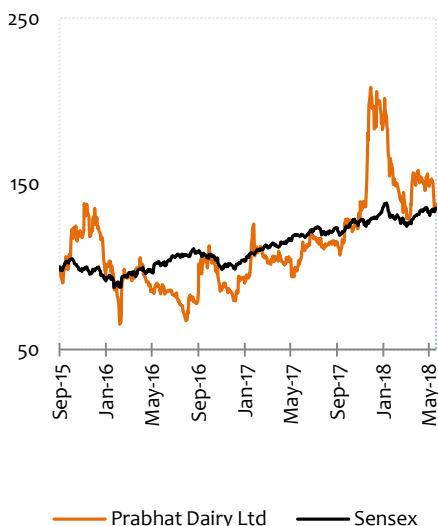
Shares outs (Mn)	97
EquityCap (INR Mn)	977
Mkt Cap (INR Mn)	15692
52 Wk H/L (INR)	258/113
Volume Avg (3m K)	131
Face Value (INR)	10
Bloomberg Code	PRABHAT IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Sales	10,033.6	11,677.0	14,098.7	15,540.1	17,327.2	19,406.5
EBITDA	1,035.1	1,152.5	1,267.9	1,376.5	1,836.7	2,158.0
PAT	259.9	230.4	280.4	519.0	627.0	756.0
EBITDA Margins %	10.3%	9.9%	9.0%	8.9%	10.6%	11.1%
PAT Margins %	2.6%	2.0%	2.0%	3.3%	3.6%	3.9%
EPS	3.6	2.4	2.9	5.3	6.4	7.7
PE (x)	28.9	46.6	42.5	28.2	24.9	20.7

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



B2C Business Gaining Momentum: Prabhat dairy ltd (PDL) posted its Q4FY18 results, the net revenue stood at INR 4 Bn (+7.4% YoY), the revenue was mainly driven by higher sales from its key products like milk, cheese (both B2b and B2c), Paneer, milk powder, etc. Also during the quarter we saw change of mix among milk and value added products, PDL increased its revenue share in value added products by around 30-32% since FY12. Currently, the Value Added Products contribute around 86.3%, followed by Milk which contributes around 13.7% of the total revenue, which led to the growth in revenue. PDL is more depended on B2B business with around 70% of revenue from it while 30% from B2c and the focus is to increase its presence in the B2C segment with the mix of 50:50 in next 3-4 years which will help to gain in more revenue and better realization. The company is making efforts in the direction of increasing B2C sales by offering discounts and other promotional schemes which have resulted in higher B2C sales. During, FY18 the net revenue stood at INR 15.5 Bn which grew by 10.2% YoY.

Sustained Margins: EBITDA for Q4FY18 improved by 34.8% YoY. EBITDA stood at INR 402 Mn, with margins at 9.9% (+202 bps YoY). The benefit of lower RM cost has been off-set by higher operating overheads which did not provided enough head room for margins to grow. During FY18 EBITDA was INR 1.4 Bn (+9% YoY), with OPM at 8.9%. Adjusted PAT for Q4FY18 stood at INR 175.9 Mn as against loss of 17.8 Mn during Q4FY17. Lower tax outgo (-102% YoY) and higher other income (+144% YoY) resulted in expansion of margins by 482 bps YoY, with NPM at 4.3%. PAT During FY18 PAT was INR 4.7 Bn (+0.6% YoY), with NPM at 3% (+100 bps YoY).

Valuations & Outlook: We remain positive on the stock as we believe that Prabhat Dairy Ltd is focused to improve its presence in B2C segment, increasing direct procurement and at the same time creating strong distribution network, innovating new products and investing behind promoting it. With all these we expect its revenue growth to be around 18-20% for FY18E and FY19E, EBITDA and PAT margin to improve with more products in high end value added segment and also in the consumer business segment. We expect EBITDA & PAT margins to improve by 150-200 bps and 60-100 bps respectively. **At CMP of INR 160, we have a "BUY" rating on the stock with target price of INR 220 and upside of 37.9%.**

MARKET INFO

SENSEX	35444
NIFTY	10768

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	50.1	50.1	48.94
FIIIs	7.55	6.99	4.64
DIIIs	2.96	4.15	3.53
Others	39.4	38.77	42.89
Total	100	100	100

18%

Revenue CAGR between FY17 and FY20E

32.8%

PAT CAGR between FY17 and FY20E

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Q4FY18 Result Snapshot

Exhibit 1 – Q4FY18 Quarterly Income Statement (INR Mn)

Particulars	Q4FY18	Q3FY18	Q4FY17	Q-o-Q	Y-o-Y
Net Sales & Other Operating Income	4,049.5	4,039.1	3,771.8	0.3%	7.4%
Total Expenditure	3,647.2	3,664.2	3,473.4	-0.5%	5.0%
Cost of Raw Materials	3,082.5	3,038.9	3,242.2	1.4%	-4.9%
Purchase of Finished Goods	102.8	72.5	34.4	41.9%	199.1%
(Increase) / Decrease In Stocks	-78.4	2.4	-211.9	-3425.8%	-63.0%
Employee Cost	107.6	112.7	96.2	-4.5%	11.9%
Operating & Manufacturing Expenses	432.6	437.7	312.6	-1.2%	38.4%
EBIDTA	402.2	374.9	298.4	7.3%	34.8%
EBITDA Margins (%)	9.9%	9.3%	7.9%	65 bps	202 bps
Depreciation	125.6	125.2	109.1	0.3%	15.2%
EBIT	276.6	249.6	189.3	10.8%	46.1%
Other Income	12.2	4.7	5.0	158.4%	144.6%
Interest	69.7	84.5	75.5	-17.5%	-7.8%
PBT	219.2	169.9	118.7	29.0%	84.6%
Tax	-3.0	22.2	136.6	-113.6%	-102.2%
PAT before Exceptional	222.2	147.7	-17.8	50.5%	-to+
PAT Margin (%)	5.5%	3.7%	-0.5%	183 bps	596 bps
Exceptional Items	-46.3	0.0	0.0	-	-
PAT after Exceptional	175.9	147.7	-17.8	19.1%	-to+
PAT Margin (%)	4.3%	3.7%	-0.5%	69 bps	482 bps
EPS	1.8	1.5	-0.2	19.1%	-to+

Source: Company, KRChoksey Research

FY18 Result Snapshot

Exhibit 2 – FY18 Income Statement (INR Mn)

Particulars	FY18	FY17	YoY
Net Sales & Other Operating Income	15,540.1	14,098.7	10.2%
Total Expenditure	14,163.6	12,830.7	10.4%
Cost of Raw Materials	11,754.8	11,502.7	2.2%
Purchase of Finished Goods	319.8	238.1	34.4%
(Increase) / Decrease In Stocks	9.8	-382.5	-102.6%
Employee Cost	435.0	346.9	25.4%
Operating & Manufacturing Expenses	1,644.3	1,125.5	46.1%
EBIDTA	1,376.5	1,267.9	8.6%
EBITDA Margins (%)	8.9%	9.0%	-14 bps
Depreciation	490.7	432.0	13.6%
EBIT	885.8	836.0	6.0%
Other Income	26.5	12.6	109.5%
Interest	329.4	294.4	11.9%
PBT	582.9	554.2	5.2%
Tax	63.9	273.9	-76.7%
PAT before Exceptional	519.0	280.4	85.1%
PAT Margin (%)	12.8%	6.9%	588 bps
Exceptional Items	-46.3	189.0	-124.5%
PAT after Exceptional	472.8	469.4	0.7%
PAT Margin (%)	11.7%	11.6%	5 bps
EPS	4.8	4.8	0.7%

Source: Company, KRChoksey Research

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Key Highlights of Q4FY18 Earnings Concall

- Higher production of milk will also lead to increase in productivity, which in turn will help in generating higher revenues for dairy companies.
- In Q4FY18 Prabhat Dairy's top line grew by 10.2% YoY which was mainly driven by Cheese, Cow ghee, whole milk powder, B2C segment. The Value Added product is contributing around 86.3% of the total revenue and the category is growing at a fast pace.
- Prabhat Dairy is built on the intense farmer partnership and it is a fully integrated business model with end to end supply chain systems. The company has good presence in all major metro cities of West, North and East India. The company is also increasing its distribution networks beyond Maharashtra by setting-up new depots and distribution centers and by introducing an extensive range of milk based products.
- The company has witnessed smooth scalability in consumer business on the back of new launches as per the consumer requirements.
- During the quarter, the revenue declined marginally by 1% YoY mainly due to decline in milk prices by 14.7% YoY and the same was partially extended to the B2B clients which resulted in lower realization to some extent. However, there was healthy volume growth across the various products, largely driven by pouch milk, cheese and curd.
- During the quarter, the Gross profit grew by 10.7% QoQ and 19% YoY mainly due to decrease in milk procurement prices by 9.4% QoQ and 14.7% YoY to INR 23.2 per liter.
- To accelerate the company's progress towards its Vision 2020 targets, the company took a conscious decision of re-investing the benefits from improved gross margin in building and expanding its B2C network. The company has increased its manpower to expand the direct sourcing of milk, which has helped in increasing the average per day milk handling from 0.85 Mn in Q3FY17 to 1.01 Mn in Q4FY18.
- During the quarter there was increase in selling and distribution expenses to expand fresh milk distribution network. Increasing share of B2C sales has also led to higher transportation cost as the company is expanding its reach and presence.
- The manufacturing of Cheese has started a few months back and the scalability of utilization is increasing, the current utilization of Cheese production is round 25% and the management aims to increase the utilization up to 40-45% by the end of FY18 and up to 80-85% by 2020.
- The B2B segment contributes around 70% and B2C contributes around 30% of the total revenue, Cheese is the fastest growing category in the B2B segment with a strong distribution network of 1,800 key accounts which includes restaurants, small food chain and other corporate clients. The management plans to increase its retail presence from their key accounts from 1,800 to 10,000 across India by 2020.
- Apart from B2B, the B2C segment is witnessing good amount of growth through modern trade and consumer retail stores and going forward the consumer business will be the main focus area for Prabhat as the management believes that this segment will be the key growth driver for coming quarters. The management expects that the share of B2C segment in total revenue will increase from 30% to 50% by 2020.
- The management has also mentioned that growing competition in Cheese category will be beneficial for Prabhat Dairy as there are only 3-4 major players in branded cheese category, Prabhat being one of them.
- The management also shared its vision 2020, the company aims to achieve revenue target of INR 20,000 Mn by 2020. The company is also targeting to double the general retail reach from 1 Lakh to 2 Lakh stores along with its increasing presence in the modern trade segment.
- The company aims to increase the high quality milk procurement capacity from 1 Mn liters per day to 1.4 – 1.5 Mn liters per day with thrust on direct sourcing.
- The company has also launched its exclusive retail store network in Maharashtra with a brand name 'The Goodness Zone'. These stores are operated on Franchise Owned and Franchise Operated model. PDL plans to launch 500 exclusive stores across Maharashtra by 2020.
- The management also highlighted that Ice-cream is one of the fastest growing categories along with the cheese category. As ice-cream is a high margin product the company has launched a premium range ice-creams in a few centers in Maharashtra, it has received good response in the initial phase and it has further plans to roll out ice-cream across India.

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Exhibit 3 – Income Statement

Particulars	FY16	FY17	FY18	FY19E	FY20E
Net Sales	11,677.0	14,098.7	15,540.1	17,327.2	19,406.5
Growth % (y-o-y)	16.4%	20.7%	10.2%	11.5%	12.0%
EXPENDITURE :					
Cost of Materials Consumed	9,344.3	11,502.7	11,754.8	12,042.4	12,420.2
Purchase of Stock In Trade	223.6	238.1	319.8	363.9	407.5
(Increase) / Decrease In Stocks	-284.4	-382.5	9.8	17.3	19.4
Total RM Costs	9,283.4	11,358.3	12,084.4	12,423.6	12,847.1
Gross Profit	2,393.5	2,740.4	3,455.7	4,903.6	6,559.4
Employee Cost	282.6	346.9	435.0	554.5	714.2
Other Expenses	958.4	1,125.5	1,644.3	2,512.4	3,687.2
Total Expenditure	10,524.5	12,830.7	14,163.6	15,490.6	17,248.5
EBIDTA	1,152.5	1,267.9	1,376.5	1,836.7	2,158.0
EBIDTA Margin %	9.9%	9.0%	8.9%	10.6%	11.1%
Depreciation	395.7	432.0	490.7	537.1	601.6
EBIT	756.8	836.0	885.8	1,299.5	1,556.4
Other Income	14.7	12.6	26.5	34.7	38.8
Interest	405.2	294.4	329.4	354.5	413.9
PBT	366.2	554.2	582.9	979.7	1,181.3
Tax	135.9	273.9	63.9	352.7	425.3
Profit After Tax (Before Exceptional)	230.4	280.4	519.0	627.0	756.0
PAT Margin %	2.0%	2.0%	3.3%	3.6%	3.9%
Exceptional Income / Expenses	0.0	189.0	-46.3	0.0	0.0
Profit After Tax & Exceptional	230.4	469.4	472.8	627.0	756.0
PAT Margin %	2.0%	3.3%	3.0%	3.6%	3.9%
EPS	2.4	4.8	4.8	6.4	7.7

Source: Company, KRChoksey Research

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Exhibit 4 - Balance Sheet

Particulars	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES					
Share Capital	976.8	976.8	976.8	976.8	976.8
Total Reserves	5,479.6	5,905.4	6,331.8	6,866.2	7,529.6
Shareholder's Funds	6,456.4	6,882.2	7,308.5	7,842.9	8,506.3
Long-Term Borrowings	384.5	386.0	335.7	354.5	413.9
Deferred Tax Assets / Liabilities	57.2	158.8	123.9	123.9	123.9
Long Term Provisions	14.3	14.3	9.5	10.6	11.9
Other Long Term Liabilities	0.0	0.0	76.0	76.0	76.0
Total Non-Current Liabilities	456.0	559.0	545.1	565.0	625.8
Current Liabilities					
Trade Payables	521.3	537.8	674.1	680.7	704.0
Short Term Borrowings	1,193.3	3,192.6	1,840.1	2,024.1	2,064.6
Short Term Provisions	4.7	4.7	6.7	7.5	8.4
Other Current Liabilities	151.9	310.1	141.5	157.8	176.7
Total Current Liabilities	1,871.2	4,045.2	2,662.4	2,870.1	2,953.7
Total Liabilities	8,783.6	11,486.4	10,516.1	11,278.1	12,085.8
ASSETS					
Net Block	4,376.7	4,415.6	4,622.9	4,830.2	4,926.8
Non Current Investments	0.6	0.0	0.0	0.0	0.0
Long Term Loans & Advances	162.9	265.4	54.5	60.8	68.1
Other Non Current Assets	160.9	98.9	381.0	424.8	475.8
Total Non-Current Assets	4,701.2	4,779.9	5,058.5	5,315.9	5,470.8
Current Assets					
Inventories	879.1	1,332.5	1,324.1	1,361.5	1,407.9
Sundry Debtors	2,263.3	2,711.1	2,220.9	2,611.0	2,924.3
Cash and Bank	119.7	1,655.8	1,285.3	1,290.4	1,499.5
Short Term Loans and Advances	808.1	997.6	197.6	220.3	246.8
Other Current Assets	12.1	9.4	429.7	479.1	536.6
Total Current Assets	4,082.4	6,706.4	5,457.6	5,962.2	6,615.0
Total Assets	8,783.6	11,486.4	10,516.1	11,278.1	12,085.8

Source: Company, KRChoksey Research

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Exhibit 5- Cash flow statement

Particulars	FY16	FY17	FY18P	FY19E	FY20E
PBT	366.2	743.2	472.8	627.0	756.0
Add: Depreciation	395.7	432.0	490.7	537.1	601.6
Interest	405.2	294.4	329.4	354.5	413.9
Cash flow from Operations	263.6	199.5	786.4	650.2	900.8
Cash flow from Investing Activity	-265.1	-884.3	-915.9	-172.7	-57.8
Cash flow from Financing Activity	-84.2	1,659.3	-472.3	-428.3	-447.1
Net change in Cash (Inflow/Outflow)	-85.7	974.5	-601.9	49.3	396.0
Opening Cash balance	202.3	116.6	1,091.1	489.3	538.5
Closing Cash Balance	116.6	1,091.1	489.3	538.5	934.5
Bank balance	3.1	564.7	796.1	751.8	565.0
Closing Cash & Bank Balance	119.7	1,655.8	1,285.3	1,290.4	1,499.5

Source: Company, KRChoksey Research

Exhibit 6 - Ratio Analysis

Particulars	FY16	FY17	FY18	FY19E	FY20E
EPS	2.4	2.9	5.3	6.4	7.7
BV	66.1	70.5	74.8	80.3	87.1
EBITDA Margin (%)	9.9%	9.0%	8.9%	10.6%	11.1%
PAT Margin (%)	2.0%	2.0%	3.3%	3.6%	3.9%
Net Sales Growth %	16.4%	20.7%	10.2%	11.5%	12.0%
EBIDTA Growth %	11.3%	10.0%	8.6%	33.4%	17.5%
PAT Growth %	-11.4%	21.7%	85.1%	20.8%	20.6%
PE (x)	46.6	42.5	28.2	24.9	20.7
Price/BV	1.7	1.7	2.0	2.0	1.8
EV/EBITDA	10.6	10.9	11.3	9.1	7.7
EV/Sales	1.0	1.0	1.0	1.0	0.9
ROE (%)	3.6%	4.1%	7.1%	8.0%	8.9%
Debt/Equity	0.2	0.5	0.3	0.3	0.3
Payable Days	20.5	17.3	20.4	20.0	20.0
Inventories Days	34.6	42.8	40.0	40.0	40.0
Debtors Days	70.7	70.2	52.2	55.0	55.0
WC Days	84.8	95.7	71.8	75.0	75.0

Source: Company, KRChoksey Research

Prabhat Dairy Ltd.

Prabhat Dairy Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
8-Jun-18	160	220	BUY	Buy	More than 15%
15-Feb-18	180	220	BUY	Accumulate	5% – 15%
14-Nov-17	143	172	BUY	Hold	0 – 5%
16-Aug-17	130	162	BUY		
12-Jul-17	135	162	BUY	Reduce	-5% – 0
24-May-17	109	139	BUY	Sell	Less than – 5%
16-Feb-17	124	139	ACCUMULATE		
10-Jan-17	107	119	ACCUMULATE		

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst and Kunal Jagda (B.com, MBA), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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