

## Parag Milk Foods

### Performance Update

Y/E March (₹ cr)	3QFY19	3QFY18	% yoy	2QFY18	% qoq
Net sales	601	519	15.7	573	4.7
EBITDA	62	59	5.7	58	6.8
EBITDA margin (%)	10.3	11.3	(97.2)	10.1	19.7
Adjusted PAT	31	25	20.6	30	1.0

For 3QFY2019, Parag Milk Foods (PMFL) posted healthy set of numbers, exceeding our expectations on bottom-line front. The company's revenue grew by ~16% yoy, while the operating margins contracted by 97bps yoy. On the bottom-line front, PMFL reported growth of ~21% yoy to ₹31cr on the back of lower interest cost and taxes.

**Healthy volume growth drives top-line:** PMFL's top-line grew by ~16% yoy due to strong growth in value added products like cheese, ghee, paneer, etc., which grew by ~19% yoy, whereas liquid milk registered growth of 11% yoy and skimmed milk grew by ~4% yoy.

**Higher ad spends and employee costs impacted operating margin:** On the operating front, the company reported margin contraction of 97bps yoy at 10.3%, which is mainly due to an increase in ad spends & promotion expenses and investment in distribution network. On the bottom-line front, PMFL reported growth of ~21% yoy to ₹31cr on the back of lower interest cost and taxes.

**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 11.8x its FY2020E EPS. **Thus, we maintain our Buy recommendation on PMFL with Target Price of ₹359.**

### Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	1,645	1,731	1,986	2,331	2,823
% chg	13.9	5.2	14.8	17.4	21.1
Net Profit	49.4	35.9	89.2	116.2	150.9
% chg	33.0	(27.2)	148.1	30.3	29.9
OPM (%)	9.0	5.1	10.0	10.4	10.6
EPS (Rs)	5.9	4.3	10.6	13.8	17.9
P/E (x)	36.0	49.4	19.9	15.3	11.8
P/BV (x)	5.8	3.2	2.8	2.4	2.1
RoE (%)	13.6	5.5	12.0	13.5	14.9
RoCE (%)	15.3	4.3	15.3	17.0	19.2
EV/Sales (x)	1.3	1.1	0.9	0.8	0.7
EV/EBITDA (x)	14.5	21.8	9.5	8.0	6.4

## BUY

CMP	₹211
Target Price	₹359

Investment Period	12 Months
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### Stock Info

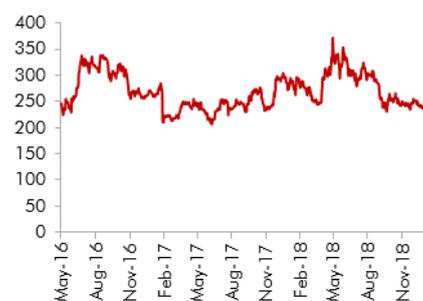
Sector	Dairy Products
Market Cap (₹ cr)	1,758
Net Debt (₹ cr)	214
Beta	1.1
52 Week High / Low	415/203
Avg. Daily Volume	26,047
Face Value (₹)	10
BSE Sensex	36,395
Nifty	10,889
Reuters Code	PAMF.NS
Bloomberg Code	PARAG.IN

### Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian FIs	12.1
FII / NRIs / OCBs	15.3
Indian Public / Others	26.6

Abs. (%)	3m	1yr	3yr
Sensex	3.9	6.2	50.5
PARAG	(15.6)	(25.4)	-

### Price Chart



Source: Company, Angel Research

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**Exhibit 1: 3QFY2019 Performance**

Y/E March (' cr)	3QFY19	3QFY18	% chg. (yoy)	2QFY19	% chg. (qoq)	9MFY19	9MFY18	% chg
<b>Net Sales</b>	<b>601</b>	<b>519</b>	<b>16</b>	<b>573</b>	<b>4.7</b>	<b>1,724</b>	<b>1,437</b>	<b>20.0</b>
Net raw material	404.9	360	12.6	396.7	2.1	1184	1016	16.6
(% of Sales)	67.4	69.3	(185)	69.2	(176)	68.7	70.7	
Employee Cost	25	18	38.4	23	9.3	69.11	53.12	30.1
(% of Sales)	4.2	3.5	69	4.1	18	4.0	3.7	
Other Expenses	108	83	31.2	95	13.5	290.39	230.03	26.2
(% of Sales)	18.0	15.9	213	16.6	139	16.8	16.0	
<b>Total Expenditure</b>	<b>539</b>	<b>461</b>	<b>16.9</b>	<b>515</b>	<b>4.5</b>	<b>1,544</b>	<b>1,299</b>	<b>18.9</b>
<b>Operating Profit</b>	<b>62</b>	<b>59</b>	<b>5.7</b>	<b>58</b>	<b>6.8</b>	<b>180</b>	<b>138</b>	<b>30.3</b>
OPM (%)	10.3	11.3	(97)	10.1	20	10.4	9.6	83
Interest	10	11	(4.6)	8	33.8	27.98	25.84	8.3
Depreciation	14	14	1.5	13	3.7	40.77	38.12	7.0
Other Income	1	2	(72.3)	1	(53.1)	3.93	7.65	(48.6)
<b>PBT before exceptional</b>	<b>39</b>	<b>37</b>	<b>5.0</b>	<b>39</b>	<b>0.2</b>	<b>115</b>	<b>82</b>	<b>40.9</b>
(% of Sales)	6.4	7.1		6.7		6.7	5.7	
Exceptional Items		-					-	
<b>PBT</b>	<b>39</b>	<b>37</b>	<b>5.0</b>	<b>39</b>	<b>0.2</b>	<b>114.9</b>	<b>81.6</b>	<b>40.9</b>
Tax	8	11	(30.2)	8	(2.8)	25.52	20.7	23.3
(% of PBT)	20.5	30.8		21.1		22.2	25.4	
<b>Reported PAT</b>	<b>31</b>	<b>25</b>	<b>20.6</b>	<b>30</b>	<b>1.0</b>	<b>89</b>	<b>61</b>	<b>46.8</b>
PATM	5.1	4.9		5.3		5.2	4.2	
Extra-ordinary Items		-					0	
<b>Adj PAT</b>	<b>31</b>	<b>25</b>	<b>20.6</b>	<b>30</b>	<b>1.0</b>	<b>89</b>	<b>61</b>	<b>46.8</b>

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 11.8x its FY2020E EPS. **Thus, we maintain our Buy recommendation on PMFL with Target Price of ₹359.**

### **Risks to our estimates**

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

**Profit & Loss Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Total operating income</b>	<b>1,645</b>	<b>1,731</b>	<b>1,986</b>	<b>2,331</b>	<b>2,823</b>
% chg	13.9	5.2	14.8	17.4	21.1
<b>Total Expenditure</b>	<b>1,497</b>	<b>1,642</b>	<b>1,788</b>	<b>2,089</b>	<b>2,524</b>
Raw Material	1,333	1,414	1,703	1,800	2,174
Personnel	67	79	85	98	119
Selling and Administration Expenses	82.4	113.1	-	144.5	175.0
Others Expenses	15	36	-	47	56
<b>EBITDA</b>	<b>148</b>	<b>89</b>	<b>198</b>	<b>242</b>	<b>299</b>
% chg	38.2	(40.1)	122.9	22.1	23.9
(% of Net Sales)	9.0	5.1	10.0	10.4	10.6
Depreciation & Amortisation	33	49	52	55	60
<b>EBIT</b>	<b>115</b>	<b>40</b>	<b>146</b>	<b>186</b>	<b>240</b>
% chg	44.1	(65.3)	267.3	27.3	28.7
(% of Net Sales)	7.0	2.3	7.4	8.0	8.5
Interest & other Charges	50	33	36	37	35
Other Income	2	11	9	6	5
(% of PBT)	2.3	62.7	7.9	3.9	2.4
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>67</b>	<b>18</b>	<b>119</b>	<b>155</b>	<b>210</b>
% chg	94.9	(73.8)	581.0	29.8	35.3
Tax	19	0	30	39	59
(% of PBT)	29.2	2.3	25.3	25.0	28.0
<b>PAT (reported)</b>	<b>47</b>	<b>17</b>	<b>89</b>	<b>116</b>	<b>151</b>
Extraordinary Items	(2)	(19)	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
<b>PAT after MI (reported)</b>	<b>47</b>	<b>17</b>	<b>89</b>	<b>116</b>	<b>151</b>
<b>ADJ. PAT</b>	<b>49</b>	<b>36</b>	<b>89</b>	<b>116</b>	<b>151</b>
% chg	33.0	(27.2)	148.1	30.3	29.9
(% of Net Sales)	3.0	2.1	4.5	5.0	5.3
<b>Fully Diluted EPS (Rs)</b>	<b>5.9</b>	<b>4.3</b>	<b>10.6</b>	<b>13.8</b>	<b>17.9</b>
% chg	33.0	(27.2)	148.1	30.3	29.9

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	70	84	84	84	84
Reserves & Surplus	291	573	662	777	927
<b>Shareholders' Funds</b>	<b>362</b>	<b>657</b>	<b>746</b>	<b>861</b>	<b>1,011</b>
Equity Share Warrants	-	-	-	-	-
Total Loans	389	262	212	234	234
Deferred Tax Liability	-	-	-	-	-
Other liabilities	18.7	18.1	18.1	18.1	18.1
<b>Total Liabilities</b>	<b>769</b>	<b>938</b>	<b>976</b>	<b>1,113</b>	<b>1,263</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	528	585	645	705	765
Less: Acc. Depreciation	183	226	280	336	395
<b>Net Block</b>	<b>345</b>	<b>359</b>	<b>365</b>	<b>369</b>	<b>370</b>
Capital Work-in-Progress	28	21	24	24	24
Investments	0	-	-	-	-
<b>Current Assets</b>	<b>602</b>	<b>878</b>	<b>965</b>	<b>1,096</b>	<b>1,311</b>
Inventories	272	429	463	543	657
Sundry Debtors	236	215	245	287	348
Cash	8	101	105	86	88
Loans & Advances	85	133	153	180	218
Other Assets	-	-	-	-	-
Current liabilities	211	382	460	487	588
<b>Net Current Assets</b>	<b>391</b>	<b>496</b>	<b>505</b>	<b>609</b>	<b>723</b>
<b>Deferred Tax Asset</b>	<b>(11)</b>	<b>(10)</b>	<b>(11)</b>	<b>(12)</b>	<b>(12)</b>
Mis. Exp. not written off	17	73	94	123	160
<b>Total Assets</b>	<b>769</b>	<b>938</b>	<b>976</b>	<b>1,113</b>	<b>1,263</b>

**Consolidated Cash Flow Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	67	18	119	155	210
Depreciation	33	49	52	55	60
Change in Working Capital	0	0	(5)	(123)	(112)
Interest / Dividend (Net)	47	25	36	37	35
Direct taxes paid	(14)	(16)	(30)	(39)	(59)
Others	(75)	(11)	0	0	0
<b>Cash Flow from Operations</b>	<b>59</b>	<b>64</b>	<b>172</b>	<b>86</b>	<b>133</b>
(Inc.)/ Dec. in Fixed Assets	(27)	(97)	(60)	(60)	(60)
(Inc.)/ Dec. in Investments	(4)	6	(22)	(28)	(37)
<b>Cash Flow from Investing</b>	<b>(31)</b>	<b>(91)</b>	<b>(82)</b>	<b>(88)</b>	<b>(97)</b>
Issue of Equity	6	278	0	0	0
Inc./ (Dec.) in loans	60	0	(50)	22	0
Dividend Paid (Incl. Tax)	0	0	0	0	0
Interest / Dividend (Net)	(55)	(31)	(36)	(37)	(35)
<b>Cash Flow from Financing</b>	<b>(26)</b>	<b>123</b>	<b>(86)</b>	<b>(16)</b>	<b>(35)</b>
Inc./ (Dec.) in Cash	1	96	4	(18)	1
<b>Opening Cash balances</b>	<b>4</b>	<b>5</b>	<b>101</b>	<b>105</b>	<b>86</b>
<b>Closing Cash balances</b>	<b>5</b>	<b>101</b>	<b>105</b>	<b>86</b>	<b>88</b>

**Key Ratios**

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	36.0	49.4	19.9	15.3	11.8
P/CEPS	26.0	31.7	14.9	14.9	12.2
P/BV	5.8	3.2	2.8	2.4	2.1
Dividend yield (%)	0.1	0.2	0.0	0.0	0.0
EV/Sales	1.3	1.1	0.9	0.8	0.7
EV/EBITDA	14.5	21.8	9.5	8.0	6.4
EV / Total Assets	2.8	2.1	1.9	1.7	1.5
<b>Per Share Data (₹)</b>					
EPS (Basic)	5.9	4.3	10.6	13.8	17.9
EPS (fully diluted)	5.9	4.3	10.6	13.8	17.9
Cash EPS	9.6	7.9	16.7	16.7	20.4
DPS	0.2	0.4	0.1	0.1	0.1
Book Value	43.0	78.2	88.7	102.4	120.2
<b>Dupont Analysis</b>					
EBIT margin	7.0	2.3	7.4	8.0	8.5
Tax retention ratio	0.7	1.0	0.7	0.8	0.7
Asset turnover (x)	2.2	2.1	2.3	2.3	2.4
ROIC (Post-tax)	10.9	4.8	12.8	13.8	14.9
Cost of Debt (Post Tax)	0.1	0.1	0.1	0.1	0.1
<b>Returns (%)</b>					
ROCE	15.3	4.3	15.3	17.0	19.2
Angel ROIC (Pre-tax)	15.5	4.9	17.1	18.5	20.7
ROE	13.6	5.5	12.0	13.5	14.9
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	3.1	3.0	3.1	3.3	3.7
Inventory / Sales (days)	60	90	92	85	85
Receivables (days)	52	45	53	45	45
Payables (days)	58	99	102	99	99
Working capital cycle (ex-cash) (days)	55	37	43	31	31

Source: Company, Angel Research

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<b>Disclosure of Interest Statement</b>	<b>Parag Milk Foods</b>
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

<b>Ratings (Based on Expected Returns: over 12 months investment period)</b>	<b>Buy (&gt; 15%)</b>	<b>Accumulate (5% to 15%) Reduce (-5% to -15%)</b>	<b>Neutral (-5 to 5%) Sell (&lt; -15%)</b>
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