

Parag Milk Foods

Performance Update

Y/E March (₹ cr)	Q1FY19	Q1FY18	% yoy	Q4FY18	% qoq
Net sales	549	413	32.9	518	5.9
EBITDA	60	29	103%	55	8.4%
EBITDA margin (%)	10.9%	7.1%	376	10.6%	23
Adjusted PAT	28	11	154.5	26	7.7

For Q1FY2019, Parag Milk Foods (PARAG) posted decent performance with 33%/168% yoy growth in revenue/ PAT led by 376 bps expansion in margin. The company has delivered strong results amid various concerns like farmers strike, rise in procurement prices of raw milk which reiterates our conviction in its premiumisation story.

Revenue rose 33%: Its Q1's top-line rose due to 41% yoy growth in the high-margin Value Added Products (VAP) segment. It is introducing many new products/ variants of existing products like premium ghee, protein powder, Mishti Doi which would boost its revenue in coming quarters.

Margins were decent: On the operating front, the company's margin were robust at 10.9% due to operating leverage and better product mix. The company has guided for 11-12% by FY2020 on the back of improving product mix and distribution network.

Outlook and Valuation: We have maintained our earnings estimates in view of new products pipeline and robust Q1 performance. We now expect PARAG to report a CAGR of ~17%/35% in revenue/ earnings over FY18-20E. The stock is currently trading at 16.9x its FY2020 earnings, which still looks attractive looking at its evolving FMCG story. **We maintain BUY with a target price of ₹410 (21x FY2020E EPS).**

Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	1,645	1,731	1,986	2,271	2,706
% chg	13.9	5.2	14.8	14.3	19.2
Net Profit	49.4	35.9	89.2	115.4	162.1
% chg	33.0	(27.2)	148.1	29.4	40.5
OPM (%)	9.0	5.1	10.0	10.4	11.1
EPS (Rs)	5.9	4.3	10.6	13.7	19.3
P/E (x)	55.4	76.1	30.7	23.7	16.9
P/BV (x)	5.8	3.2	2.8	2.4	2.1
RoE (%)	13.6	5.5	12.0	13.4	15.9
RoCE (%)	15.3	4.3	15.3	17.2	20.8
EV/Sales (x)	1.9	1.7	1.4	1.3	1.0
EV/EBITDA (x)	21.0	32.6	14.4	12.2	9.4

Source: Company, Angel Research

BUY

CMP	₹324
Target Price	₹410

Investment Period	12 Months
-------------------	-----------

Stock Info

Sector	Dairy Products
Market Cap (₹ cr)	2,733
Net Debt (₹ cr)	214
Beta	1.1
52 Week High / Low	414/220
Avg. Daily Volume	2,43,852
Face Value (₹)	10
BSE Sensex	37,670
Nifty	11,391
Reuters Code	PAMF.NS
Bloomberg Code	PARAG.IN

Shareholding Pattern (%)

Promoters	46.0
MF / Banks / Indian Fls	12.3
FII / NRIs / OCBs	15.9
Indian Public / Others	25.8

Abs. (%)	3m	1yr	3yr
Sensex	7.0	16.7	33.4
PARAG	3.7	29.9	-

Price Chart



Source: Company, Angel Research

Nidhi Agrawal

022 – 3935 7800 Ext: 6872

nidhi.agrawal@angelbroking.com

Exhibit 1: Q1FY2019 Performance

In Cr	Q1FY18	Q4FY18	Q1FY19	YOY %	QOQ%
Net Sales	413	518	549	33.1%	6.1%
Total Income	414	518	549	32.6%	6.1%
Total Expenditure	383	463	490	27.7%	5.8%
Raw Material Consumed	328	374	335	2.3%	-10.3%
Stock Adjustment	-36	-36	6	-118.0%	-118%
Purchase of Finished Goods	1	14	41	3670%	182.2%
COGS	293	352	383	30.6%	8.6%
Employee Expenses	19	22	20	7.7%	-5.2%
Other Expenses	72	89	87	21.0%	-2.6%
As a % of sales					
Raw Material Consumed	79%	72%	61%		-15.4%
Stock Adjustment	-9%	-7%	1%		
Purchase of Finished Goods	0%	3%	7%		166.0%
COGS	71%	68%	70%		2.4%
Gross Margin %	29%	32%	30%		-5.1%
Employee Expenses	5%	4%	4%		-10.7%
Other Expenses	17%	17%	16%		-8.2%
EBITDA	29	55	60	103%	8.4%
Other Income	2	4	2	14.8%	-59.1%
Interest	8	10	10	29.7%	6.6%
PBDT	23	50	51	122.6%	2.9%
Depreciation	12	12	14	17.2%	8.6%
PBT	11	37	38	229.3%	0.9%
Tax	3	11	9	176.9%	-15.8%
PAT	11	26	28	168.5%	8.1%
Ratios					
EBITDA margin (%)	7.1%	10.6%	10.9%		
PAT margin %	2.6%	5.0%	5.1%		
Tax rate %	29.8%	30.0%	25.0%		

Source: Company, Angel Research

Outlook and Valuation

- We have maintained our earnings estimates in view of new products pipeline and robust Q1 performance. We now expect PARAG to report a CAGR of ~17%/35% in revenue/ earnings over FY18-20E.
- We also feel that the higher contribution of nutrition and wellness (30% gross margin segment expected to touch 7% from current 2% share) would further boost margins. Also, the other products in pipeline like Mishti Doi, premium ghee etc. holds great potential.
- Its recent acquisition of Danone facility in North India is likely to improve its presence there across various products like curd etc. PARAG is also in talks with various farmers to improve supply chain in North and East India. It has so far invested 18 cr in the facility which has recently commenced its operation.

Valuation

The stock is currently trading at 16.9x its FY2020 earnings, which still looks attractive looking at its evolving FMCG story. Hence, we recommend a buy with a target price of ₹410 (21x FY2020E EPS).

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
Total operating income	1,645	1,731	1,986	2,271	2,706
% chg	13.9	5.2	14.8	14.3	19.2
Total Expenditure	1,497	1,642	1,788	2,036	2,406
Raw Material	1,333	1,414	1,703	1,754	2,070
Personnel	67	79	85	95	114
Selling and Administration Expenses	82.4	113.1	-	140.8	167.8
Others Expenses	15	36	-	45	54
EBITDA	148	89	198	235	300
% chg	38.2	(40.1)	122.9	18.9	27.7
(% of Net Sales)	9.0	5.1	10.0	10.4	11.1
Depreciation & Amortisation	33	49	52	59	65
EBIT	115	40	146	176	236
% chg	44.1	(65.3)	267.3	20.3	34.0
(% of Net Sales)	7.0	2.3	7.4	7.7	8.7
Interest & other Charges	50	33	36	22	14
Other Income	2	11	9	5	5
(% of PBT)	2.3	62.7	7.9	3.1	2.2
Share in profit of Associates	-	-	-	-	-
Recurring PBT	67	18	119	159	227
% chg	94.9	(73.8)	581.0	33.4	42.4
Tax	19	0	30	44	65
(% of PBT)	29.2	2.3	25.3	27.5	28.5
PAT (reported)	47	17	89	115	162
Extraordinary Items	(2)	(19)	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
PAT after MI (reported)	47	17	89	115	162
ADJ. PAT	49	36	89	115	162
% chg	33.0	(27.2)	148.1	29.4	40.5
(% of Net Sales)	3.0	2.1	4.5	5.1	6.0
Fully Diluted EPS (Rs)	5.9	4.3	10.6	13.7	19.3
% chg	33.0	(27.2)	148.1	29.4	40.5

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	70	84	84	84	84
Reserves & Surplus	291	573	660	774	935
Shareholders' Funds	362	657	744	858	1,019
Equity Share Warrants	-	-	-	-	-
Total Loans	389	262	212	162	112
Deferred Tax Liability	-	-	-	-	-
Other liabilities	18.7	18.1	18.1	18.1	18.1
Total Liabilities	769	938	974	1,039	1,150
APPLICATION OF FUNDS					
Gross Block	528	585	645	705	765
Less: Acc. Depreciation	183	226	280	340	404
Net Block	345	359	365	365	361
Capital Work-in-Progress	28	21	24	24	24
Investments	0	-	-	-	-
Current Assets	602	878	954	1,012	1,178
Inventories	272	429	455	529	630
Sundry Debtors	236	215	241	280	334
Cash	8	101	108	28	5
Loans & Advances	85	133	151	175	209
Other Assets	-	-	-	-	-
Current liabilities	211	382	453	474	560
Net Current Assets	391	496	502	538	618
Deferred Tax Asset	(11)	(10)	(11)	(12)	(12)
Mis. Exp. not written off	17	73	94	123	160
Total Assets	769	938	974	1,039	1,150

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	67	18	119	159	227
Depreciation	33	49	51	59	65
Change in Working Capital	0	0	1	(116)	(103)
Interest / Dividend (Net)	47	25	36	22	14
Direct taxes paid	(14)	(16)	(32)	(44)	(65)
Others	(75)	(11)	0	0	0
Cash Flow from Operations	59	64	174	81	138
(Inc.)/ Dec. in Fixed Assets	(27)	(97)	(60)	(60)	(60)
(Inc.)/ Dec. in Investments	(4)	6	(22)	(28)	(37)
Cash Flow from Investing	(31)	(91)	(82)	(88)	(97)
Issue of Equity	6	278	0	0	0
Inc./(Dec.) in loans	60	0	(50)	(50)	(50)
Dividend Paid (Incl. Tax)	0	0	0	0	0
Interest / Dividend (Net)	(55)	(31)	(36)	(22)	(14)
Cash Flow from Financing	(26)	123	(86)	(72)	(64)
Inc./(Dec.) in Cash	1	96	7	(79)	(23)
Opening Cash balances	4	5	101	108	28
Closing Cash balances	5	101	108	28	5

Key Ratios

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	55.4	76.1	30.7	23.7	16.9
P/CEPS	26.0	31.7	14.9	12.0	9.2
P/BV	5.8	3.2	2.8	2.4	2.1
Dividend yield (%)	0.1	0.1	0.0	0.0	0.0
EV/Sales	1.9	1.7	1.4	1.3	1.0
EV/EBITDA	21.0	32.6	14.4	12.2	9.4
EV / Total Assets	4.0	3.1	2.9	2.7	2.5
Per Share Data (₹)					
EPS (Basic)	5.9	4.3	10.6	13.7	19.3
EPS (fully diluted)	5.9	4.3	10.6	13.7	19.3
Cash EPS	9.6	7.9	16.7	20.8	27.0
DPS	0.2	0.4	0.1	0.1	0.1
Book Value	43.0	78.2	88.7	102.3	121.4
Dupont Analysis					
EBIT margin	7.0	2.3	7.4	7.7	8.7
Tax retention ratio	0.7	1.0	0.7	0.7	0.7
Asset turnover (x)	2.2	2.1	2.3	2.3	2.4
ROIC (Post-tax)	10.9	4.8	12.8	12.9	15.0
Cost of Debt (Post Tax)	0.1	0.1	0.1	0.1	0.1
Returns (%)					
ROCE	15.3	4.3	15.3	17.2	20.8
Angel ROIC (Pre-tax)	15.5	4.9	17.1	17.8	20.9
ROE	13.6	5.5	12.0	13.4	15.9
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.1	3.0	3.1	3.2	3.5
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

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER:

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	Parag Milk Foods
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%)