

Parag Milk Foods Ltd.



Parag Milk Foods Ltd.

Slow Growth

CMP INR 236	Target INR 274	Potential Upside 16.0%	Market Cap (INR Mn) 18,947	Recommendation BUY	Sector FMCG - Dairy
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Result highlights

Parag Milk Foods Ltd (PMFL) posted its Q1FY18 results whose Sales were in-line with estimate and margins remain subdued. Its Revenue in Q1FY18 stood at INR 4128.8 Mn which was a growth of 7.7% yoy and de-growth of 3.6% qoq. Revenue was affected majorly due to inventory build up during the quarter. EBIDTA reported was INR 293.8 Mn with EBIDTA margins of 7.1% due to increase in raw material price of milk. PAT remained around INR 105.3 Mn with PAT margins of 2.5% which was a decrease of 27 bps yoy and 512 bps qoq.

MARKET DATA

Shares outs (Mn)	84
EquityCap (INR Mn)	841
Mkt Cap (INR Mn)	18947
52 Wk H/L (INR)	354/203
Volume Avg (3m K)	296.5
Face Value (INR)	10
Bloomberg Code	PARAG IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Sales	14405.2	16451.3	17307.4	19802.8	23112.1
EBITDA	1081.7	1476.0	1081.6	1266.4	1500.7
PAT	259.7	473.2	365.1	417.4	535.3
EBITDA Margins %	7.5%	9.0%	6.2%	6.4%	6.5%
PAT Margins %	1.8%	2.9%	2.1%	2.1%	2.3%
EPS	16.3	6.7	5.2	5.9	7.6
ROE	21.0%	13.1%	5.6%	6.0%	7.1%
Debt/Equity %	3.4	1.0	0.4	0.3	0.3

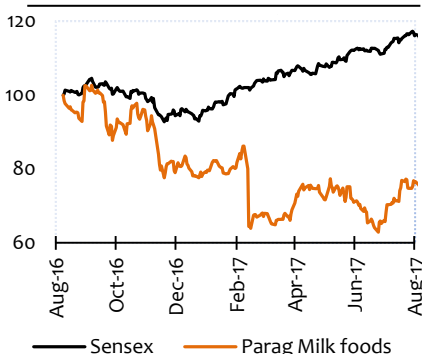
Source: Company, KRChoksey Research

Improved Revenue YOY: PMFL posted revenue of around INR 4128.8 Mn with growth of 7.7% yoy and de-growth of 3.6%. During the quarter the growth was driven by milk products segment and also with expansion in distribution channel but on other hand qoq result de-grew because of de-stocking of goods pre-GST. Revenue growth was an outcome of the performance in its segments like milk products, Fresh milk, skimmed milk powder and others. Liquid Milk & Milk products together contributes to around 86.1% of total revenue and going ahead we assume milk and milk products share to increase around 90% with decrease dependency from skimmed milk powder which is currently 12.5%. Milk product showed growth of 7.9% yoy with revenue at INR 2577 Mn from products like Ghee, Dahi and UHT milk, while fresh Milk growth was affected due to strike by farmers and revenue stood at INR 975 Mn with growth of 4.6%. Skimmed milk powder revenue was at INR 514 Mn with growth of 6.9%. PMFL average procurement remained at 1.2 Mn liters per day and it increased its largest cheese producing capacity from 40 MT/day to 60 MT/day.

Slow down in Margins: PMFL EBIDTA in Q1FY18 was around INR 293.8 Mn with de-growth of 10.9% yoy and 156.7% qoq. Its margins remained lower at 7.1% and were affected due rise in price of raw material by 11% yoy and qoq, also we saw expense like employee cost and other expense rose around 6.5% yoy and 11-12% yoy, respectively which drag down margins to an extend of 148 bps yoy and 499bps qoq. PAT margins for Q1FY18 trend downwards at 2.5% which decrease 27bps yoy and 512bps qoq mainly due to rise in depreciation and decrease in other income, while interest cost remained lower in Q1FY18 by 14.4% yoy and 9.8% qoq. Tax expense remained lower during Q1FY18 due to MAT credit.

Valuations & Outlook: We believe that there is much scope of expansion in overall Indian dairy segment due to shift from unorganized to organized segment, increasing demand from consumers, increasing disposable income, new product launches in value added segment, etc. with industry growth we have optimistic approach towards sector and also players in it. Encouraging factors for Parag milk foods Ltd are that it is present in entire value chain and more than 86.0% of revenue is derived from milk and milk products, it has 2 manufacturing plant with largest cheese plant, Best cow ghee (trusted brand), innovative products, etc, however we remain concerned for the company due to increasing price of milk (raw material) which will affect its margins. We believe that with innovative products in value added segment company would grow its revenue around 14-17% in FY18E and FY19E and PAT margins around 2.2% to 2.4% in FY18E and FY19E. At CMP of INR 236, we recommend "BUY" rating on the stock with the target price of INR 274, with potential upside of 16.0%

SHARE PRICE PERFORMANCE

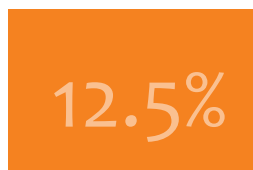


MARKET INFO

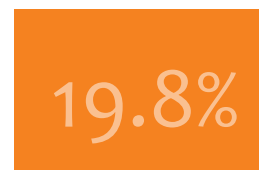
SENSEX	31214
NIFTY	9711

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	48.2	47.48	47.48
FIIIs	21.21	24.4	27.08
DIIIs	8.69	2.25	4.03
Others	21.9	25.86	21.41
Total	100	100	100



Revenue CAGR between FY15 and FY19E



PAT CAGR between FY15 and FY19E

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Q1FY18 Result Snapshot

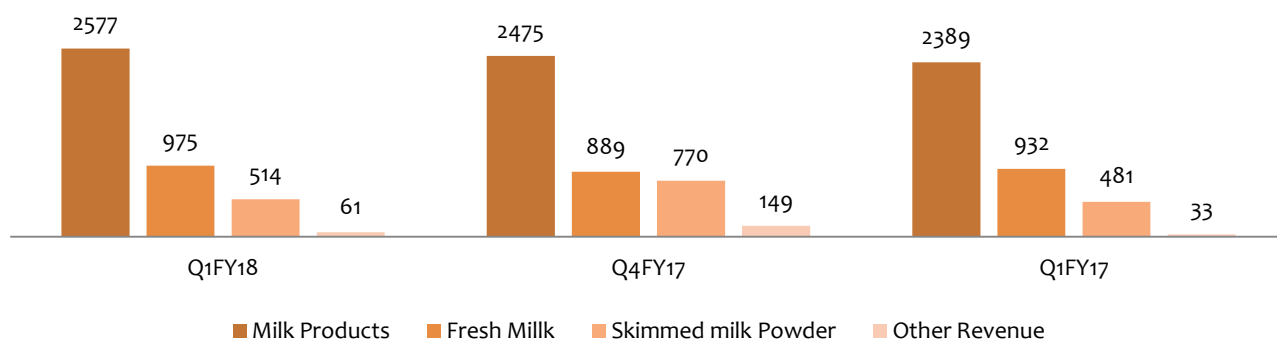
Exhibit 1 – Q1FY18 Quarterly Income Statement (INR Mn)

Particulars	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q % Change	Y-o-Y % Change
Net Sales & Other Operating Income	4128.8	4283.0	3834.7	-3.6%	7.7%
Total Expenditure	3834.9	3764.4	3505.0	1.9%	9.4%
Cost of Raw Materials	3278.0	2954.4	2946.2	11.0%	11.3%
Purchase of Finished Goods	10.8	210.9	14.6	-94.9%	-25.7%
(Increase) / Decrease In Stocks	-359.4	-271.9	-272.8	-32.2%	-31.8%
Employee Cost	189.7	224.0	178.2	-15.3%	6.5%
Operating & Manufacturing Expenses	715.8	647.1	638.8	10.6%	12.1%
EBIDTA	293.8	518.5	329.7	43.3%	-10.9%
EBITDA Margins (%)	7.1%	12.1%	8.6%	-499bps	-148bps
Depreciation	115.6	168.0	98.0	-31.2%	18.0%
EBIT	178.2	350.5	231.6	49.2%	-23.1%
Other Income	15.5	59.1	8.0	-73.9%	92.6%
Interest	79.1	87.7	92.5	-9.8%	-14.4%
PBT	114.5	322.0	147.2	64.4%	-22.2%
Tax	9.3	-6.5	39.0	-42.8%	-76.3%
PAT before Exceptional	105.3	328.5	108.2	-132.0%	-2.7%
PAT Margin (%)	2.5%	7.7%	2.8%	-512bps	-27bps
EPS	1.3	3.9	1.2	-132.0%	4.2%

Source: Company, KRChoksey Research

Segment Revenue (%)

Product wise Revenue



Source: Company, KRChoksey Research

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Concall Highlights:

Management believe that overall performance remain flat and pressure on revenue was due to implementation of GST, also EBIDTA margins were dragged down due to continuous increase in raw milk prices from last many quarters, higher spend on marketing, branding and advertisement, higher other expenses (increase in rental expenses for depots and warehouses). It plans to increase share of value added products which will drive high margins through innovative products. They remain positive for long term growth with revenue to grow around CAGR of 14%, and PAT of around CAGR of 5% in next 3 years.

The revenue growth was mainly driven by growth in consumer products which grew by 8% YoY, however the overall off take was lower which impacted volume growth. During Q1FY18 the average realization was much better as compared to the previous quarters.

- Implementation of GST was welcomed by the business groups but it also had some impact on the revenue and margins during the quarter, the impact is likely to continue for next 1 or 2 quarters. However, after de-stocking the trade is back on track, with rising consumer demand the traders are re-stocking the inventory.
- Also Input tax credit will be available on packaging material. The new GST is likely to improve logistics and it will bring operational efficiency to the company.
- Apart from GST Farmers strike in the state of Maharashtra has impacted numbers which resulted in some temporary losses. The company also lost some business in cheese category due to lower exports.
- The company is currently into expansion mode with the reliance the management expects to gain additional market share through e commerce and social media platform on a national level.
- The company thrives to transform itself from a regional player to a national player through strategies like focusing on strong distribution network, higher spends on branding and advertisement and targeting new set of customers like gym members, dietitians, nutritionist through its new brand avatar
- Out of 150 Crs funds raised through IPO 75% is already utilized in setting up the new plant which is now fully operational. Currently the new plant is likely to run at 55% utilization level. Palamner plant in south India has 60-65% current capacity utilization and it plans to utilized it max up-to 85%
- New launches during the quarter was
 - Avvatar (whey protein) which was marketed in new markets and
 - Entered the mango juice segment market of INR 6000 rs with **Slurp** - a mango drink

New Product Launches in Q1FY18

Avvatar – Whey Protein powder was commercially launched into new markets



Slurp - a mango drink made from the finest Alphonso mangoes with a dash of milk



Source: Company, KRChoksey Research

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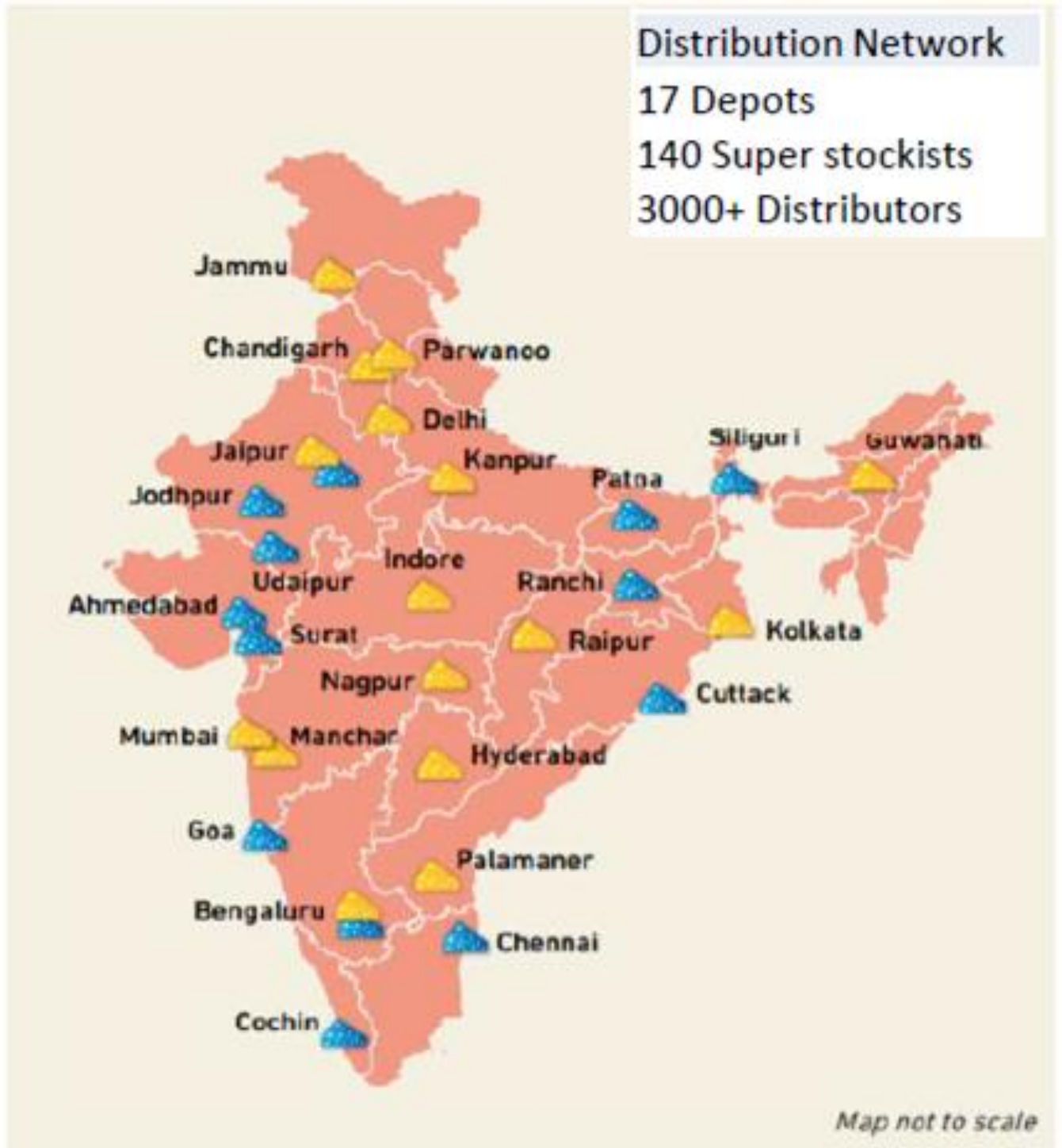
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Pan India Distribution Network:



Source: Company, KRChoksey Research

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Exhibit 2 - Income Statement (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Net Sales	14405.2	16451.3	17307.4	19802.8	23112.1
EXPENDITURE :					
Cost of Materials Consumed	10833.5	11014.3	13405.9	14316.6	16730.7
Purchase of Stock In Trade	392.4	1383.0	734.4	867.4	1012.3
(Increase) / Decrease In Stocks	-217.0	-621.7	-1552.0	-722.8	-877.3
Total RM Costs	11008.9	11775.6	12588.3	14456.1	16871.8
Employee Cost	574.9	701.1	794.5	852.5	995.5
Other Expenses	1739.8	2498.6	2843.0	3227.9	3744.2
Total Expenditure	13323.5	14975.3	16225.8	18536.4	21611.4
Operating Profit (EBIDTA)	1081.7	1476.0	1081.6	1266.4	1500.7
EBIDTA Margin %	7.5%	9.0%	6.2%	6.4%	6.5%
Depreciation	275.3	333.9	489.6	534.7	647.1
Operating Profit (EBIT)	806.4	1142.1	592.0	731.8	853.5
Other Income	0.0	16.2	109.9	158.4	184.9
Interest	493.9	490.4	332.8	310.4	294.9
PBT (Excl'd Exceptional)	312.5	667.9	369.1	579.7	743.5
Exceptional Income / Expenses	0.0	0.0	193.8	0.0	0.0
Profit before Tax	312.5	667.9	175.3	579.7	743.5
Provision for Tax	52.82	194.71	4.0	162.3	208.2
Profit After Tax	259.7	473.2	171.3	417.4	535.3
PAT Margin %	1.8%	2.9%	1.0%	2.1%	2.3%

Source: Company, KRChoksey Research

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Exhibit 3 - Balance Sheet (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EQUITY AND LIABILITIES					
Share Capital	159.7	704.2	841.2	841.2	841.2
Total Reserves	1079.2	2914.6	5733.0	6150.4	6685.7
Shareholder's Funds	1238.9	3618.8	6574.1	6991.5	7526.8
Long-Term Borrowings	1722.8	1248.4	713.3	677.6	643.7
Deferred Tax Assets / Liabilities	59.9	109.6	98.7	98.7	98.7
Other Long Term Liabilities	211.6	180.8	165.2	189.1	220.6
Long Term Provisions	4.6	6.1	15.6	17.8	20.8
Total Non-Current Liabilities	1998.8	1544.9	992.8	983.2	983.9
Current Liabilities					
Short Term Borrowings	2474.9	2358.2	1620.9	1539.8	1462.8
Trade Payables	1931.4	1678.3	3118.7	3334.0	3804.5
Other Current Liabilities	1590.6	667.6	977.1	990.1	1155.6
Short Term Provisions	4.9	41.8	15.3	17.6	20.5
Total Current Liabilities	6001.9	4745.9	5732.0	5881.5	6443.5
Total Liabilities	9239.5	9909.6	13298.9	13856.2	14954.2
ASSETS					
Net Block	3193.9	3725.5	3794.4	3870.2	3947.7
Non Current Investments	3.06	0.05	0.06	0.06	0.06
Long Term Loans & Advances	665.5	157.2	707.9	693.1	808.9
Other Non Current Assets	18.2	11.1	18.7	21.4	25.0
Total Non-Current Assets	3880.6	3893.9	4521.0	4584.8	4781.7
Current Assets					
Inventories	2118.9	2724.3	4285.2	4549.9	5271.3
Sundry Debtors	1708.9	2359.9	2150.2	2224.4	2596.2
Cash and Bank	53.0	76.8	1008.5	1130.7	710.3
Short Term Loans and Advances	974.3	454.6	877.9	891.1	1040.0
Other Current Assets	503.5	400.2	456.1	475.3	554.7
Total Current Assets	5358.6	6015.7	8777.9	9271.4	10172.6
Total Assets	9239.2	9909.6	13298.9	13856.2	14954.2

Source: Company, KRChoksey Research

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Exhibit 4 - Cash flow statement (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
PBT	312.5	667.9	175.3	579.7	743.5
Add: Depreciation	275.3	333.9	489.6	534.7	647.1
Add: Interest	493.9	478.1	305.8	310.4	294.9
Cash flow from Operations	710.6	587.2	640.3	1518.7	895.5
Cash flow from Investing Activity	-223.4	-316.1	-1505.9	-654.8	-743.2
Cash flow from Financing Activity	-423.2	-264.3	1224.8	-427.1	-405.8
Net change in Cash (Inflow/Outflow)	64.2	6.6	359.1	436.7	-253.5
Cash & Bank Balance at the end of the year	95.0	76.8	1008.5	1130.6	710.3

Source: Company, KRChoksey Research

Exhibit 5 - Ratio Analysis

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EPS	16.3	6.7	5.2	5.9	7.6
BV	77.6	51.4	93.4	99.3	106.9
DPS	0	0	0	0	0
EBITDA Margin (%)	7.5%	9.0%	6.2%	6.4%	6.5%
PAT Margin (%)	1.8%	2.9%	2.1%	2.1%	2.3%
Net Sales Growth %	32.2%	14.2%	5.2%	14.4%	16.7%
EBIDTA Growth %	29.5%	36.5%	-26.7%	17.1%	18.5%
PAT Growth %	62.6%	82.2%	-22.8%	14.3%	28.2%
PE (x)	14.5	35.1	45.5	39.8	31.0
Price/BV	3.0	4.6	2.5	2.4	2.2
EV/EBITDA	7.3	13.7	16.6	14.0	12.0
EV/Sales	0.5	1.2	1.0	0.9	0.8
ROE (%)	21.0%	13.1%	5.6%	6.0%	7.1%
Debt/Equity	3.4	1.0	0.4	0.3	0.3

Source: Company, KRChoksey Research

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Parag Milk Foods Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
11-Aug-17	236	274	BUY	Buy	More than 15%
01-Jun-17	237	274	BUY		
12-Apr-17	251	274	ACCUMULATE	Accumulate	5% – 15%
15-Feb-17	213	274	BUY		
10-Nov-16	304	392	BUY	Hold	0 – 5%
11-Aug-16	326	392	BUY		
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Nirvi Ashar (B.com, MBA), research analyst, & 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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