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INDIA

ADF Foods Ltd. (ADF)

Ready to break out; Initiate with Hold

ADF Foods manufactures ethnic Indian food, primarily frozen food, ready to eat foods such as curries and rice and ready to cook foods. Besides that, it offers condiments like Indian chutneys, sauces, pickles, spices, pastes and dips. It sells under 8 brands i.e. Ashoka, Truly Indian, Soul, Camel, Aeroplane, PJs, Nate's, Khansaama.

Break-up of sales is as

Agency distribution for Ekaterra in the USA & UK	20% of sales
Of the remaining 80%	
○ Brand Ashoka contributes	60%
○ Contract manufacturing for private labels and bulk supplies	20%
○ Other brands	20%

Source: Company, EISEC Research

We assign Hold rating with target price of Rs 199 per share.

Investment Rationale

1. **Has the benefit of tailwinds of strong demand for Indian food in the USA & EU:** ADF has been growing at ~30-35% in the USA, ~20-25%in the EU.
   - Growth in the USA is ex of Nate's and PJ's brands, as they were discontinued in FY23; growth is coming from the Ashoka brand.
2. **Has been able to identify and tap into various key distribution points in the USA & EU** :
   - In the USA, ADF has tapped into most of the South East Asian (SA) stores; it is now targeting the large supermarkets with the help of a revamped team.
   - In the UK, ADF is selling through supermarket chains like Tesco, Morrison, Asda.
3. **Sales from large supermarkets is yet to kick in the USA**: In the USA, ADF gets large business from SA stores. Sales from supermarkets are just kicking in. The scope of growth via a super market listing can be gauged from the fact that ADF was able to clock revenues of Rs 100mn from a single listing with a super market in the UK. As per the management, any super market listing that clicks, can add Rs 150-170mn to the topline.
4. **Has added manpower for targeting the supermarkets**: of the team of 4 created to help foray of Truly Indian in the USA large supermarkets, 2 have had a similar work experience.

Valuations: ADF trades at a FY25E P/E of 24.6x; We value the stock based on P/E methodology and assign multiple of 25x on FY25E PAT of Rs 891mn to arrive at a target price of Rs 199 per share, which is a potential upside of 1.7% from current market price and recommend "Hold" on the stock.

Key Risks

- Large part of the turnover comes from one brand, Ashoka. Should the brand face any regulatory or any other issue, it will impact ADF negatively.
- More companies are able to get past the stringent USDA clearances. This will increase competition significantly in the USA, a key market for ADF.
- ADF is not able to crack India, which is a growth pillar for the revenue guidance.
- Truly Indian, a brand behind which ADF is investing resources to break into the USA market, does not take off.

Rating: **Hold**	Upside/(Downside): **2%**
CMP: **196**	Target Price: **199**

| Market Data

Bloomberg:	ADFL:IN
52-week H/L (Rs):	262 / 133
Mcap (Rs bn/USD bn):	21.5/0.3
Shares outstanding (mn):	109.9
Free float:	63.8%
Daily vol. (3mth Avg)	27.4 mn
Face Value (Rs):	2

Source: Bloomberg, EISEC Research

| Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	36.2	36.2	36.5	36.5
FIIs	9.6	9.5	9.4	9.3
DIIs	20.0	19.9	19.8	19.7
Public/others	34.3	34.4	34.3	34.5

Source: BSE

| Price Performance (%)*

YE Mar (R)	1M	3M	6M	12M
BSE 500	3.2	14.5	20.0	34.1
ADF	1.7	-9.1	-11.8	32.5

As on 19 February 2024
Source: BSE, EISEC Research

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Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	3,693	29.5%	678	18.3%	501	16.2%	4.5	21.0%	27.4%	43.7	31.7
FY22	4,212	14.0%	666	15.8%	481	-3.9%	4.3	15.6%	19.2%	45.5	32.3
FY23	4,503	6.9%	807	17.9%	561	16.6%	5.0	14.7%	17.4%	39.0	26.7
FY24E	5,083	12.9%	989	19.5%	693	23.4%	6.2	15.5%	19.0%	31.6	21.4
FY25E	6,150	21.0%	1,273	20.7%	891	28.7%	8.0	17.5%	21.7%	24.6	16.5

Source: Company, EISEC Research Estimates

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Background

Background

ADF has a 9 decade old history in the food business.

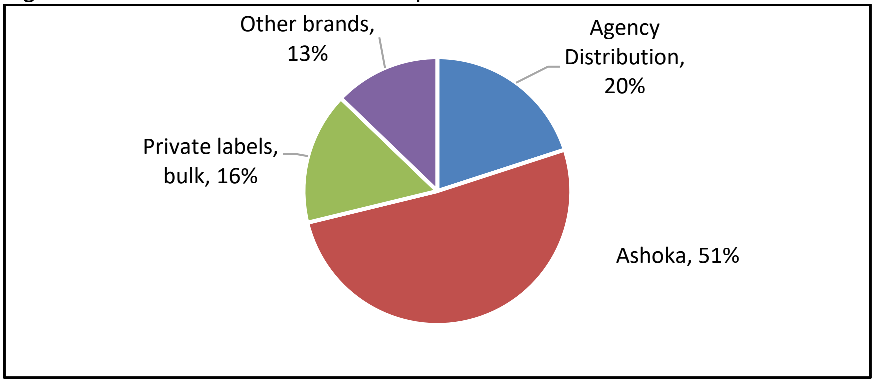
Company started expanding and exploring business opportunities. Much later on March 1992 the company was incorporated as public limited company. Today, it is present in 55 countries like the US, Canada, Europe, Australia, Asia and Middle East.

Fig 1 : ADF's Products

Frozen Products	• Snacks- Punjabi Samosas, Batata Vada, Kathi Rolls • Vegetables- Green Chilli, Mix cut Vegetable, Methi, Palak • Breads- Naans, Parathas
Ready-to-eat & Ready-to-cook	• Ready to eat- Pav Bhaji, Dal Makhani, Matar Paneer • Ready to eat Vegan- Bhindi Masala, Paneer (Tofu) Makhani • Ready to cook - kebabs
Food Accompaniments	• Pickles- Chilli, Lemon, Mango, Mixed • Chutneys – Coconut, Coriander, Mint, Sandwich, Pani Puri, Date & Tamarind • Sauces- Pasta and Pizza Sauce
Spices & Others	• Spices- Madras Curry Powder, Tamarind paste • Others- Almond, Mango, Turmeric and Honey Milk powder
Mexican Products	• Mexican and Plant-Based Products- Frozen Mexican (hand rolled) Burritos, • Plant-Based Protein (Meat Alternatives) like Meatless Meatballs

ADF's Break up of sales

Fig 2: ADF's consolidated sales breakup



Source: Company, EISEC Research

Origins and beginnings of agency distribution

- ADF got into an agreement with Unilever for distribution of its Indian tea and coffee products in the USA in FY20.
- Later, the arrangement was extended to include products under the brands Knorr, Kisan Atta.
- Later, they were granted rights for distribution in the UK.
- In November 2021, Unilever sold its tea business to CVC Capital Partners Fund VIII. CVC later named the business Eketerra. The business has now been renamed Lipton.

Bulk business as well as contract manufacturing for private labels

- ADF supplies pastes etc in bulk.
- It also does contract manufacturing for private labels.
- This happens mainly in the UK.

Who are ADF's clients

ADF sells to :

  - Large retail chains like Tesco, Morrison, Asda, Weightrose.
  - South East Asia Speciality dedicated stores

- Restaurants for bulk pastes etc as well as contract manufacturing for private labels. This happens mainly in the UK.

  - USA – Large part of business comes from the SA stores. There are many SA stores in the USA.
  - EU - most of the business comes from the large retail stores as most stores in the EU have an India section.
  - GCC – sales are through the large retail stores.

How the business is organized

ADF Foods (parent) has 100% stake in

- ADF Foods UK, which handles the agency business in the UK
- ADF Foods (India), handles the canteen stores business in India.
- Telluric Foods (India), is responsible selling the Soul brand in India.

ADF Foods (UK) has 100% stake in

- ADF Holdings USA, which handles the agency business in USA.

In addition, ADF Holdings (USA)

- Has a 100% stake in ADF Foods USA which was handling the Nate's and PJ business
- Has a 70% stake in Vibrant Foods New Jersey LLC, which was acquired by ADF in September 2021- Vibrant Foods handles distribution of Ashoka in USA. It also distributes the other brands.

Telluric Foods (India)

- Has a 100% stake in Telluric Foods Ltd.

Nate's and PJ business got into a legal dispute with a large supplier in FY22

- Prior to this trouble, Nate's and PJs were doing revenues of Rs 450(East India Research estimates)in FY22, with EBITDA margin of 17% (East India Research estimates) in FY22 .
- ADF Foods USA had Rs 80 mn profit in FY22 which turned to a Rs 60 mn loss in FY23.
- Since then, there have been no revenues from Nate's and PJs and ADF Foods USA has incurred a loss.
- It is expected that revenues will remain nil in FY24 and FY25.

Fig 3: ADF's Plants

Plants	
Nashik, Maharashtra	• Totally automated spice processing unit. • Ready to eat curries and spices; meal accompaniments. • Total Built up factory area – 10,100 Sqm
Nadiad, Gujarat	• Frozen foods (Samosas, vegetables, snacks, parathas, etc.) . • Meal accompaniments (Pickles, chutneys, pastes, sauces). • Ready to eat curries & canned vegetables • Total Built up factory area - 15,000 Sqm
Surat, Gujarat (leased)	Moved to Nadiad.

Source: Company, EISEC Research

Fig 4: ADF's Warehousing Facilities

Warehouse	**Space**
Atlanta, USA	34,000 sq ft
New Jersey, USA	66,000 sq ft

Source: Company, EISEC Research

- new cold storage facility at the warehouse in New Jersey will help in the frozen products range.

Expansion

Existing Facilities

- Done brownfield and debottlenecking of existing plant. This will take care of another 18 months requirement.
- Investment of Rs150mn.
- This was done over FY22 & FY23;
- Another investment of Rs 150mn on freezer capacity.

Greenfield expansion

Factory in Surat in a food park; spending will be Rs 600mn. It will be ready in about 24 months.

Funding of the capex

Will be done through internal accruals in a large part.

Consolidated revenue guidance

Growth of 18-20% every year for next 3 years – Where does the confidence for a 20% growth coming from

- Ashoka contributes 51% of sales and it has been growing at 35%; it is now a ~Rs 3bn brand.
- Agency distribution contributes 20% to sales and it has been growing at 10%.
- EU is growing at 20-25%
- India is miniscule as of now, India is expected to grow to Rs 800mn in 3 years. ADF has increased its manpower for India. There have been 2 senior appointees for India
    - Mr. Balark Banerjea will be President of the India domestic business. He has had experience in starting up businesses and launching new brands and products. He has had a long stint with a leading Indian conglomerate. Mr. Banerjea will be instrumental in driving the growth of ADF Soul brand.
    - Ms. Neetu Gursahani will be Head of Marketing and Branding.

About ADF Foods

Shareholding

The details of the shareholding are indicated in the following table:

Fig 5: Latest Shareholding

Particulars	% Holding
Promoter Group	36.2
Mutual Funds / UTI	0.0
Financial Institutions / Banks	12.0
Insurance Companies	0.0
Alternate Investment Funds	7.9
Foreign Portfolio investors	9.6
Public	34.3
Total Shareholding	**100.0**

Source: BSE, EISEC Research

Board of Directors

Fig 6: Details of Board of Directors

Name	Designation	Profile
Mr. Bimal R. Thakkar	Chairman, Managing Director & CEO	37 years of experience in domestic and export food industry. Instrumental role in developing brands and new products, tapping new markets, international acquisitions, setting up of subsidiary companies in U.K. and U.S.A.
Mr. Jay M. Mehta	Non-Executive Director	35+ years of rich industrial experience. Executive Vice Chairman of Gujarat Sidhee Cement Ltd and Saurashtra Cement Ltd.
Mr. Viren A. Merchant	Non-Executive Director	30+ years of experience and expertise in business management and pharmaceutical and healthcare industry. Currently CEO of Encore Healthcare Pvt Ltd
Mr. Ravinder Kumar Jain	Independent Director	45+ years of experience in business management. Ex - MD of Shaw Wallace, MD of Millennium Alcobev and head of McDowell and Co.
Mr. Chandir G. Gidwani	Independent Director	45+ years of experience in financial services. Chairman Emeritus & Founder of Centrum Capital Ltd; Member of industry associations e.g. FICCI, CII, etc.
Ms. Deepa Misra Harris	Independent Director	30+ years of expertise in high end luxury hospitality category. Independent Director of PVR Limited, Jubilant Foodworks, Prozone Intu Properties, Taj Safaris, Concept Hospitality and TCPL Packaging.
Mr. Phiroze K. Mistry	Independent Director	is a fellow member of the Institution of Engineers (India), he holds a bachelor's degree in science from University of California, USA and a master's degree in business administration from Cornell University, USA.

Source: Company, EISEC Research

Key management personnel

Fig 7: Details of Management Personnel

Name	Designation
Mr. Balark Banerjea	President – India Domestic Business
Mr. Arjuun Guuha	Director - Operations
Mr. Devang Gandhi	Chief Operating Officer
Mr. Shardul Doshi	Chief Financial Officer
Mr. Maneck Katpitia	Vice President - International Operations & Supply Chain
Ms. Neetu Gursahani	Head – Marketing & Branding
Ms. Shalaka Ovalekar	Company Secretary & VP Legal

Source: Company, EISEC Research

Why invest in ADF Foods?

Has been able to crack the difficult USA market

- Very few companies are able get their factories cleared from the USDA (US Department of Agriculture) and FDA (Food and Drug Administration) for selling to the USA market. ADF has got this.
- ADF been constantly doing innovation, launching new SKU launches and product quality improvement.
- Spending on branding and marketing spent.
- Further, getting a listing among the large retail chains is difficult. ADF has got listings.
- There are South East Asian Speciality (SA) stores selling ethnic foods, but competition is high. ADF is selling to SA in a big way in USA.

Has built a strong brand, Asoka, in the highly competitive USA market
Ashoka will be a Rs 3000mn brand by FY24 end, growing at 35%. This is driven by the strong demand for Indian food in the USA market.

ADF is in the process of building its next brand, Truly Indian. A new team consisting of 4.

Has been able to make a break through in the very profitable frozen foods market
Freezer space is fully booked out among the USA retail chains and SA stores. Thus use of freezer facilities in driven by demand for products. ADF has been able to get freezer space in the USA, on the strength of its brands.

Frozen food is very profitable, getting gross margins of 60% and EBITDA margin of 30-35%. Moreover, there are entry barriers in the form of access to a frozen food chain and facilities which freeze the food.

Peer Comparison

Fig 8: Industry Comparison

Company Name	Net Sales (Rs. mn)			EBITDA (Rs. Mn.)			PAT (Rs. Mn.)			EBITDA Margin %			PAT Margin %		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
ADF Foods	**2,852**	**3,693**	**4,212**	**531**	**678**	**666**	**431**	**501**	**486**	**18.6%**	**18.3%**	**15.8%**	**15.1%**	**13.6%**	**11.5%**
Foods & Inns	3,708	6,321	9,956	218	501	956	40	153	421	5.9%	7.9%	9.6%	1.1%	2.4%	4.2%
Tasty Bite	3,853	3,721	4,757	538	336	640	393	103	302	14.0%	9.0%	13.4%	10.2%	2.8%	6.4%

Source: AceEquity, EISEC Research

Company Name	Mcap Rs bn	CAGR FY21-23			CAGR FY21-23		RoCE (%)			Dividend Payout		
		Revenue	EBITDA	PAT	EBITDA % (bps)	ROCE % (bps)	FY21	FY22	FY23	FY21	FY22	FY23
ADF Foods	21	**22%**	**12%**	**6%**	**-281.6**	**-948**	**28.7%**	**27.4%**	**19.2%**	**0.0%**	**61.1%**	**87.9%**
Foods & Inns	8	64%	109%	226%	372.2	1795	10.3%	19.5%	28.2%	25.4%	8.2%	6.3%
Tasty Bite	35	11%	9%	-12%	-51.2	-422	20.7%	7.5%	16.5%	1.3%	0.2%	1.7%

Source: AceEquity, EISEC Research

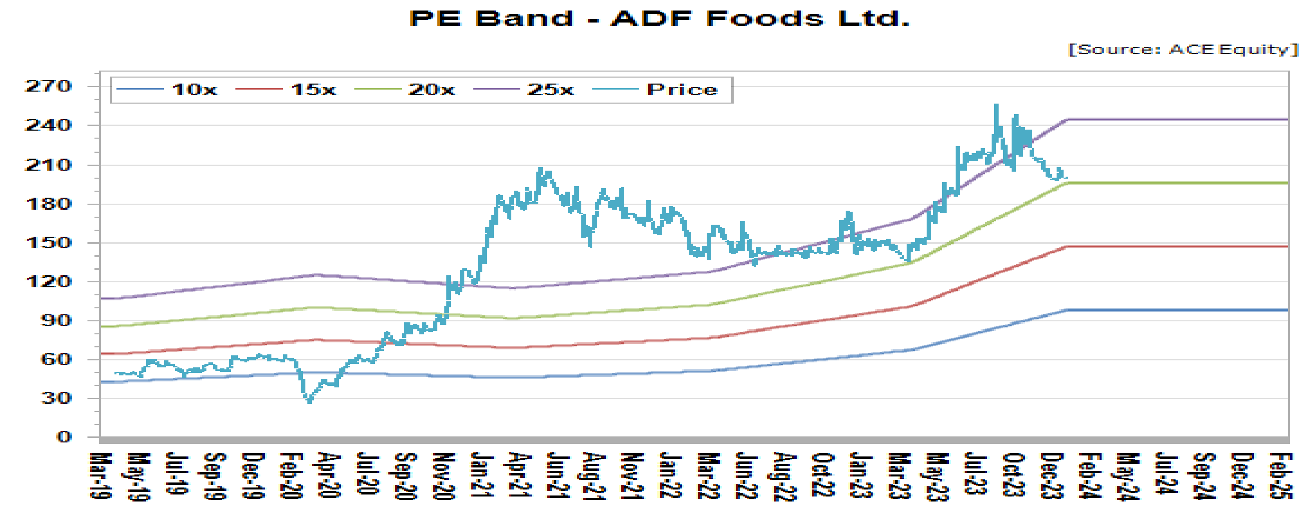
Valuation

ADF has guided for a 20% growth in consolidated revenues. The various growth drivers are:

- Ashoka contributes 64% of sales and is growing at upward of 30%.
- The B2B business comprising bulk sales of its chutneys and pastes to restaurants, and private labels contributes 20% to sales.
- The EU business is growing at 20-25%.
- The other brands of ADF contribute 16% of sales. The brands are namely Truly Indian, Soul, Khansama, Aeroplane, Camel are going to geta leg up from ADF's focus. ADF believes it can achieve sales of Rs 800mn in 3 years from practically nil FY23.
- There have been 2 senior appointees for India
  - Mr. Balark Banerjea will be President of the India domestic business. He has had experience in starting up businesses and launching new brands and products. He has had a long stint with a leading Indian conglomerate. Mr. Banerjea will be instrumental in driving the growth of ADF Soul brand.
  - Ms. Neetu Gursahani will be Head of Marketing and Branding.

ADF is currently trading at P/E of 22.7x on FY25 basis. We value the stock based on P/E methodology and assign multiple of 25x (2-year forward) on FY25E PAT of Rs 891mn to arrive at a target price of **Rs 199** per share, which is potential upside of 1.7% from current market price and recommend **"Hold"** on the stock.

Fig 9: 2-year forward P/E chart



Source: AceEquity, Company, EIS Research

Financials (Consolidated)

Income Statement	FY21	FY22	FY23	FY24E	FY25E
YE March (Rs mn)					
Revenues	**3,693**	**4,212**	**4,503**	**5,083**	**6,150**
% Growth	*29.5%*	*14.0%*	*6.9%*	*12.9%*	*21.0%*
Raw Material Expenses	2,151	2,096	2,144	2,444	2,940
% of sales	58.2%	49.8%	47.6%	48.1%	47.6%
Staff	176	236	297	345	369
% of sales	4.8%	5.6%	6.6%	6.8%	6.6%
Other expenses	688	1,214	1,255	1,304	1,568
% of sales	18.6%	28.8%	27.9%	25.7%	25.8%
EBITDA	**678**	**666**	**807**	**989**	**1,273**
EBITDA Margin (%)	*18.3%*	*15.8%*	*17.9%*	*19.5%*	*20.7%*
Other Income	60	95	112	127	148
Depreciation & Amortization	59	91	137	149	180
EBIT	**679**	**670**	**781**	**966**	**1,241**
Finance cost	12	18	27	23	23
Extraordinary Items	0	0	0	0	0
Share Of Profits Of Associates	0	0	0	0	0
PBT	**667**	**652**	**755**	**944**	**1,218**
Tax-Total	166	166	196	257	332
Reported PAT	**501**	**486**	**559**	**687**	**885**
Adjusted PAT	**501**	**481**	**561**	**693**	**891**
PAT Margin	*13.6%*	*11.4%*	*12.5%*	*13.6%*	*14.5%*
% Growth	*16.2%*	*-3.9%*	*16.6%*	*23.4%*	*28.7%*

Source: Company, EISEC Research Estimates

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
YE March					
Growth Ratios (%)					
Net Sales	29.5%	14.0%	6.9%	12.9%	21.0%
EBITDA	27.6%	-1.7%	21.1%	22.6%	28.7%
Adjusted Net Profit	16.2%	-3.9%	16.6%	23.4%	28.7%
Margin Ratio (%)					
EBITDA Margin	18.3%	15.8%	17.9%	19.5%	20.7%
PBT margins	18.1%	15.5%	16.8%	18.6%	19.8%
PAT Margin	13.6%	11.4%	12.5%	13.6%	14.5%
Return Ratios					
ROE	21.0%	15.6%	14.7%	15.5%	17.5%
ROCE	27.4%	19.2%	17.4%	19.0%	21.7%
ROIC	29.5%	20.9%	20.1%	22.5%	25.2%
Turnover Ratios (days)					
Gross Block Turnover (x)	4.7	2.9	2.6	2.8	2.8
Inventory	72.0	66.0	51.2	51.0	51.0
Debtors	64.2	61.5	76.4	76.0	76.0
Creditors	34.4	27.4	1.3	1.0	1.0
Cash Conversion Cycle	101.8	100.1	126.3	126.0	126.0
Solvency ratio (x)					
Debt-equity	0.1	0.0	0.0	0.0	0.0
Net Debt-Equity	-0.2	-0.3	-0.1	-0.2	-0.2
Gross Debt/EBITDA	0.3	0.0	0.2	0.0	0.0
Current ratio	3.0	5.3	5.4	7.7	10.2
Per share (Rs.)					
Basic EPS (reported)	4.5	4.3	5.0	6.2	8.0
BV	24.5	30.7	37.5	42.4	48.8
CEPS	5.0	5.1	6.3	7.5	9.6
DPS	3.0	4.0	5.0	1.3	1.5
Dividend Payout (%)	12%	18%	20%	20%	19%
Valuation					
P/E	43.7	45.5	39.0	31.6	24.6
P/BV	8.0	6.4	5.2	4.6	4.0
EV/EBITDA	31.7	32.3	26.7	21.4	16.5
Dividend Yield (%)	2%	2%	3%	1%	1%

Source: Company, EISEC Research Estimates

Balance Sheet	FY21	FY22	FY23	FY24E	FY25E
YE March (Rs mn)					
Capital	204	213	224	224	224
Reserves & Surplus	2,531	3,216	3,969	4,516	5,234
Shareholders' Funds	**2,735**	**3,430**	**4,192**	**4,739**	**5,457**
Minority Interest	0	26	24	18	12
Total Loan Funds	0	107	0	0	0
Other Financial Liabilities	1	495	496	496	496
Provisions	8	9	12	12	12
Deferred tax liabilities	76	81	96	96	96
Total Liabilities	**2,819**	**4,148**	**4,819**	**5,360**	**6,072**
Property, Plant & Equipment	559	1,156	1,291	1,263	1,483
Capital WIP	3	1	67	67	67
Investment Property	0	0	0	0	0
Goodwill	0	232	214	214	214
Investments	0	0	0	0	0
Others	321	322	380	381	381
Total Non Current Assets	**883**	**1,712**	**1,951**	**1,925**	**2,145**
Inventories	729	762	631	710	859
Current Investments	166	393	800	800	800
Trade Receivables	649	710	943	1,058	1,281
Cash & Bank Balances	647	776	635	948	1,071
Other current Assets	195	354	291	290	290
Total Current Assets	**2,386**	**2,994**	**3,299**	**3,807**	**4,301**
Borrowing	0	48	0	0	0
Trade Payables	348	316	16	14	17
Others	102	194	415	415	415
Total Current Liabilities	**451**	**558**	**431**	**372**	**375**
Net Current Assets	**1,936**	**2,436**	**2,868**	**3,435**	**3,927**
Total Assets	**2,819**	**4,148**	**4,819**	**5,360**	**6,072**

Source: Company, EISEC Research Estimates

Cash Flow	FY21	FY22	FY23	FY24E	FY25E
YE March (Rs mn)					
Operating profit before WC changes	**738**	**761**	**919**	**1,116**	**1,421**
Changes in working capital	-446	6	-223	-254	-368
Cash flow from operations	**125**	**601**	**500**	**605**	**720**
Capex	-59	-668	-240	-120	-400
Cash flow from investments	**-59**	**-668**	**-240**	**-120**	**-400**
Cash flow from financing	**-304**	**61**	**-283**	**-162**	**-191**
Net change in cash	**-239**	**-6**	**-23**	**323**	**129**

Source: Company, EISEC Research Estimates

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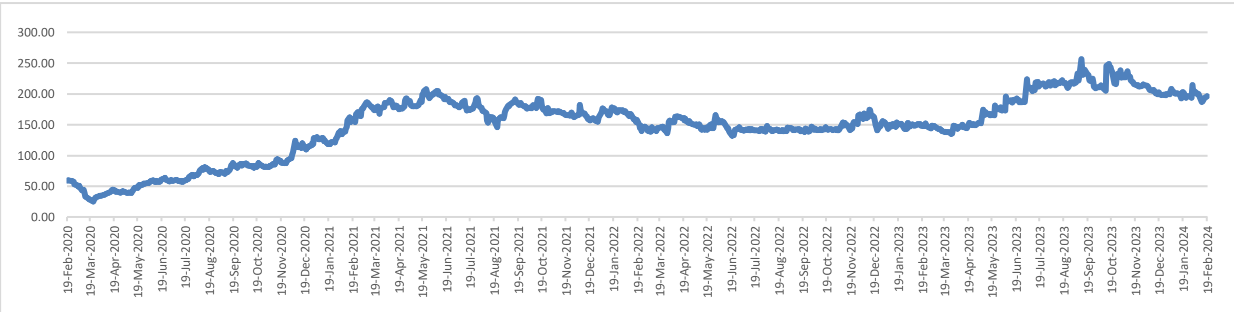

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