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Q1FY21 result review and
TP revision

Dairy

Target price: Rs104

Target price revision

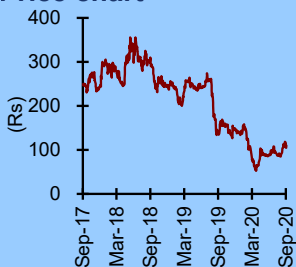
Rs104 from Rs100

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	46.2	46.2	46.2
Institutional investors			
MFs and other	27.0	21.2	19.5
FIs/Banks	0.6	0.6	0.0
Venture Capital	0.1	0.1	0.1
FII	6.0	0.0	0.0
FII	20.3	20.5	19.4
Others	26.8	32.6	34.3

Source: BSE

Price chart



Parag Milk Foods

HOLD
Maintained

Lower B2B sales leads to revenue decline

Rs108

Key reasons for weak Q1FY21 performance: (1) Steep decline in sales to B2B segment (i.e. HoReCa segment and ingredient user industry) due to lockdown. However, there was some recovery in in-home consumption, (2) Lower sales of SMP with decline in SMP prices and (3) 220bps lower EBITDA margin due to consumption of higher priced inventory carried from earlier quarters. We expect the (1) revenues of core products (paneer, cheese, ghee etc.) to gradually recover Q2FY21 onwards, (2) There will be slower recovery in HoReCa segment, (3) Liquid milk segment is expected to reported single digit growth in FY21 and (4) with reduction in milk procurement prices, EBITDA margin is likely to expand to 9.6% in FY22 from 8.7% in FY20. Maintain HOLD rating with a DCF based revised target price of Rs104 (8x FY22E EPS; earlier TP Rs100).

- ▶ **Steep decline in B2B sales impacted revenues:** Parag reported revenue decline of 30.8% YoY due to decline in demand from (1) HoReCa segment and (2) closure of ingredient user industry. However, there was some increase in in-home-consumption of products like ghee, cheese, paneer and UHT milk.
- ▶ **Segment-wise performance:** Milk products reported revenue growth of 11.2% YoY. SMP sales declined 27.7%, YoY with decline in SMP prices. Fresh milk sales were down 44.5% YoY. The company focussed more on its core business categories such as cheese, ghee, paneer and curd in Q1FY21.
- ▶ **Gross margin declines in-spite of lower procurement prices:** Gross margin declined 100bps YoY due to (1) change in revenue mix and (2) higher inventory carried from earlier quarters. EBITDA margin too declined 220bps due to negative operating leverage. Company initiated cost savings measures in Q1FY21. Some costs saving measures are structural in nature. PAT decline was 88% YoY.
- ▶ **Expect recovery Q2FY21 onwards:** With gradual re-opening of markets, the demand of consumer products like ghee, cheese, paneer and UHT is improving. Also, demand from HoReCa segment is expected to revive gradually in the coming quarters. The benefit of lower milk procurement prices (~25% reduction YoY) will be seen Q2FY21 onwards.
- ▶ **Slower recovery in HoReCa:** While we expect the liquid milk, cheese, paneer and ghee sales to normalise in Q2FY21, we expect slower revival in off-take from HoReCa. We expect demand from HoReCa to be lower in rest of FY21, YoY.
- ▶ **Maintain HOLD:** We model Parag to report revenue and PAT CAGR of 2.2% and 8.3%, respectively over FY20-FY22E. We maintain HOLD rating on the stock with DCF-based revised target price of Rs104 (8x FY22E EPS; earlier TP Rs100).

Market Cap	Rs9.1bn/US\$124mn	Year to March	FY19	FY20P	FY21E	FY22E
Reuters/Bloomberg	PAMF.BO/ PARAGIN	Net Revenue (Rs mn)	23,957	24,379	23,165	25,481
Shares Outstanding (mn)	84.1	Net Profit (Rs mn)	1,207	937	869	1,099
52-week Range (Rs)	169/52	Dil. EPS (Rs)	14.4	11.2	10.4	13.1
Free Float (%)	53.8	% Chg YoY	38.7	(22.4)	(7.3)	26.5
FII (%)	19.4	P/E (x)	7.5	9.6	10.4	8.2
Daily Volume (US\$'000)	1,081	CEPS (Rs)	20.4	17.6	17.4	20.8
Absolute Return 3m (%)	20.2	EV/EBITDA (x)	5.6	6.0	5.9	5.2
Absolute Return 12m (%)	(20.9)	Dividend Yield (%)	0.0	0.0	0.0	0.0
Sensex Return 3m (%)	12.7	RoCE (%)	16.8	13.4	11.7	12.5
Sensex Return 12m (%)	5.0	RoE (%)	15.9	11.0	9.2	10.6

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Table 1: Q1FY21 financial performance

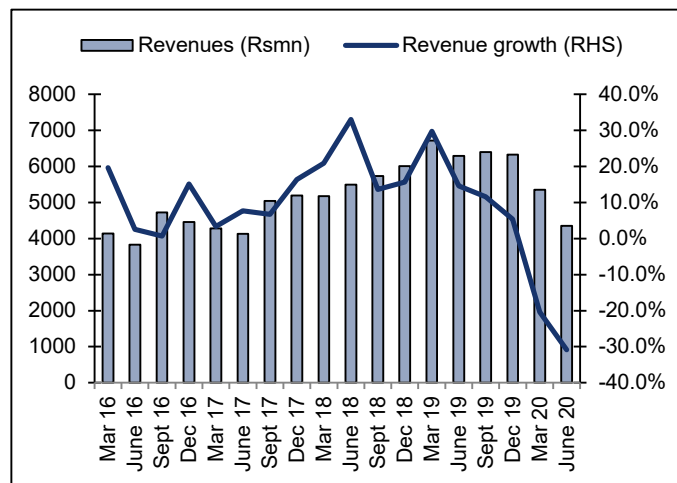
(Rs mn, year ending March 31)

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Revenue	4,356	6,297	(30.8)	5,352	(18.6)
Expenditure					
Raw materials	3,233	4,613	(29.9)	4,059	(20.4)
% of revenue	74.2	73.3		75.8	
Employee cost	196	267	(26.7)	192	2.1
% of revenue	4.5	4.2		3.6	
Other expenditure	630	849	(25.8)	701	(10.1)
% of revenue	14.5	13.5		13.1	
Total expenditure	4,059	5,729	(29.2)	4,952	(18.0)
EBITDA					
	297	569	(47.7)	400	(25.7)
EBITDA margin	6.8	9.0		7.5	
Other income	15	28	(48.0)	9	55.9
PBDIT	312	597	(47.7)	409	(23.9)
Depreciation	132	133	(0.5)	137	(3.7)
PBIT	180	464	(61.3)	272	(34.0)
Interest	110	93	18.0	89	23.5
PBT	70	371	(81.2)	183	(62.0)
Prov for tax	37	96	(61.0)	82	(54.6)
% of PBT	53.5	25.8		44.8	
Adjusted PAT	32	275	(88.2)	101	(68.0)
Extra ordinary items	(0)	0		3	
Reported PAT	32	275	(88.4)	104	(69.2)

Source: Company data, I-Sec research

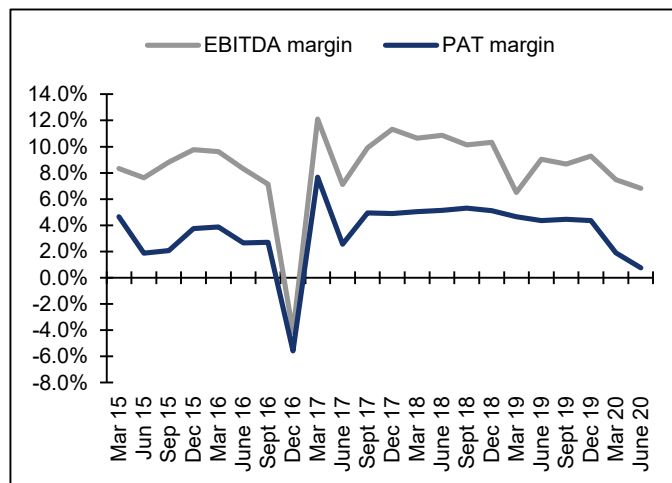
Key performance highlights

Chart 1: Revenues and revenue growth



Source: Company data, I-Sec research

Chart 2: EBITDA and PAT margins



Source: Company data, I-Sec research

Valuation and risks

We expect Parag to report PAT CAGR 8.3% over FY20- FY22E. We value the stock on DCF basis with a revised target price of Rs104 (earlier: Rs100). At this target price, the implied P/E works out to 8x FY22E EPS. We maintain our HOLD rating on the stock.

Table 2: DCF-based valuation

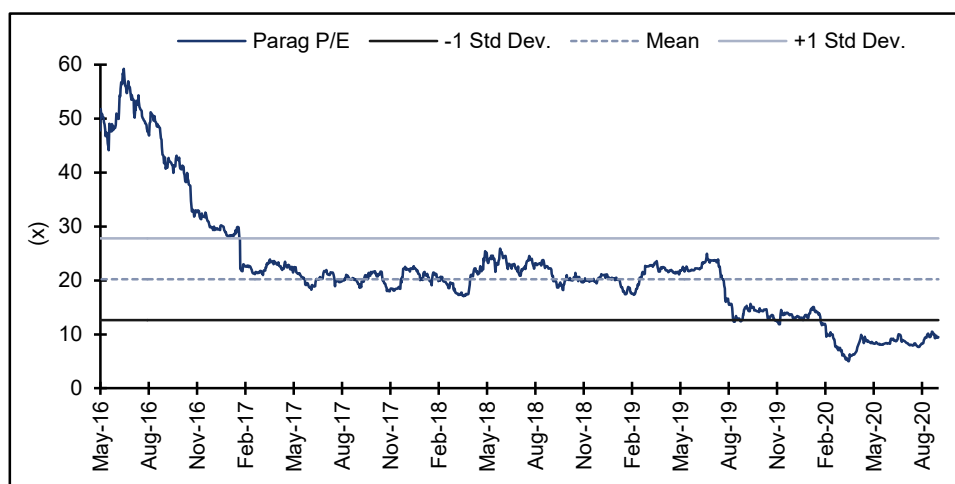
Particulars	Amt (Rs)
Cost of Equity (%)	12.3%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (Rsmn)	4,368
Discounted terminal value (Rsmn)	4,344
Total equity value (Rsmn)	8,712
Value per share (Rs)	104

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 20x since its listing. As of now, it is trading below mean P/E – 1SD.

Chart 3: Mean P/E and standard deviation



Source: Company data, I-Sec research

Risks

Lower-than-expected off-take of new products

Any failure of new products may impact our estimates.

Sharp increase in input prices

Any major increase in commodity prices will impact our estimates.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Sales	23,957	24,379	23,165	25,481
Operating Expenses	21,722	22,268	21,010	23,047
EBITDA	2,235	2,111	2,155	2,434
% margins	9.3	8.7	9.3	9.6
Depreciation & Amortisation	502	536	595	650
Gross Interest	358	381	463	463
Other Income	103	76	76	164
Recurring PBT	1,478	1,270	1,174	1,485
Less: Taxes	271	333	305	386
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,207	937	869	1,099
Extraordinaries (Net)	1	4	-	-
Recurring Net Income	1,208	940	869	1,099

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	9,210	11,714	12,434	13,893
of which cash & cash eqv.	120	278	1,369	1,861
Total Current Liabilities & Provisions	3,685	3,881	3,729	4,102
Net Current Assets	5,525	7,833	8,705	9,790
Investments	696	678	678	678
Net Fixed Assets	4,058	4,297	4,322	4,272
Capital Work-in-Progress	290	70	-	-
Total Assets	10,569	12,878	13,704	14,741
Liabilities				
Borrowings	2,464	3,854	3,854	3,854
Deferred Tax Liability	(167)	(88)	(88)	(88)
Minority Interest	-	-	-	-
Equity Share Capital	839	839	839	839
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	7,432	8,272	9,099	10,135
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	8,271	9,112	9,938	10,974
Total Liabilities	10,569	12,878	13,704	14,741

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sept 19	Dec 19	Mar 20	June 20
Net sales	6,400	6,329	5,352	4,356
% growth (YoY)	11.6	5.4	(20.4)	(30.8)
EBITDA	555	588	400	297
Margin (%)	8.7	9.3	7.5	6.8
Other income	31	8	9	15
Extraordinaries (Net)	0	0	3	(0)
Adjusted Net profit	285	276	101	32

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	2,227	1,477	1,463	1,749
Working Capital Changes	(1,134)	(2,150)	219	(594)
Capital Commitments	(850)	(555)	(550)	(600)
Free Cashflow	243	(1,228)	1,132	555
Cashflow from Investing Activities	128	18	-	-
Issue of Share Capital	13	-	-	-
Inc (Dec) in Borrowings	(545)	1,390	-	-
Dividend paid	(76)	(101)	(42)	(63)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	(237)	157	1,090	492

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	14.4	11.2	10.4	13.1
Cash EPS	20.4	17.6	17.4	20.8
Dividend per share (DPS)	1.0	0.5	0.8	1.0
Book Value per share (BV)	96.6	107.6	117.4	129.8
Growth (%)				
Net Sales	22.6	1.8	(5.0)	10.0
EBITDA	15.6	(5.5)	2.1	13.0
PAT	38.7	(22.4)	(7.3)	26.5
Cash EPS	38.7	(22.4)	(7.3)	26.5
Valuation Ratios (x)				
P/E	7.5	9.6	10.4	8.2
P/CEPS	5.3	6.1	6.2	5.2
P/BV	1.1	1.0	0.9	0.8
EV / EBITDA	5.6	6.0	5.9	5.2
EV / Sales	0.5	0.5	0.5	0.5
Operating Ratios				
Raw Material / Sales (%)	69.2	74.4	73.6	73.3
Employee cost / Sales (%)	4.0	3.9	4.0	4.0
SG&A / Sales (%)	4.0	3.5	3.5	3.5
Other Income / PBT (%)	6.9	6.0	6.5	11.0
Effective Tax Rate (%)	18.3	26.2	26.0	26.0
Working Capital (days)	82.3	113.1	115.6	113.6
Inventory Turnover (days)	70.5	94.8	94.9	94.9
Receivables (days)	42.5	45.4	45.6	45.6
Payables (days)	56.0	58.0	58.4	58.4
Net D/E (x)	0.3	0.4	0.3	0.2
Profitability Ratios (%)				
Net Income Margins	5.0	3.8	3.7	4.3
RoACE	16.8	13.4	11.7	12.5
RoAE	15.9	11.0	9.2	10.6
Dividend Payout	6.9	4.5	7.2	7.6
Dividend Yield	0.9	0.5	0.7	0.9
EBITDA Margins	9.3	8.7	9.3	9.6

Source: Company data, I-Sec research

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