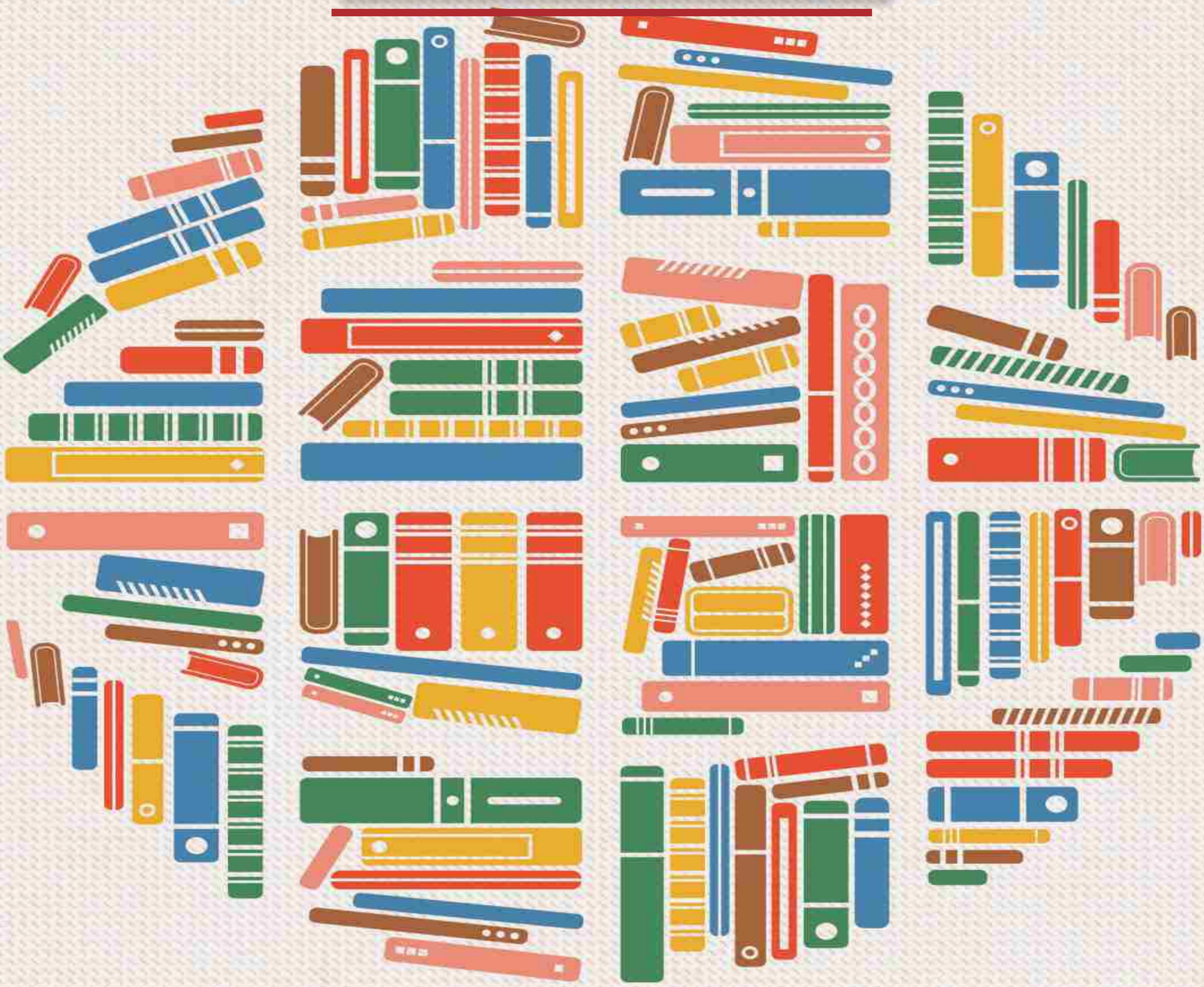
September 20, 2022

# Stock TALES



**Stock Tales** are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

# Patanjali Foods (RUCSOY)

CMP: ₹ 1401 | Target: ₹ 1750 (25%) | Target Period: 12-18 months | **BUY**

September 20, 2022

## Leveraging Patanjali brand, reach for growth…

**About the stock:** Patanjali Foods (PFL) is one of the largest edible oil companies in India with oilseed extraction (mustard, soybean & others) & refining capacity of 3.9 million tonnes per annum (MTPA). This includes seven standalone coastal refineries for processing imported crude palm oil (CPO). PFL also has a sizable food business, which includes soya chunks & soya flour under 'Nutrela' brand. It acquired the biscuits, noodles and breakfast cereals business from Patanjali Ayurveda (PAL) in May-June 2021 and remaining foods business portfolio of PAL in July 2022, which includes ₹ 4173 crore of sales through products under categories like cow ghee, edible oil, honey, Chyawanprash, atta, pickles, juices, jams & ketchup. The company also forayed into nutraceutical and wellness products in FY22.

- Revenue, earnings grew at CAGR of 35.8%, 89.6%, respectively, in FY20-22
- PFL repaid entire debt in April 2022 from the proceeds of FPO in March 2022

### Key triggers for future price performance:

- PFL has 3.9 million tonnes (MT) of oilseed crushing & refining capacity with current utilisation of 40%. The company would be able to increase capacity utilisation by leveraging its existing & Patanjali brand to drive volumes
- Acquired foods business of PAL commands 16% operating margins with high sales contribution of ghee, juices, atta and honey. With consolidation of foods business, overall margins of the company to see an uptick
- Backward integration in palm plantation is likely to reduce its dependency on imported CPO. Moreover, expansion in palm extraction capacities by the company would help in improving margin in the edible oil business in the next three to five years
- The combined distribution network of PAL & PFL has expanded the company's reach to 1 million retail touch points. Further, its products can be promoted & advocated through more than 3000 Patanjali health centres

**What should investors do?** PFL's share price has gone up 34% in last one year.

- We initiate coverage on PFL under Stock Tales format with a **BUY** rating and a target price of ₹ 1750/share

**Target Price & Valuation:** We value PFL at 40x FY24 earnings to arrive at a target price of ₹ 1750/share.

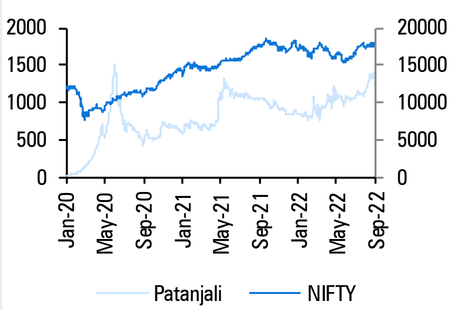
**Alternate Stock Idea:** We also like TCPL in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampann & Soulful in India market expected to drive sales & margins
- We value the stock at ₹ 950 on ascribing 55x FY24 earnings multiple

**Particulars**

| Particulars (₹ crore) | Amount |
|---|---|
| Market Capitalization | 50,721.1 |
| Total Debt (FY22) | 3,695.2 |
| Cash and Investments (FY22) | 2,028.8 |
| EV | 52,387.4 |
| 52 week H/L (₹) | 1415 / 706 |
| Equity capital | 72.4 |
| Face value (₹) | 2.0 |

**Share Price Performance**




**Shareholding Pattern**

| (in %) | Sep-21 | Sep-21 | Mar-22 | Jun-22 |
|---|---|---|---|---|
| Promoter | 98.9 | 98.9 | 98.9 | 80.8 |
| FII | 0.0 | 0.0 | 0.0 | 2.4 |
| DII | 0.0 | 0.0 | 0.0 | 2.3 |
| Others | 1.1 | 1.1 | 1.1 | 14.6 |

**Key risks**

- **Key Risk:** (i) Vegetable oil price volatility could impact margins significantly given edible oil is low margin commoditised business (ii) Meagre spend on advertisement can impact volume growth

**Research Analyst**

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**Key Financial Summary**

| ₹ Crore | FY20 | FY21 | FY22 | 2 Year CAGR (FY20 to FY22) | FY23E | FY24E | FY25E | CAGR FY22-25E |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 13,117.8 | 16,318.6 | 24,205.4 | 35.8% | 29,370.8 | 32,771.5 | 36,601.2 | 14.8% |
| EBITDA | 400.9 | 954.0 | 1,487.0 | 92.6% | 1,793.9 | 2,200.1 | 2,646.0 | 21.2% |
| EBITDA Margin % | 3.1 | 5.8 | 6.1 | | 6.1 | 6.7 | 7.2 | |
| Adjusted Net Profit | 224.4 | 680.8 | 806.3 | 89.6% | 1,119.4 | 1,572.6 | 1,909.0 | 33.3% |
| Adjusted EPS (₹) | 7.6 | 23.0 | 27.3 | 89.6% | 30.9 | 43.5 | 52.7 | 24.6% |
| Adjusted P/E (x) | 184.7 | 60.9 | 51.4 | | 45.3 | 32.3 | 26.6 | |
| RoCE (%) | 3.6 | 10.2 | 13.2 | | 15.6 | 17.3 | 19.0 | |
| RoE (%) | 6.7 | 16.8 | 13.1 | | 11.3 | 14.2 | 15.3 | |

*Source: ICICI Direct Research, Company*

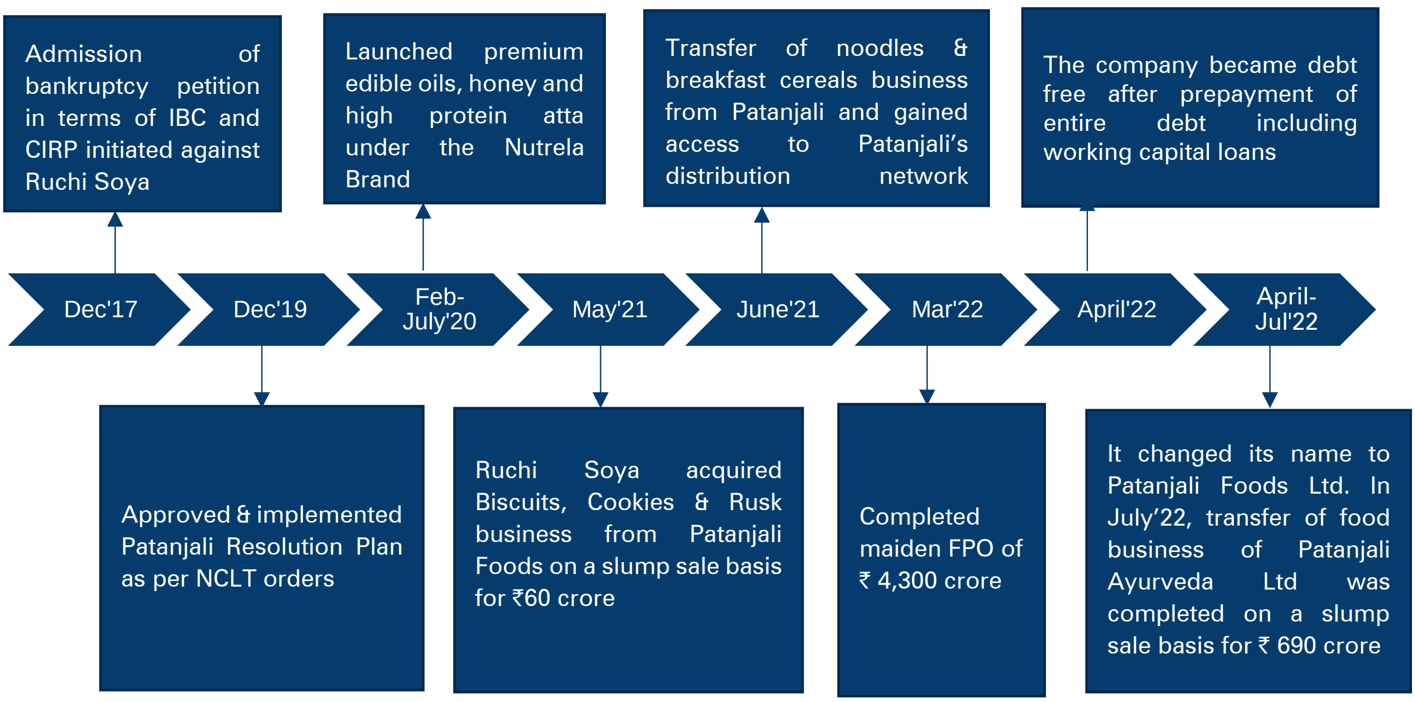
## Company Background

Patanjali foods (erstwhile Ruchi Soya) was admitted to the IBC process in 2017-20 and acquired by Patanjali Ayurveda (PAL) through a resolution plan in 2019. Patanjali Foods (PFL) is one of the largest edible oil companies in India with oilseed extraction (mustard, soybean & others) capacity of 3.9 MTPA in 10 plants in Madhya Pradesh (MP), Rajasthan and Maharashtra. Further, seven of these plants have integrated refining capacity to produce edible oil. The company also has seven coastal standalone refineries specifically for processing imported crude palm oil (CPO). Currently, its edible oil capacity utilisation is close to ~40%. Given the government is encouraging farmers in coastal regions to undertake palm plantation to reduce dependency on imported palm oil, PFL has set up two palm fruit processing plants in Andhra Pradesh (AP) with annual capacity of 0.9 MT. Given, 6.0 lakh hectare of palm plantation area allocated to the company, it would ensure swift supply of palm fruit for its palm fruit processing units and refineries.

The company also has a sizable foods business, which includes soya products like textured soya protein (soya chunks) & soya flour under 'Nutrela' brand. The company acquired the biscuits, noodles & breakfast cereals business from Patanjali Ayurveda (PAL) in May-June 2021. These categories accounts for ₹ 898 crore of sales in FY22. It also acquired the remaining foods business portfolio of Patanjali Ayurveda in July 2022, which includes ₹ 4173 crore of sales through products under categories like cow ghee, edible oil, honey, Chyawanprash, atta, pickles, juices, jams & ketchup. The company also forayed into nutraceutical & wellness products in FY22.

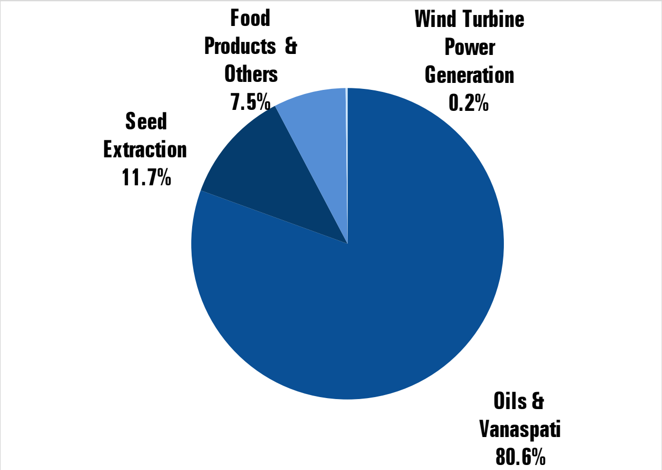
The edible oil by-products help company operate in oleo chemicals business close to its refineries. PFL has 42,000 tonnes of soap noodles, 9000 tonnes of refined Glycerine, 35000 tonnes of split fatty acids manufacturing capacities. It also has 15000 tonnes of castor derivatives & 33600 tonnes of toilet soap capacities. The company generates ₹169 crore of sales from this business. PFL has 84.6 MW of wind power capacity generating ₹ 41.9 crore of sales in FY22.

Exhibit 1: Key developments of company



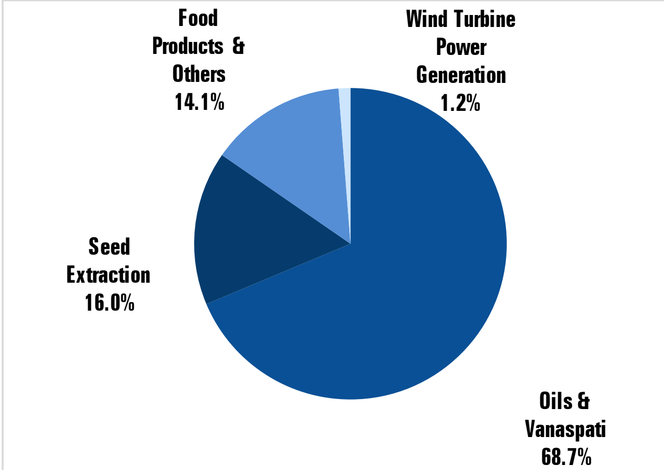

*Source: ICICI Direct Research, Company*

Exhibit 2: Segment wise revenue (FY22)




*Source: Company, ICICI Direct Research*

Exhibit 3: Segment wise EBIT (FY22)




*Source: Company, ICICI Direct Research*

Exhibit 4: Strong brands across various food & edible oil categories


*Source: ICICI Direct Research, Company*

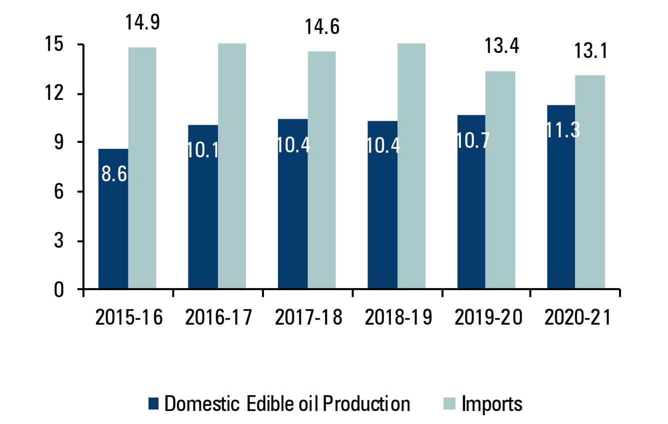
# Investment Rationale

## Scale up edible oil business through high capacity utilisation

Indian edible oil consumption is 24 MT and accounts for ~₹ 2.5 crore (our estimate). This included 11 MT of edible oil produced domestically from soybean, rapeseed, mustard, groundnut, sunflower, safflower & nigar seeds. Further, palm oil, coconut, rice bran, cotton seed & tree borne oilseeds are also some of the secondary sources of edible oil production in India. However, soybean & mustard remain the largest sources of edible oil production in India. Moreover, ~13 MT of edible oil is imported largely in the form of crude and refined palm oil from Indonesia & Malaysia. Palm oil constituted 60% (8 MT) of India's edible oil import. Given, palm oil is largely used by food processing units and hotels, restaurants & café (HORECA), it constitutes 38% of India's total edible oil consumption followed by soya oil at 20%, rapeseed/mustard oil at 12% and sunflower oil at 9%.

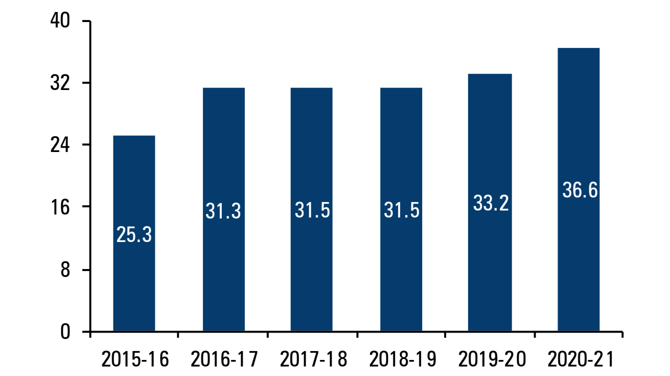
*Palm oil is 38% of India's edible oil consumption largely used by food processing & HORECA industry. Moreover, palm oil constitutes 60% of total edible oil import by India*

Exhibit 5: Indian edible oil consumption (in million tonnes)




Source: Company, ICICI Direct Research *year from November to October

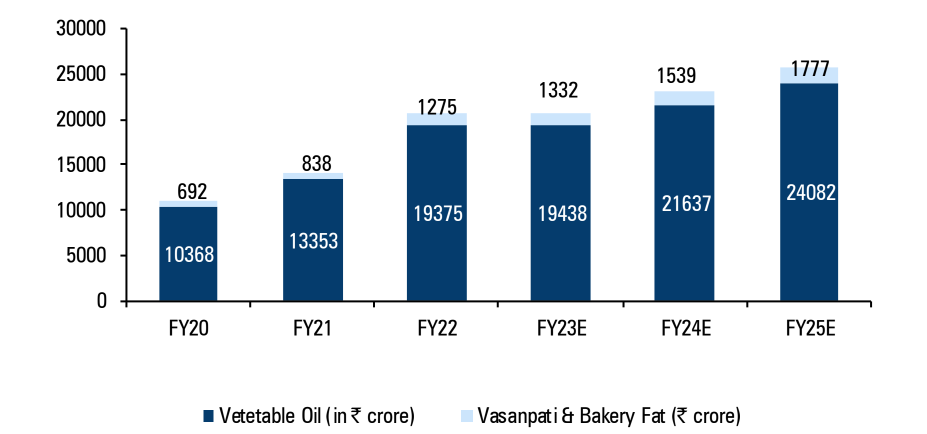
Exhibit 6: Oilseed production in India (in million tonnes)




Source: Company, ICICI Direct Research

In terms of user industries, 62% of edible is consumed by households, 20% by HORECA & 18% by food processing industry (largely in bulk). With the growing consumption level and shift towards high quality branded products, edible oil consumption in India is likely to grow at 6% CAGR by FY25, which would be 27 MT in terms of volume. However, we believe the edible oil category grew significantly in the last one year due to a steep price increase in imported palm & sunflower oil. With the dip in vegetable oil (palm, soya & sunflower) in the last few months, the edible oil category is likely to de-grow in the near term (six to nine months). PFL has 3.9 MT of oilseed crushing & refining capacity. Currently, capacity utilisation is close to 40%. We expect PFL to witness 7.5% & 11.7% sales CAGR in refined oil and Vanaspati & bakery segments, respectively, over FY22-25E.

Exhibit 7: Edible oil segment sales trend




Source: ICICI Direct Research, Company

PFL accounts for ~7% market share in the Indian edible oil market worth ~24 MT. The capacity utilisation of its existing oilseed crushing & refining capacity is 40%. We believe the company has significant capacity (3.9 MT of oilseed extraction & refining) to scale up its utilisation in inland facilities by increasing the sourcing of soybean, mustard and other oilseeds. It is important to note that the government is encouraging farmers to increase oilseeds production to reduce the dependency on imports. Further, the company is focusing on palm oil plantation in AP, Telangana & North Eastern states to reduce dependence on import of crude palm oil. PFL has set up two fruit processing plants to produce crude palm oil and it also has coastal refineries in AP and Tamil Nadu (TN) to further process CPO. We believe higher utilisation of capacities would drive volumes for company over the next five years. Moreover, a reduction in import of CPO would improve margins, going forward.

*We believe higher utilisation of capacities would drive volumes for PFL over the next five years. Moreover, backward integration in palm crushing capacities would reduce import dependency on CPO & improve margin, going forward*

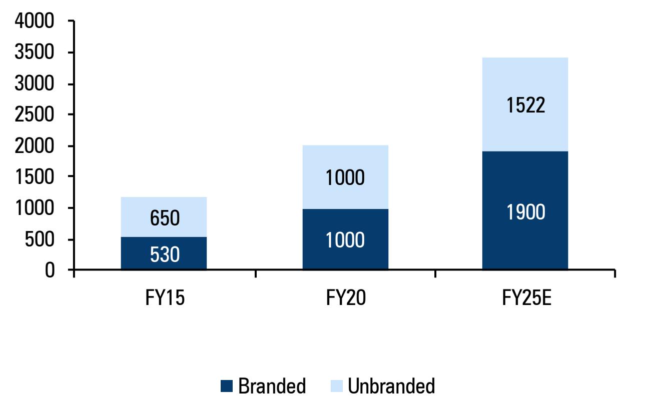
## Acquired foods business to drive growth in future

PFL is present in multiple foods categories, which either have a large opportunity size or potential to covert unbranded consumption to branded. In its erstwhile form, the company was present in a small category of soya products (FY22 sales of ₹ 506 crore) with a market share of 40%. It acquired PAL's biscuit, noodles & breakfast cereal business in May-June 2021 (sales of ₹ 898 crore in FY22) at a slump sales basis for ₹ 60 crore. Moreover, the company merged the remaining foods business of PAL in July 2022 (sales of ₹ 4173 crore in FY22) for a consideration of ₹ 690 crore. With the integration of the foods business in one entity, the company is now present in high opportunity size categories like cow ghee, Chyawanprash, juices, honey, atta, biscuits, noodles, breakfast cereals among others.

We believe many of these food categories have large potential to grow over the years converting unbranded consumption to branded. The company would be able to leverage brand equity of 'Patanjali' to grow these categories. PFL has extended 'Nutrela' brand in the atta and honey category in FY21 to grow this brand in large opportunity size categories. We believe extension of 'Nutrela' & 'Patanjali' in newer categories would help the company grow its foods business at a sustainable pace in future. We expect foods business growth to outpace edible oil, going forward. The company has access to four contract manufacturing units in Rajasthan, Uttarakhand and Haryana under 'Patanjali Assignment agreement'. The contract manufacturing of the foods business makes foods an asset light business for the company. PFL would pay royalty to PAL for the use of the 'Patanjali' brand, which is 1% for nutraceutical business and 0.5% for other businesses.

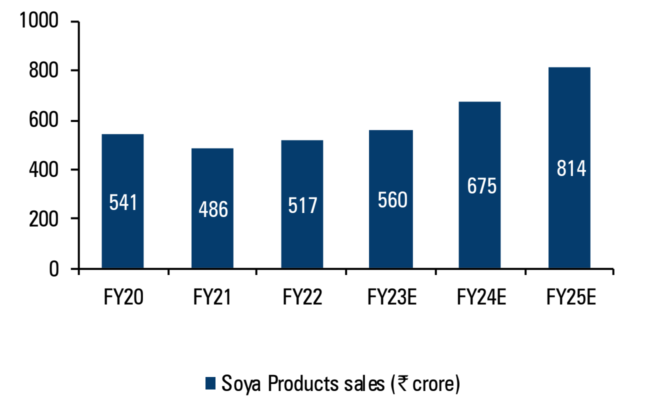
*PFL would be able to leverage 'Nutrela' & 'Patanjali' brand by extending these brands in multiple food categories with large opportunity size*

Exhibit 8: Soya product market size in India (in ₹ crore)




Source: Company, ICICI Direct Research

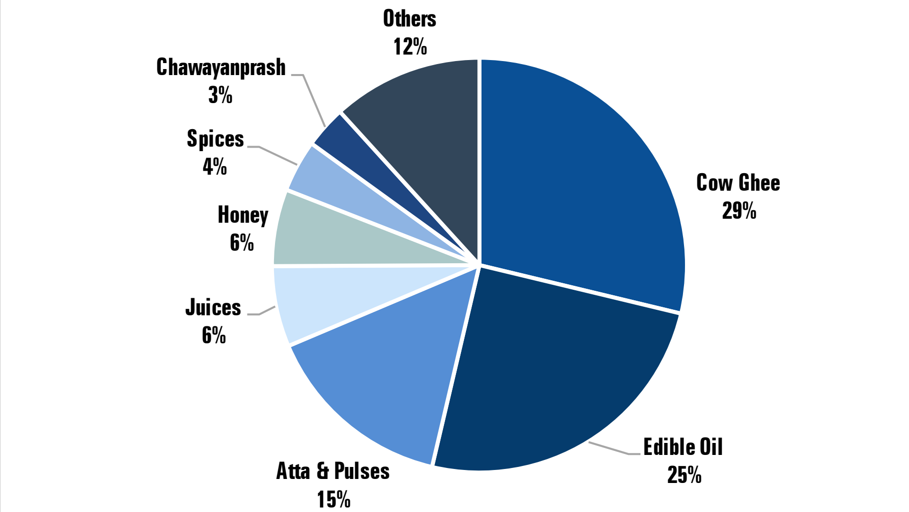
Exhibit 9: Patanjali's soya product sales (₹ crore)




Source: Company, ICICI Direct Research

The size of the atta category in India is ~₹ 1 lakh crore, of which only 15% is branded atta. We believe the opportunity to convert large unbranded consumption would help the branded atta category to grow at a fast pace over a long period of time. Similarly, the company has products in large unbranded categories such as pulses, spices and dry fruits, which can leverage the Patanjali & Nutrela brands and the company's distribution network to grow at a sustainable pace. Generally, FMCG brands either grow in a particular state or urban region first and then expand to the larger masses. However, Patanjali brands have grown in smaller towns and rural regions first. Many of the PFL's food products are niche. These brands have great appeal in tier-II, III & rural regions. This makes the company a unique proposition that converts many unbranded categories into branded.

Exhibit 10: Acquired food business sales by category (FY22)




Source: ICICI Direct Research, Company

## Leveraging tailwinds of natural, Ayurveda consumption

*Foods business commands strong 16% operating margins. Consolidation of foods business with PFL would expand its overall operating margins, going forward*

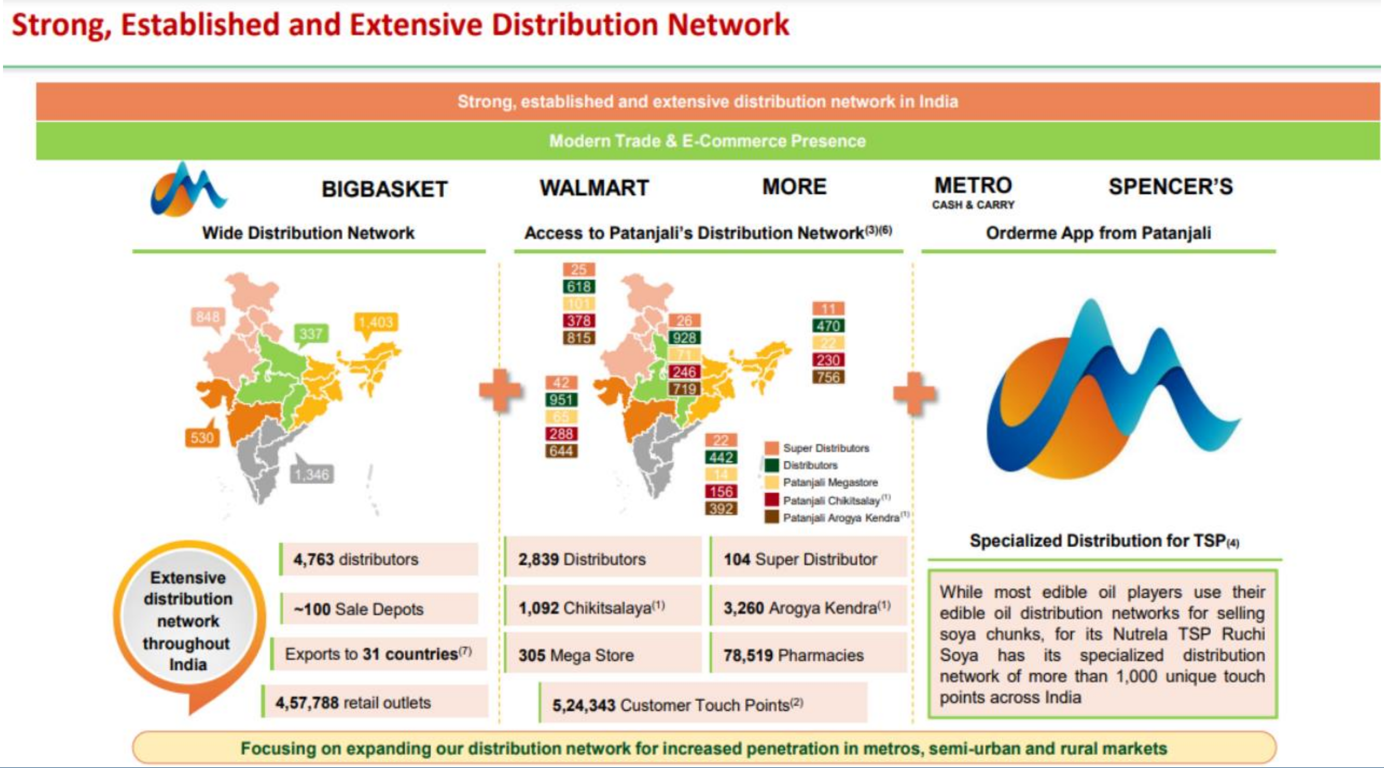
In the last few years, Ayurveda, naturals & immunity boosting products like Chyawanprash and honey have seen robust growth, specifically in a post-Covid world. Given Patanjali brands are associated with Ayurveda & naturals products, PFL would be able to leverage the tailwinds of healthier consumption. Acquired foods business consists of ₹ 262 crore sales of juices (Aloe Vera, amla juices among others), ₹ 136 crore of Chyawanprash, ₹ 250 crore of honey & ₹ 1197 crore of cow ghee. These products offer a health and wellness proposition. We believe niche juices and honey categories also have high potential to grow to a sizable category in future. PFL is also present in the noodles & breakfast cereal category, which includes products like atta noodles, oats, dalia & muesli largely based on healthier food products category. We believe increasing health awareness is resulting in faster growth in consumption of natural, Ayurveda and healthier products compared to other foods categories. The largest category in food business for PFL is cow ghee (₹ 1197 crore sales), which is not only based on a health proposition but also commands high margin. Overall operating margin of the acquired food business is 16%.

## Robust distribution network; low advertisement spends

*The combined distribution network of PAL & PFL has retail outlet reach of 1 million. Further relatively low ad-spends compared to peers gives the company an edge in remaining competitive on pricing in many categories*

PFL has a strong edible oil distribution network with 4763 distributors and 5 lakh retail touch points. It has 100 sales depots and presence in 31 countries for its soya product & oleo chemical business. On the other hand, the company's products have access to PAL's distribution network through a distribution agreement from June 2021. PAL has 2839 distributors, 1092 Chikitsalaya, 3260 Arogya Kendra, 78,519 pharmacies and 5 lakh customer touch points. In total, PFL has a reach of 10 lakh general trade retail outlets. Further, the company also has 1000 unique touchpoints for its soya products business. Moreover, PFL has a strong presence in modern trade & e-commerce channel as well. We believe the company would be able leverage its edible oil distribution network for foods business & vice versa. PFL would continue to focus on expanding its distribution network, going forward. Patanjali Group also has a strong reach among masses through Yoga. Its advertisement on cultural broadcasting TV channels and strong following on social media helps in promoting Patanjali brand without much advertisement spend. The group is unique given a robust rural presence in 2.5 lakh villages (40% of villages in India). However, after the merger of the foods business, the company would be able to increase its spend on advertisement to expand its reach in newer markets.

Exhibit 11: Robust distribution network with retail reach of 1 million outlet



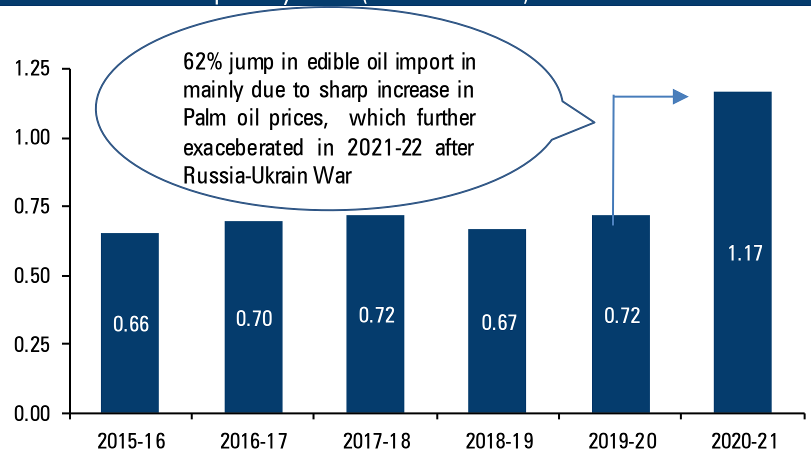

*Source: ICICI Direct Research, Company*

## Backward integration of edible oil in palm plantation

Global palm fruit production is 411 MT through 28 million hectare of land under palm plantation. The global palm oil market is estimated at 75 MT accounting for US$87 billion (bn) and is expected to grow at 6% CAGR to US$116 bn by 2025. Indonesia & Malaysia have a combined market share of 85% in the global palm oil market. Given palm oil is one of the most cost-effective edible oil, it contributes 38% of total edible oil consumption in India largely by food processing & HORECA industry. Moreover, it is 60% of the total edible oil import by India. The country consumes and imports 9 MT and 8 MT of palm oil every year respectively. Further, it also imports 3 MT and 2 MT of soybean & sunflower oil, respectively. India's import bill of edible oil was ₹ 80,000 crore in FY21, which increased 62% to ₹ 1.3 lakh crore (our estimate) in FY22.

*Backward integration in palm plantation & fruit processing units would not only reduce the dependency on imported CPO but would also expand the margin in edible oil business, which is a traditionally commoditised low margin business*

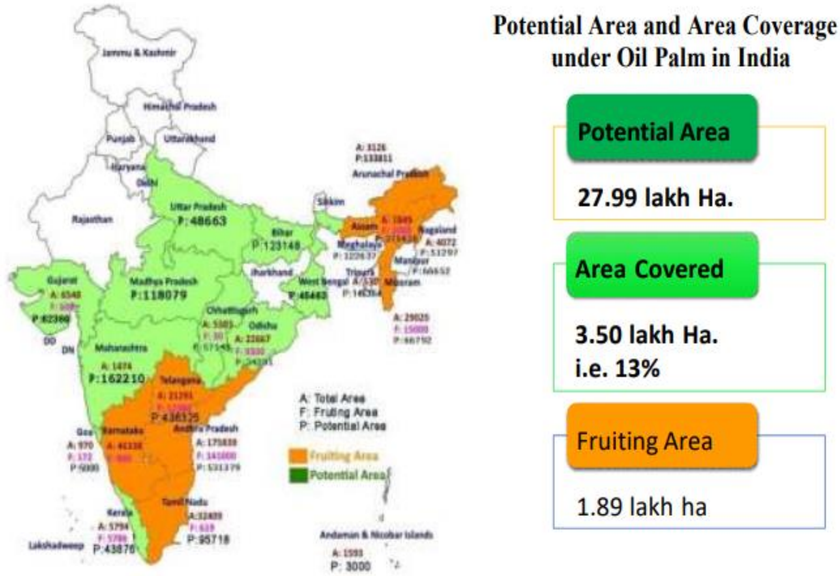
Exhibit 12: Edible oil import by India (in ₹ lakh crore)




*Source: ICICI Direct Research, Company*

The Government of India has introduced National mission for edible oil – Oil palm (NMEO-OP) to reduce import dependence from 55% to 40%. It intends to increase palm cultivation area from 3.7 lakh hectare to 10 lakh hectare mainly to increase CPO production to 11.2 lakh tonnes by FY26 & 28 lakh tonnes by FY30 from 2.7 lakh tonnes in FY21. The central government has set aside ₹ 11040 crore for the scheme for incentivising farmers to increase palm plantation.

Exhibit 13: Potential area, area coverage under oil palm plantation in India




*Source: ICICI Direct Research, Company, Department of Agriculture & Farmers Welfare Ministry of Agriculture*

NMEO-OP offers ₹ 29,000 per hectare subsidy for saplings against ₹ 12,000 under the earlier scheme. It is also providing assistance of ₹ 250 / plant for re-plating of more than 25-30-year-old palm plant. The most attractive component is viability gap funding and price assurance. The scheme assures farmers viability price of 14.3% of inflation adjusted annual average price of CPO for the last five years given gestation period for growing of palm plant is four to five years.

Exhibit 14: Patanjali's palm oil plantation operational details

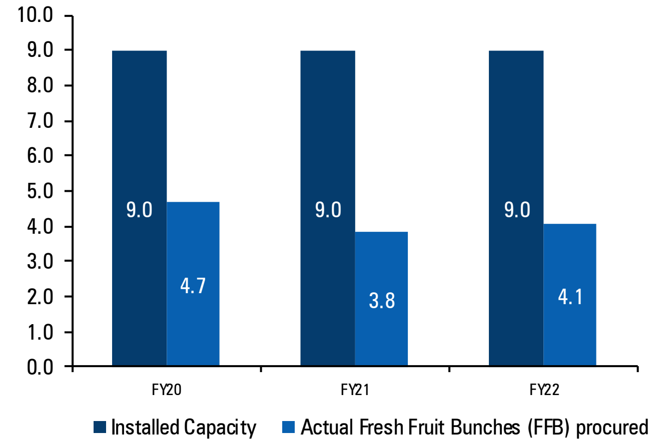
| Particulars | Units |
|---|---|
| Allocated Area for Plantation | 6.02 lakh hectares |
| Area Utilized | 59,239 hectares |
| Farmer information cum FFB collection centres | 188 |
| Feriliser Godowns | 22 |
| State-of-art Nurseries | 16 |

| Location | Collection Centres | Fertilizer Godowns |
|---|---|---|
| Peddapuram (Andhra Pradesh) | 59 | 17 |
| Ampapuram (Andhra Pradesh/Telangana) | 34 | 2 |
| Mysore (Karnataka) | 88 | 3 |
| Telangana | 7 | 0 |

*Source: Company, ICICI Direct Research*

The company has forayed into the palm plantation business with a similar aim of reducing CPO import dependency. PFL has been allocated 6.02 lakh hectare of palm plantation area of which 0.6 hectare is being utilised currently. The company has two palm crushing plants with total capacity of 9.0 lakh tonnes per annum with the current utilisation of 51%. With the development of palm plantation and fresh fruit bunches (FFB), PFL would be able to secure enough feedstock for crude palm oil production. Palm plantation takes three to five years to fully develop and has a life cycle of 25 years. With the high availability of feedstock in the next few years, PFL would be able to utilise its costal refineries efficiently. Further, this would not only reduce dependency on imported crude palm oil but would also significantly increase its margin in the edible oil business, which is traditionally a low margin commoditised business. The company is also setting up one Oil Palm Mill in Niglok, Arunachal Pradesh. Palm Plantation in Arunachal Pradesh is close to 38,000 hectare

Exhibit 15: Palm oil crushing capacity (in lakh tonnes)




Source: Company, ICICI Direct Research

Exhibit 16: Different products, feedstock & its application

| | Extracted from | Applications | Generation (%) |
|---|---|---|---|
| Crude Palm Oil | FFBs of oil palm | Edible Oil, Personal care, cosmetic, & confectionary | 18% |
| Crude palm kernel oil | Palm kernel | Confectionary, personal care & edible oil | 2% |
| Palm kernel cake | Palm kernel | Animal Feed | 3% |
| By-Products: Shell & Palm Fibre (PF) | NA | Boiler Fuel | Shell-4.5% PF-13% |

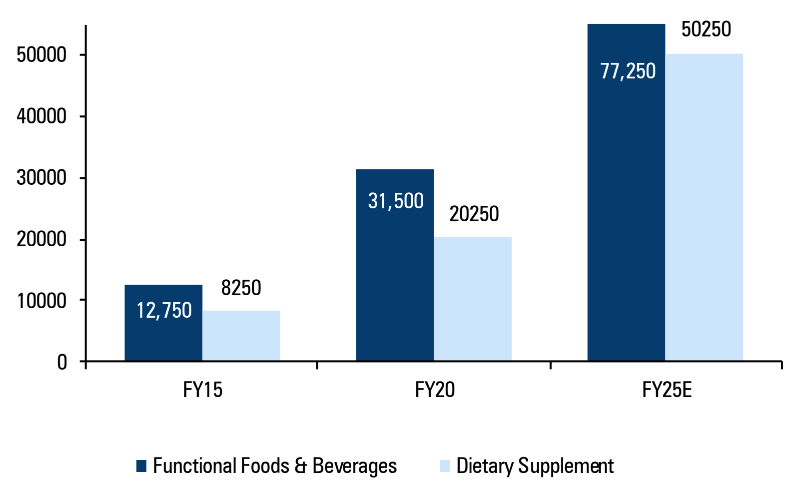
Source: Company, ICICI Direct Research

## Foray in nutraceutical business

PFL has forayed into the nutraceutical business targeting the opportunity of ₹ 1.27 lakh crore (estimated by FY25) market. The high margin category has robust growth potential in the next few years. The category is divided into three sub-segments i.e. general nutrition, sports nutrition & medical nutrition. It has launched 10 products under 'Patanjali' & 'Nutrela' brands. The company has a contract manufacturing agreement from a facility in the Patanjali Food Park in Haridwar, Uttarakhand. Though the company's sales are miniscule from this segment given its recent foray, we believe nutraceutical sales for the company have the potential to grow exponentially with Ayurveda doctor's advocacy and capitalising on strong 'Patanjali' brand being the important factors for PFL's growth. The company would be distributing these products through online & offline channels to maximise reach.

*The company has forayed into the nutraceutical space in FY22. Though it is minuscule in terms of sales as of now, the opportunity size of sports & medical nutraceutical market is very large*

Exhibit 17: Opportunity in nutraceutical categories (₹ crore)

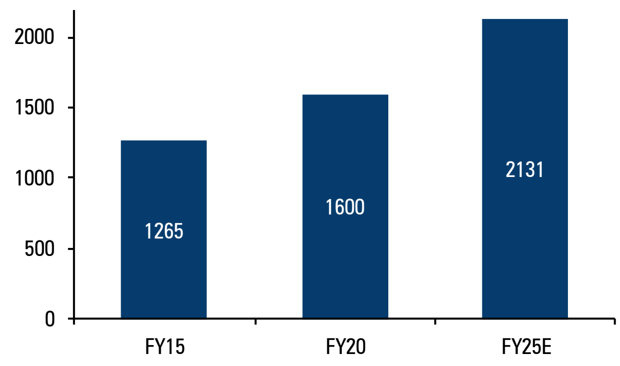



Source: ICICI Direct Research, Company

## Large potential of oleo chemical business

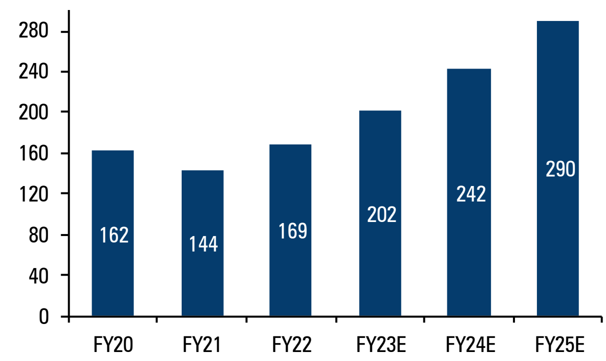
With the expected increase in capacity utilisation of edible oil refineries, the by-product volumes would also increase significantly. The company has one Oleo chemical plant at Gandhidham, which is in close proximity to the Kandla and Mundra Ports. The company has capacity in soap noodles, split fatty acids, castor oil, toilet soap and glycerine. Though the current sales from the oleo chemical business is relatively small at ₹ 169 crore, the size of the Indian oleo chemical market is expected to grow to ₹ 2131 crore in FY25 from ₹ 1600 crore in FY20, which gives it an opportunity to grow the oleo chemical business, going forward.

Exhibit 18: Oleo chemical market (in tonnes)




*Source: Company, ICICI Direct Research*

Exhibit 19: Patanjali's oleo chemical sales (₹ crore)




*Source: Company, ICICI Direct Research*

## Food business, extension in palm-processing to aid margins

The acquired foods business commands operating margins of 16% whereas edible oil is a low single digit commoditised business. We believe the acquisition of PAL's foods business would result in an uptick in the overall margins for the company. Moreover, a foray into high margin & strong growth categories, backward integration in edible oil through expansion of palm processing units would also aid operating margins for the company. We estimate an uptick in operating margins by 110 bps in the next three years.

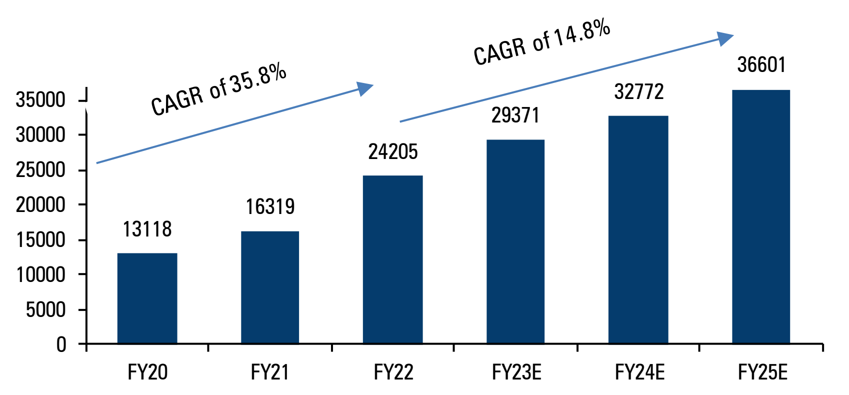
*We believe high growth of foods business, foray in strong margin categories & backward integration in edible oil business would result in 110 bps operating margin expansion in next three years*

## Strong balance sheet

PFL has repaid the entire working capital, term debt, NCDs and made part payment of preference shares from the proceeds of FPO. The company would be able to save ₹ 350 crore as interest cost after debt repayment. Though working capital requirement in the edible oil business is relatively high, we believe any proceeds from fund raising in future would give it cushion to fund capex and its working capital without taking any debt.

## Financial story in charts

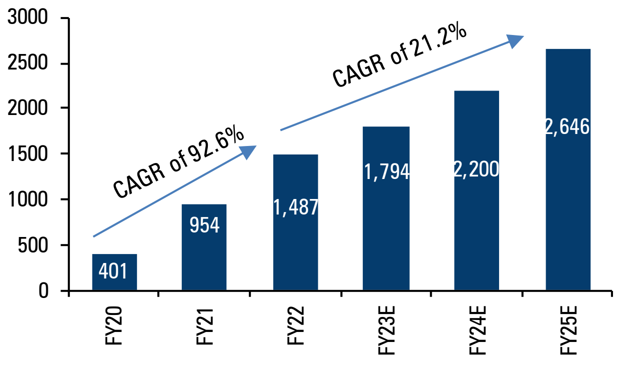
Exhibit 20: Consolidation of foods business to drive revenue growth (₹ crore)




Source: ICICI Direct Research, Company

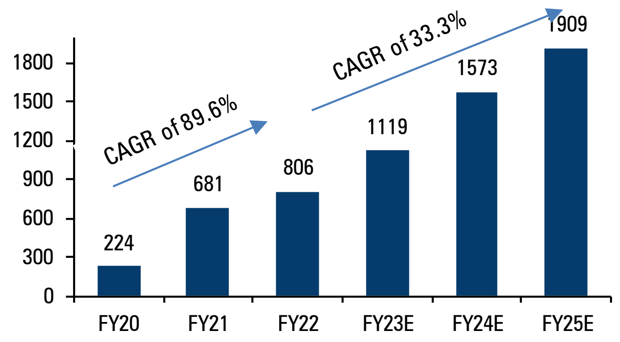
*We estimate 14.8% revenue CAGR led by higher capacity utilisation in edible oil capacities, consolidation of foods business*

Exhibit 21: High margin categories, uptick in edible oil volumes to aid EBITDA growth (₹ crore)



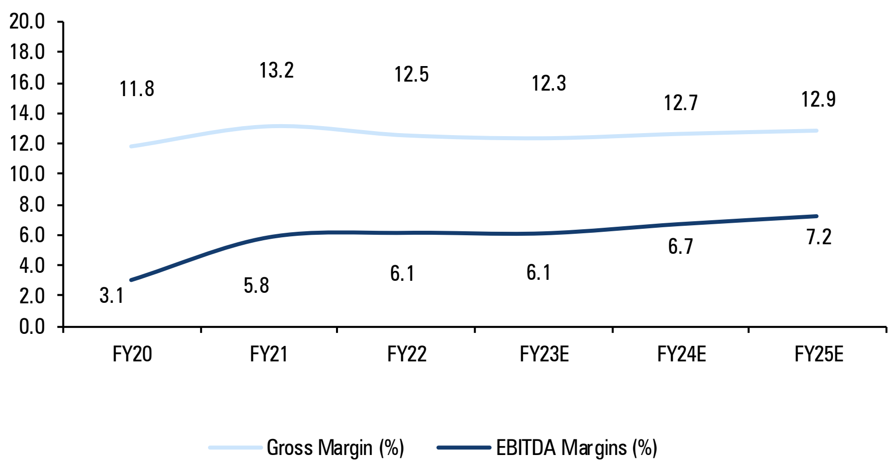

Source: Company, ICICI Direct Research

Exhibit 22: High EBITDA, interest cost reduction to drive profits (₹ crore)




Source: Company, ICICI Direct Research

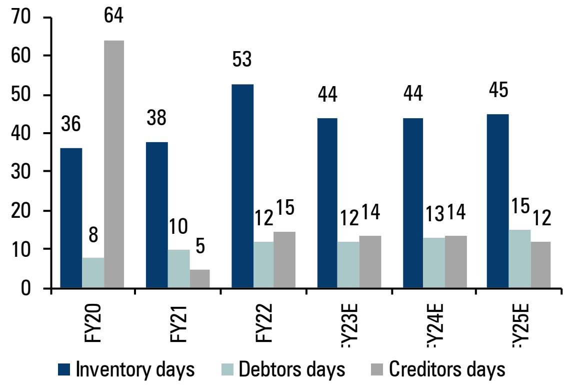
Exhibit 23: Stable gross margins, operating leverage to expand operating margins




Source: ICICI Direct Research, Company

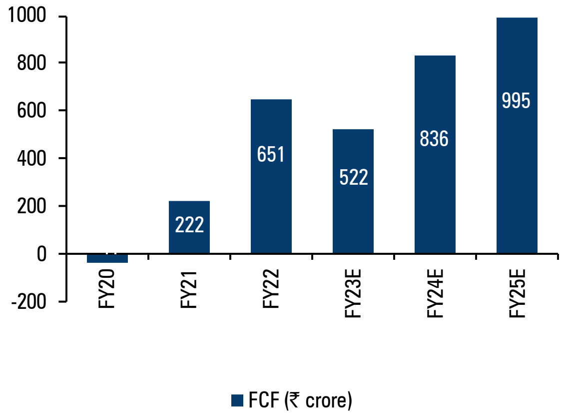
*Stable gross margins, operating leverage & higher contribution from foods business to expand operating margins*

Exhibit 24: Working capital requirement close to 50 days, which can be met through internal accruals



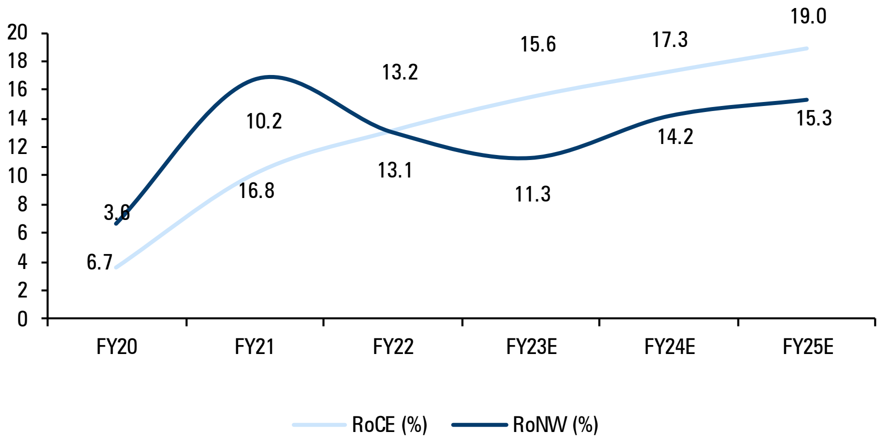

Source: Company, ICICI Direct Research

Exhibit 25: Strong free cash flows (₹ crore)




Source: Company, ICICI Direct Research

Exhibit 26: Return ratios to improve, going forward




Source: ICICI Direct Research, Company

*With an improvement in profitability, low capex requirement and higher dividend payment would result in improvement in return ratios in the next three years*

# Key Risks

## Low gross margin business

Edible oil is a low gross margin business given the company is largely processing crude palm oil imported from Indonesia and Malaysia. Moreover, working capital requirement, in absolute terms, is very high. Volatility in palm, soybean & mustard oil prices can adversely impact the gross margins of the company. In its erstwhile form, the company's gross margins went down as low as 8% in FY16 while working capital debt was very high. The company incurred huge loss. Though PFL is comfortable from a balance sheet perspective, given its debt free status, we believe any shrinkage of gross margins due to volatility in edible oil prices could adversely impact earnings.

## Presence in multiple food category

Though a large part of the company's food business is cow ghee, atta, biscuits, juices & honey, the company is present in multiple categories with small proportion of sales. We believe it is important for large FMCG companies to dominate some categories, which helps it command high gross margins. With the foray into multiple newer categories, the company could grow only to limited size in these categories without achieving potential margins.

## Meagre spend on advertisement

PFL's advertisement spend is low given the company is banking on leveraging the Patanjali brand and natural & Ayurveda tailwinds for growth. However, with brand loyalty, the reach can only be restricted to limited consumers. It is important to grow brands in a different consumer base and geographies, which would require high advertisement spend, going forward

## Valuation & Outlook

Patanjali Foods is one of the large FMCG companies present in edible oil & multiple foods categories. The company is well set to reap the benefit of tailwinds of healthy, Ayurveda & natural products consumption. Moreover, PFL is likely to scale up edible oil business by increasing existing capacity utilisation, backward integration in palm plantation and increasing proportion of seed extraction business within edible oils. The company is also set to leverage 'Nutrela' & 'Patanjali' brand to scale up the foods business in multiple categories. Consolidation of foods business, backward integration in palm plantation & leveraging existing brands by foraying into new foods categories is likely to improve PFL's operating margins, going forward. Further, we believe a foray into high margin categories like nutraceuticals opens up vast opportunities in the health & wellness space for the company, which can aid volumes as well as margins in future.

With the fund raising in March 2022, the company has been able to repay its entire debt. Moreover, PFL would be able to meet the working capital requirement of ₹ 4000-5000 crore through internal accruals in future. We believe the company would remain debt free with sufficient operating cash flow generation and limited capex requirement. We believe strong free cash flow would help PFL to increase its dividend pay-out.

At the current price, the stock is trading at 45.3x its FY23E and 32.3x its FY24E earnings. Given the volumes, sales growth prospects and margin expansion possibilities, the stock is trading at relatively attractive valuation multiples compared to other food companies like Nestlé, Tata Consumer, Varun Beverages. It is also trading at 25% discount to another Ayurveda, Natural play like Dabur in our coverage universe. We remain positive on the packaged foods space in the FMCG sector given lower penetration levels, high opportunity size and acceleration in unbranded to branded consumption shift. We value the stock at 40x FY24E earnings to arrive at a target price of ₹ 1750/share with a **BUY** recommendation on the stock.

Exhibit 27: ICICI Direct coverage universe (FMCG)

| | CMP | TP | | M Cap | EPS (₹) | | | P/E (x) | | | Price/Sales (x) | | | RoCE (%) | | | RoE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (₹) | (₹) | Rating | (₹ Cr) | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Colgate (COLPAL) | 1,587 | 1,690 | Hold | 42,548 | 39.6 | 40.6 | 44.4 | 40.0 | 39.1 | 35.7 | 8.4 | 7.8 | 7.2 | 77.8 | 84.1 | 91.2 | 62.2 | 64.1 | 69.6 |
| Dabur India (DABIND) | 554 | 700 | Buy | 1,01,458 | 9.9 | 11.2 | 12.8 | 56.2 | 49.5 | 43.2 | 9.3 | 8.3 | 7.5 | 24.9 | 25.2 | 26.7 | 20.8 | 21.9 | 22.7 |
| Hindustan Unilever (HINLEV) | 2,582 | 2,700 | Hold | 6,10,844 | 37.5 | 40.9 | 44.8 | 68.8 | 63.1 | 57.6 | 12.1 | 10.8 | 10.1 | 20.2 | 22.5 | 24.6 | 18.1 | 19.7 | 21.5 |
| ITC Limited (ITC) | 336 | 360 | Buy | 3,78,047 | 12.4 | 14.2 | 16.4 | 27.1 | 23.7 | 20.5 | 6.4 | 5.4 | 5.1 | 31.4 | 35.2 | 38.3 | 24.5 | 27.0 | 29.4 |
| Jyothy Lab (JYOLAB) | 182 | 145 | Hold | 6,077 | 4.3 | 5.6 | 6.4 | 42.8 | 32.6 | 28.6 | 2.8 | 2.5 | 2.3 | 18.7 | 24.2 | 27.7 | 16.6 | 21.2 | 23.8 |
| Marico (MARLIM) | 527 | 515 | Hold | 67,645 | 9.7 | 10.3 | 11.4 | 54.1 | 51.1 | 46.2 | 7.1 | 7.0 | 6.4 | 41.2 | 43.8 | 47.0 | 37.5 | 38.5 | 41.2 |
| Nestle (NESIND) | 18,646 | 21,600 | Hold | 1,84,201 | 222.4 | 238.3 | 294.0 | 83.8 | 78.3 | 63.4 | 12.6 | 11.2 | 10.2 | 58.7 | 57.0 | 64.7 | 111.3 | 111.1 | 118.3 |
| Patanjali Foods | 1,401 | 1,750 | Buy | 50,721 | 27.3 | 30.9 | 43.5 | 51.4 | 45.3 | 32.3 | 6.7 | 5.1 | 4.6 | 13.2 | 15.6 | 17.3 | 13.1 | 11.3 | 14.2 |
| Tata Consumer Products (TAT | 801 | 950 | Buy | 71,261 | 11.0 | 14.5 | 17.4 | 72.8 | 55.3 | 46.1 | 5.7 | 5.1 | 4.6 | 8.4 | 9.8 | 11.2 | 7.0 | 8.5 | 9.8 |
| Varun Beverage (VARBEV) | 1,123 | 1,100 | Buy | 60,171 | 17.2 | 20.6 | 23.4 | 65.2 | 54.6 | 48.1 | 6.8 | 4.9 | 4.3 | 17.1 | 28.1 | 30.8 | 18.3 | 26.3 | 25.3 |
| VST Industries (VSTIND) | 3,240 | 3,425 | Hold | 4,937 | 207.4 | 229.3 | 252.9 | 15.6 | 14.1 | 12.8 | 4.2 | 3.8 | 3.5 | 39.2 | 44.6 | 50.6 | 30.0 | 33.4 | 37.8 |
| Zydus Wellness (ZYDWEL) | 1,617 | 2,100 | Buy | 10,254 | 48.5 | 57.5 | 71.0 | 33.3 | 28.1 | 22.8 | 5.1 | 4.5 | 4.1 | 6.1 | 7.1 | 8.4 | 6.4 | 7.3 | 8.7 |

*Source: Bloomberg, ICICI Direct Research*

## Financial Summary

**Exhibit 28: Profit and loss statement** ₹ crore

| | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| **Total operating Income** | **24,205.4** | **29,370.8** | **32,771.5** | **36,601.2** |
| Growth (%) | 48.3 | 21.3 | 11.6 | 11.7 |
| Raw Material Expenses | 21,168.1 | 25,744.4 | 28,624.3 | 31,886.2 |
| Employee Expenses | 185.8 | 236.0 | 254.9 | 275.3 |
| Marketing Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Administrative Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Other expenses | 1364.5 | 1596.4 | 1692.2 | 1793.7 |
| Total Operating Expenditure | 22,718.4 | 27,576.8 | 30,571.4 | 33,955.2 |
| **EBITDA** | **1,487.0** | **1,793.9** | **2,200.1** | **2,646.0** |
| Growth (%) | 55.9 | 20.6 | 22.6 | 20.3 |
| Depreciation | 136.7 | 154.2 | 181.4 | 183.5 |
| Interest & Finance Charges | 354.9 | 230.2 | 38.1 | 36.9 |
| Other Income | 79.0 | 86.9 | 121.7 | 126.5 |
| PBT | 1,074.4 | 1,496.5 | 2,102.3 | 2,552.1 |
| Total Tax | 268.1 | 377.1 | 529.8 | 643.1 |
| Exceptional Item | 0.0 | 0.0 | 0.0 | 0.0 |
| **PAT** | 806.3 | 1,119.4 | 1,572.6 | 1,909.0 |
| **Adjusted PAT** | **806.3** | **1,119.4** | **1,572.6** | **1,909.0** |
| Growth (%) | 18.4 | 38.8 | 40.5 | 21.4 |
| Adjusted EPS (₹) | 27.3 | 30.9 | 43.5 | 52.7 |

*Source: ICICI Direct Research*

**Exhibit 29: Cash Flow Statement** ₹ crore

| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| Profit After Tax | 957.6 | 1,119.4 | 1,572.6 | 1,909.0 |
| Add: Depreciation | 136.7 | 154.2 | 181.4 | 183.5 |
| (Inc)/dec in Current Assets | -705.4 | -807.8 | -851.1 | -1,071.3 |
| Inc/(dec) in CL and Provisions | 335.3 | 266.5 | 42.7 | 83.8 |
| **CF from operating activities** | **724.2** | **732.2** | **945.6** | **1,104.9** |
| (Inc)/dec in Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| (Inc)/dec in LT loans & advances | 0.0 | 0.0 | 0.0 | 0.0 |
| (Inc)/dec in Fixed Assets | -93.8 | -210.0 | -110.0 | -110.0 |
| Others | -1,290.7 | 15.0 | 15.0 | 15.0 |
| **CF from investing activities** | **-1,384.5** | **-195.0** | **-95.0** | **-95.0** |
| Issue/(Buy back) of Equity | 1,297.3 | 13.2 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | 17.5 | -3,472.0 | -50.0 | -50.0 |
| Dividend paid & dividend tax | 0.0 | -361.9 | -434.3 | -542.9 |
| Interest Paid | -298.7 | -230.2 | -38.1 | -36.9 |
| Others | 0.0 | 2,997.0 | 0.0 | 0.0 |
| **CF from financing activities** | **1,016.2** | **-1,053.9** | **-522.4** | **-629.8** |
| Net Cash flow | 355.9 | -516.7 | 328.2 | 380.0 |
| Opening Cash | 46.3 | 2,016.3 | 1,499.4 | 1,827.6 |
| Cash with Bank | 1,641.3 | 0.0 | 0.0 | 0.0 |
| **Closing Cash** | **2,043.5** | **1,499.5** | **1,827.6** | **2,207.6** |

*Source: ICICI Direct Research*

**Exhibit 30: Balance Sheet** ₹ crore

| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Equity Capital | 59.2 | 72.4 | 72.4 | 72.4 |
| Reserve and Surplus | 6,111.7 | 9,866.1 | 11,004.4 | 12,370.5 |
| Total Shareholders funds | 6,170.8 | 9,938.5 | 11,076.7 | 12,442.8 |
| LT Borrowings & Provisions | 3695.2 | 223.2 | 173.2 | 123.2 |
| Deferred Tax Liability | 0.0 | 0.0 | 0.0 | 0.0 |
| Others Non-current Liabilitie: | 348.5 | 368.5 | 388.5 | 408.5 |
| **Total Liabilities** | **10,214.5** | **10,530.1** | **11,638.4** | **12,974.5** |
| **Assets** | | | | |
| Gross Block | 6,081.7 | 6,281.7 | 6,381.7 | 6,481.7 |
| Less: Acc Depreciation | 1,192.1 | 1,346.3 | 1,527.6 | 1,711.1 |
| Net Block | 4,889.6 | 4,935.4 | 4,854.0 | 4,770.6 |
| Capital WIP | 28.0 | 38.0 | 48.0 | 58.0 |
| Goodwill | 10.8 | 10.8 | 10.8 | 10.8 |
| Non-current Investments | 29.2 | 29.2 | 29.2 | 29.2 |
| LT loans & advances | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Assets | 39.3 | 39.3 | 39.3 | 39.3 |
| Other Non-Current Assets | 127.9 | 132.9 | 137.9 | 142.9 |
| Current Assets | | | | |
| Inventory | 2,905.3 | 3,540.6 | 4,040.3 | 4,612.8 |
| Debtors | 796.2 | 965.6 | 1,167.2 | 1,504.2 |
| Loans and Advances | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Current Assets | 625.1 | 758.5 | 846.3 | 945.2 |
| Cash | 2,016.3 | 1,499.4 | 1,827.6 | 2,207.6 |
| Investments | 12.5 | 112.5 | 212.5 | 312.5 |
| Current Liabilities | | | | |
| Creditors | 898.2 | 1,086.3 | 1,077.4 | 1,103.1 |
| Provisions | 1.6 | 1.9 | 2.1 | 2.4 |
| Short term debt & other CL | 365.9 | 443.9 | 495.3 | 553.1 |
| **Application of Funds** | **10,214.5** | **10,530.1** | **11,638.4** | **12,974.5** |

*Source: ICICI Direct Research*

**Exhibit 31: Ratio Analysis** ₹ crore

| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| **Per share data (₹)** | | | | |
| EPS | 27.3 | 30.9 | 43.5 | 52.7 |
| Cash EPS | 31.9 | 35.2 | 48.5 | 57.8 |
| BV | 208.6 | 274.6 | 306.1 | 343.8 |
| DPS | 5.0 | 10.0 | 12.0 | 15.0 |
| Cash Per Share | 68.2 | 41.4 | 50.5 | 61.0 |
| | | | | |
| **Operating Ratios (%)** | | | | |
| EBITDA Margin | 6.1 | 6.1 | 6.7 | 7.2 |
| PBT / Total Operating income | 4.4 | 5.1 | 6.4 | 7.0 |
| PAT Margin | 3.3 | 3.8 | 4.8 | 5.2 |
| Inventory days | 43.8 | 44.0 | 45.0 | 46.0 |
| Debtor days | 12.0 | 12.0 | 13.0 | 15.0 |
| Creditor days | 13.5 | 13.5 | 12.0 | 11.0 |
| | | | | |
| **Return Ratios (%)** | | | | |
| RoE | 13.1 | 11.3 | 14.2 | 15.3 |
| RoCE | 13.2 | 15.6 | 17.3 | 19.0 |
| **Valuation Ratios (x)** | | | | |
| P/E | 51.4 | 45.3 | 32.3 | 26.6 |
| EV / EBITDA | 35.2 | 27.5 | 22.3 | 18.4 |
| EV / Net Sales | 2.2 | 1.7 | 1.5 | 1.3 |
| Market Cap / Sales | 2.1 | 1.7 | 1.5 | 1.4 |
| Price to Book Value | 6.7 | 5.1 | 4.6 | 4.1 |
| | | | | |
| **Solvency Ratios** | | | | |
| Debt/EBITDA | 2.5 | 0.1 | 0.1 | 0.0 |
| Debt / Equity | 0.6 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 3.4 | 3.4 | 3.8 | 4.3 |
| Quick Ratio | 1.1 | 1.1 | 1.3 | 1.5 |

*Source: ICICI Direct Research*

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%

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