

Parag Milk Foods

Performance Update

Y/E March (₹ cr)	2QFY20	2QFY19	% yoy	1QFY19	% qoq
Net sales	640	573	11.6	630	1.6
EBITDA	55	58	(4.5)	57	(2.4)
EBITDA margin (%)	8.7	10.1	(146bp)	9.0	(36bp)
Adjusted PAT	29	30	(6.4)	28	3.6

For 2QFY2020, Parag Milk Foods (PMFL) posted healthy numbers on top-line front, however bottom-line was below expectation. The company's revenue grew by ~12% yoy, while the operating margins contracted by 146bps yoy. On the bottom-line front, PMFL reported de-growth of ~6% yoy to ₹29cr on the back of poor operating performance.

Healthy volume growth drives top-line: PMFL's top-line grew by ~12% yoy due to strong growth in value added products like cheese, ghee, paneer, etc., which grew by ~11% yoy, whereas liquid milk registered growth of 15% yoy and skimmed milk grew by ~4% yoy.

Increase in milk procurement prices impacted the overall operating margin: On the operating front, the company reported margin contraction of 146bps yoy to 8.7%, which is mainly due to an increase in milk procurement prices (due to disruptions in milk availability caused by prolonged monsoons). However, the company expect milk price will go down post Diwali. On the bottom-line front, PMFL reported de-growth of ~6% yoy to ₹29cr on the back of poor operating performance.

Outlook and Valuation: Parag Milk Foods is anticipated to post strong growth in value added products on the back of its diversified product basket, strong brands and wide distribution network. Further, PMFL would benefit from a shift in mix in favor of the organized market for dairy products. At the current market price, the company trades at a P/E of 7.4x its FY2021E EPS. **Thus, we maintain our Hold recommendation on PMFL.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net Sales	1,986	2,396	2,694	3,099
% chg	14.8	20.6	12.5	15.0
Net Profit	89.2	120.7	127.1	169.3
% chg	(69.6)	35.4	5.3	33.1
OPM (%)	10.0	9.3	9.4	10.2
EPS (Rs)	10.6	14.3	15.1	20.1
P/E (x)	14.1	10.4	9.9	7.4
P/BV (x)	2.9	2.5	2.2	1.9
RoE (%)	12.4	14.4	13.2	15.0
RoCE (%)	14.9	16.5	16.8	19.0
EV/Sales (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	7.4	6.5	5.6	4.3

Source: Company, Angel Research

Hold

CMP	₹ 149
Target Price	₹ 200

Stock Info

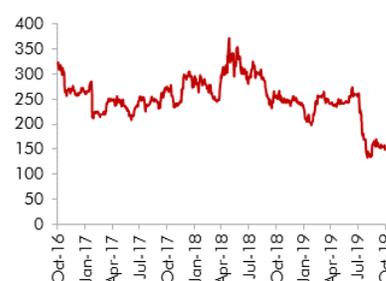
Sector	Dairy Products
Market Cap (₹ cr)	1,206
Net Debt (₹ cr)	202
Beta	1.1
52 Week High / Low	279/131
Avg. Daily Volume	33,463
Face Value (₹)	10
BSE Sensex	39,020
Nifty	11,582
Reuters Code	PAMF.NS
Bloomberg Code	PARAG.IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian FIs	7.5
FII / NRIs / OCBs	19.8
Indian Public / Others	26.8

Abs. (%)	3m	1yr	3yr
Sensex	3.1	14.7	38.5
PARAG	(42.2)	(41.2)	-

Price Chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2020 Performance

Y/E March (cr)	2QFY20	2QFY19	% yoy	1QFY20	% qoq	1HFY20	1HFY19	% chg
Net Sales	640	573	11.6	630	1.6	1,270	1,123	13.1
Consumption of RM	476	397	19.9	461	3.1	937	779	20.2
(% of Sales)	74.3	69.2		73.3		73.8	69.4	
Staff Costs	26	23	11.5	27	(2.9)	52.6	43.7	20.5
(% of Sales)	4.1	4.1		4.2		4.1	3.9	
Other Expenses	83	95	(13.1)	85	(2.3)	167.8	182.1	(7.9)
(% of Sales)	13.0	16.6		13.5		13.2	16.2	
Total Expenditure	585	515	13.4	573	2.0	1,157	1,005	15.1
Operating Profit	55	58	(4.5)	57	(2.4)	112	118	(4.6)
OPM	8.7	10.1		9.0		8.8	10.5	
Interest	9	8	13.1	9	(7.4)	18	18	1.0
Depreciation	13	13	(2.5)	13	(2.0)	26	27	(2.2)
Other Income	3	1	109.5	3	9.6	6	3	81.2
PBT (excl. Ext Items)	37	39	(4.4)	37	(0.4)	74	76	(3.1)
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	37	39	(4.4)	37	(0.4)	74	76	(3.1)
(% of Sales)	5.8	6.7		5.9		5.8	6.8	
Provision for Taxation	8	8	3.2	10	(11.9)	18	18	2.1
(% of PBT)	22.8	21.1		25.8		24.3	23.1	
Reported PAT	29	30	(6.4)	28	3.6	56.00	59	(4.6)
PATM	4.5	5.3		4.4		4.4	5.2	
Minority Interest After NP								
Reported PAT	29	30	(6.4)	28	3.6	56	59	(4.6)
Extra-ordinary Items								
Adj PAT	29	30	(6.4)	28	3.6	56	59	(4.6)
Equity shares (cr)	8	8		8		8	8	
FDEPS (Rs)	3.4	3.6	(6.4)	3.3	3.6	6.7	7.0	(4.6)

Source: Company, Angel Research

Outlook and Valuation

Parag Milk Foods is anticipated to post strong growth in value added products on the back of its diversified product basket, strong brands and wide distribution network. Further, PMFL would benefit from a shift in mix in favor of the organized market for dairy products. At the current market price, the company trades at a P/E of 7.4x its FY2021E EPS. **Thus, we maintain our Hold recommendation on PMFL.**

Risks to our estimates

- 1) Inability to procure sufficient good quality raw milk at commercially viable prices.
- 2) Increase in competitive intensity.

Consolidated Profit & Loss Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Total operating income	1,986	2,396	2,694	3,099
% chg	14.8	20.6	12.5	15.0
Total Expenditure	1,788	2,172	2,440	2,782
Raw Material	1,303	1,657	1,886	2,169
Personnel	85	95	107	123
Others Expenses	400	420	447	490
EBITDA	198	224	254	317
% chg	(42.8)	12.9	13.7	24.8
(% of Net Sales)	10.0	9.3	9.4	10.2
Depreciation& Amortisation	52	50	57	61
EBIT	146	173	198	256
% chg	(50.8)	18.5	14.0	29.5
(% of Net Sales)	7.4	7.2	7.3	8.3
Interest & other Charges	36	36	38	40
Other Income	9	10	10	10
(% of PBT)	7.9	6.9	6.0	4.5
Share in profit of Associates	-	-	-	-
Recurring PBT	119	148	170	226
% chg	(56.6)	23.9	15.0	33.1
Tax	30	27	43	57
(% of PBT)	25.3	18.3	25.2	25.2
PAT (reported)	89	121	127	169
Extraordinary Items	-	-	-	-
Less: Minority interest (MI)				
PAT after MI (reported)	89	121	127	169
ADJ. PAT	89	121	127	169
% chg	(69.6)	35.4	5.3	33.1
(% of Net Sales)	4.5	5.0	4.7	5.5
Fully Diluted EPS (`)	10.6	14.3	15.1	20.1
% chg	148.1	35.4	5.3	33.1

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	84	84	84	84
Reserves & Surplus	633	753	879	1,047
Shareholders Funds	717	837	963	1,132
Equity Share Warrants	-	-	-	-
Total Loans	264	214	214	214
Deferred Tax Liability	-	-	-	-
Other liabilities	9.4	9.4	9.4	9.4
Total Liabilities	990	1,060	1,186	1,355
APPLICATION OF FUNDS				
Gross Block	645	705	765	825
Less: Acc. Depreciation	278	328	385	446
Net Block	367	377	380	379
Capital Work-in-Progress	20	20	20	20
Investments	5	-	-	-
Current Assets	905	938	1,091	1,296
Inventories	438	459	517	594
Sundry Debtors	252	282	317	365
Cash	50	12	49	98
Loans & Advances	166	185	208	239
Other Assets	-	-	-	-
Current liabilities	396	242	275	317
Net Current Assets	509	696	815	980
Deferred Tax Asset	8	8	10	11
Mis. Exp. not written off	12	16	20	26
Total Assets	990	1,060	1,186	1,355

Consolidated Cash Flow

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	119	148	170	226
Depreciation	52	50	57	61
Change in Working Capital	(64)	(225)	(82)	(115)
Interest / Dividend (Net)	36	36	38	40
Direct taxes paid	(30)	(27)	(43)	(57)
Others	0	0	0	0
Cash Flow from Operations	113	(18)	140	156
(Inc.)/ Dec. in Fixed Assets	(60)	(60)	(60)	(60)
(Inc.)/ Dec. in Investments	61	(4)	(5)	(6)
Cash Flow from Investing	1	(64)	(65)	(66)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	1	(50)	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Interest / Dividend (Net)	(36)	(36)	(38)	(40)
Cash Flow from Financing	(35)	(85)	(38)	(40)
Inc./(Dec.) in Cash	78	(167)	37	49
Opening Cash balances	101	179	12	49
Closing Cash balances	179	12	49	98

Source: Company, Angel Research

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	14.1	10.4	9.9	7.4
P/CEPS	14.9	14.9	12.3	11.4
P/BV	2.9	2.5	2.2	1.9
Dividend yield (%)	0.1	0.1	0.1	0.1
EV/Sales	0.7	0.6	0.5	0.4
EV/EBITDA	7.4	6.5	5.6	4.3
EV / Total Assets	1.6	1.3	1.1	1.0
Per Share Data (₹)				
EPS (Basic)	10.6	14.3	15.1	20.1
EPS (fully diluted)	10.6	14.3	15.1	20.1
Cash EPS	16.7	16.7	20.3	21.8
DPS	0.1	0.1	0.1	0.1
Book Value	85.2	99.5	114.5	134.5
Dupont Analysis				
EBIT margin	7.4	7.2	7.3	8.3
Tax retention ratio	0.7	0.8	0.7	0.7
Asset turnover (x)	2.1	2.3	2.4	2.5
ROIC (Post-tax)	11.8	13.6	13.1	15.4
Cost of Debt (Post Tax)	0.1	0.1	0.1	0.1
Returns (%)				
ROCE	14.9	16.5	16.8	19.0
Angel ROIC (Pre-tax)	15.8	16.7	17.5	20.5
ROE	12.4	14.4	13.2	15.0
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.1	3.4	3.5	3.8
Inventory / Sales (days)	92	80	70	70
Receivables (days)	53	45	43	43
Payables (days)	102	99	53	53
Working capital cycle (ex-cash) (days)	43	27	60	60

Source: Company, Angel Research

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on Expected Returns: over 12 months investment period)	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)
		Hold (Fresh purchase not recommended)	