

Parag Milk Foods

Performance Update

Y/E March (₹ cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq
Net sales	630	549	14.6	672	(6.3)
EBITDA	57	60	(4.6)	44	30.1
EBITDA margin (%)	9.0	10.9	(182bp)	6.5	252bp
Adjusted PAT	28	28	(2.7)	31	(12.1)

For 1QFY2019, Parag Milk Foods (PMFL) posted healthy numbers on top-line front, however bottom-line was below expectation. The company's revenue grew by ~15% yoy, while the operating margins contracted by 182bps yoy. On the bottom-line front, PMFL reported de-growth of ~3% yoy to ₹28cr on the back of poor operating performance.

Healthy volume growth drives top-line: PMFL's top-line grew by ~15% yoy due to strong growth in value added products like cheese, ghee, paneer, etc., which grew by ~16% yoy, whereas liquid milk registered growth of 7% yoy and skimmed milk grew by ~21% yoy.

Increase in milk procurement prices impacted the overall operating margin: On the operating front, the company reported margin contraction of 182bps yoy to 9.0%, which is mainly due to an increase in milk procurement prices (Due to drought effect of last year and delayed monsoons, feed availability was severely constrained leading to stress at farmer level. Therefore, raw milk prices paid to farmers increased sequentially during the quarter). On the bottom-line front, PMFL reported de-growth of ~3% yoy to ₹28cr on the back of poor operating performance. We have already passed on the raw milk price increase by combination of increased consumer prices and reduced trade discounts. The full effect of this correction will come from Q2 FY20.

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 9.4x its FY2021E EPS. **Thus, we maintain our Buy recommendation on PMFL with Target Price of ₹304.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net Sales	1,986	2,396	2,763	3,177
% chg	14.8	20.6	15.3	15.0
Net Profit	89.2	120.7	144.7	170.6
% chg	(69.6)	35.4	19.9	17.9
OPM (%)	10.0	9.3	10.5	10.5
EPS (Rs)	10.6	14.3	17.2	20.3
P/E (x)	17.9	13.2	11.0	9.4
P/BV (x)	2.9	2.5	2.1	1.8
RoE (%)	12.4	14.4	14.8	14.8
RoCE (%)	14.9	16.5	19.6	20.0
EV/Sales (x)	0.9	0.8	0.6	0.5
EV/EBITDA (x)	9.1	8.1	6.1	5.1

Source: Company, Angel Research

BUY

CMP	₹190
Target Price	₹304

Investment Period	12 Months
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Stock Info

Sector	Dairy Products
Market Cap (₹ cr)	1,569
Net Debt (₹ cr)	202
Beta	1.1
52 Week High / Low	344/185
Avg. Daily Volume	26,047
Face Value (₹)	10
BSE Sensex	36,814
Nifty	10,885
Reuters Code	PAMF.NS
Bloomberg Code	PARAG.IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian FIs	6.7
FII / NRIs / OCBs	17.4
Indian Public / Others	30.0

Abs. (%)	3m	1yr	3yr
Sensex	(4.2)	(1.9)	31.2
PARAG	(14.8)	(14.8)	-

Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2020 Performance

Y/E March (cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq	FY2019	FY2018	% chg
Net Sales	630	549	14.6	672	(6.3)	2396	1955	22.6
Consumption of RM	461	383	20.6	473	(2.5)	1,657	1,368	21.2
(% of Sales)	73.3	69.6		70.4		69.2	70.0	
Staff Costs	27	20	30.8	26	3.2	95.0	73.5	29.2
(% of Sales)	4.2	3.7		3.9		4.0	3.8	
Other Expenses	85	87	(2.1)	129	(34.4)	419.8	319.8	31.3
(% of Sales)	13.5	15.8		19.3		17.5	16.4	
Total Expenditure	573	490	17.0	628	(8.8)	2,172	1,761	23.3
Operating Profit	57	60	(4.6)	44	30.1	224	193	15.6
OPM	9.0	10.9		6.5		9.3	9.9	
Interest	9	10	(8.2)	8	19.3	35.8	35.7	0.2
Depreciation	13	14	(1.9)	9	41.1	50	51	(0.8)
Other Income	3	2	57.9	6	(55.7)	10	12	(14.5)
PBT (excl. Ext Items)	37	38	(1.7)	33	12.9	148	119	24.2
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	37	38	(1.7)	33	12.9	148	119	24.2
(% of Sales)	5.9	6.9		4.9		6.2	6.1	
Provision for Taxation	10	9	1.2	2	516.1	27.1	30.1	(10.0)
(% of PBT)	25.8	25.0		4.7		18.3	25.3	
Reported PAT	28	28	(2.7)	31	(12.1)	120.71	89	35.8
PATM	4.4	5.1		4.7		5.0	4.5	
Minority Interest After NP								
Reported PAT	28	28	(2.7)	31	(12.1)	121	89	35.8
Extra-ordinary Items								
Adj PAT	28	28	(2.7)	31.3	(12.1)	121	89	35.8
Equity shares (cr)	8	8		8		8	8	
FDEPS (Rs)	3.3	3.4	(2.7)	3.7	(12.1)	14.4	10.6	35.8

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 9.4x its FY2021E EPS. **Thus, we maintain our Buy recommendation on PMFL with Target Price of ₹ 304.**

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)	FY2018	FY2019	FY2020E	FY2021E
Total operating income	1,986	2,396	2,763	3,177
% chg	14.8	20.6	15.3	15.0
Total Expenditure	1,788	2,172	2,472	2,843
Raw Material	1,303	1,657	1,934	2,224
Personnel	85	95	110	126
Others Expenses	400	420	428	492
EBITDA	198	224	291	335
% chg	(42.8)	12.9	30.2	15.0
(% of Net Sales)	10.0	9.3	10.5	10.5
Depreciation& Amortisation	52	50	57	61
EBIT	146	173	234	274
% chg	(50.8)	18.5	35.3	16.7
(% of Net Sales)	7.4	7.2	8.5	8.6
Interest & other Charges	36	36	38	40
Other Income	9	10	10	10
(% of PBT)	7.9	6.9	5.0	4.2
Share in profit of Associates	-	-	-	-
Recurring PBT	119	148	207	244
% chg	(56.6)	23.9	39.9	17.9
Tax	30	27	62	73
(% of PBT)	25.3	18.3	30.0	30.0
PAT (reported)	89	121	145	171
Extraordinary Items	-	-	-	-
Less: Minority interest (MI)				
PAT after MI (reported)	89	121	145	171
ADJ. PAT	89	121	145	171
% chg	(69.6)	35.4	19.9	17.9
(% of Net Sales)	4.5	5.0	5.2	5.4
Fully Diluted EPS (`)	10.6	14.3	17.2	20.3
% chg	148.1	35.4	19.9	17.9

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	897	1,066
Shareholders Funds	717	837	981	1,150
Equity Share Warrants	-	-	-	-
Total Loans	264	214	214	214
Deferred Tax Liability	-	-	-	-
Other liabilities	9.4	9.4	9.4	9.4
Total Liabilities	921	1,118	1,264	1,435
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	1,115	1,323
Inventories	438	459	530	609
Sundry Debtors	252	282	325	374
Cash	50	12	47	95
Loans & Advances	166	185	213	245
Other Assets	-	-	-	-
Current liabilities	396	242	282	325
Net Current Assets	509	696	833	999
Deferred Tax Asset	8	8	10	11
Mis. Exp. not written off	12	16	20	26
Total Assets	921	1,118	1,264	1,435

Exhibit 2:

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	119	148	207	244
Depreciation	52	50	57	61
Change in Working Capital	(64)	(225)	(102)	(118)
Interest / Dividend (Net)	36	36	38	40
Direct taxes paid	(30)	(27)	(62)	(73)
Others	0	0	0	0
Cash Flow from Operations	113	(18)	138	154
(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)	35	48
Opening Cash balances	101	179	12	47
Closing Cash balances	179	12	47	95

Source: Company, Angel Research

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	17.9	13.2	11.0	9.4
P/CEPS	14.9	14.9	12.3	10.4
P/BV	2.9	2.5	2.1	1.8
Dividend yield (%)	0.1	0.1	0.1	0.1
EV/Sales	0.9	0.8	0.6	0.5
EV/EBITDA	9.1	8.1	6.1	5.1
EV / Total Assets	2.0	1.6	1.4	1.2
Per Share Data (₹)				
EPS (Basic)	10.6	14.3	17.2	20.3
EPS (fully diluted)	10.6	14.3	17.2	20.3
Cash EPS	16.7	16.7	20.3	23.9
DPS	0.1	0.1	0.1	0.1
Book Value	85.2	99.5	116.6	136.8
Dupont Analysis				
EBIT margin	7.4	7.2	8.5	8.6
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	14.3	15.1
Cost of Debt (Post Tax)	0.1	0.1	0.1	0.1
Returns (%)				
ROCE	14.9	16.5	19.6	20.0
Angel ROIC (Pre-tax)	15.8	16.7	20.4	21.5
ROE	12.4	14.4	14.8	14.8
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.1	3.4	3.6	3.9
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%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15%)
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