

Parag Milk Foods

Performance Update

Y/E March (₹ cr)	Q2FY19	Q2FY18	% yoy	Q1FY19	% qoq
Net sales	573	505	13.7%	549	4.4%
EBITDA	58	50	16.3%	60	-2.7%
EBITDA margin (%)	10.1%	9.9%		10.9%	
Adjusted PAT	30	25	22.2%	28	7.6%

For Q2FY2019, Parag Milk Foods (PARAG) posted decent performance with 14%/22% yoy growth in revenue/ PAT led by 23 bps expansion in margin. The company has maintained its revenue target of ₹2700+ crore for FY2020 backed by widening distribution network and product portfolio.

Revenue rose 14%: Q2's top-line growth was led by 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 10.1% due to lower input cost which offset rise in employee and other expenses. 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 H1 performance. We expect PARAG to report a CAGR of ~17%/35% in revenue/ earnings over FY18-20E. The stock is currently trading at 13.4x its FY2020 earnings, which looks attractive looking at its evolving FMCG story. **We maintain BUY with a revised target price of ₹330 (17x FY2020E EPS).**

Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	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)	44.0	60.4	24.3	18.8	13.4
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)	1.6	1.3	1.1	1.0	0.8
EV/EBITDA (x)	17.2	26.3	11.5	9.8	7.6

Source: Company, Angel Research

BUY

CMP	₹256
Target Price	₹330

Investment Period	12 Months
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Stock Info

Sector	Dairy Products
Market Cap (₹ cr)	2,153
Net Debt (₹ cr)	214
Beta	1.1
52 Week High / Low	414/220
Avg. Daily Volume	1,38,424
Face Value (₹)	10
BSE Sensex	34,950
Nifty	10,524
Reuters Code	PAMF.NS
Bloomberg Code	PARAG.IN

Shareholding Pattern (%)

Promoters	45.9
MF / Banks / Indian Fls	11.9
FII / NRIs / OCBs	21.2
Indian Public / Others	20.8

Abs. (%)	3m	1yr	3yr
Sensex	(5.8)	3.9	33.3
PARAG	(17.9)	(7.2)	-

Price Chart



Source: Company, Angel Research

Nidhi Agrawal

022 – 3935 7800 Ext: 6872

nidhi.agrawal@angelbroking.com

Exhibit 1: Q2FY2019 Performance

₹ Cr	Q2FY18	Q2FY19	YOY %	Q1FY19	QOQ%	H1FY19	H1FY18	YOY %
Net Sales	505	573	13.7%	549	4.4%	1,123	917	22.4%
Total Income	508	573	12.9%	549	4.4%	1,123	923	21.7%
Total Expenditure	455	515	13.4%	490	5.2%	1,005	838	19.9%
Raw Material Consumed	298	330	10.7%	335	-1.7%	665	626	6.3%
Stock Adjustment	31	9	-72.7%	6	32.8%	15	-4	-435.4%
Purchase of Finished Goods	34	58	74.1%	41	43.3%	99	35	186.4%
COGS	363	397	9.3%	383	3.7%	779	656	18.8%
Employee Expenses	22	23	4.3%	20	13.9%	44	41	5.8%
Other Expenses	69	95	37.8%	87	10.2%	182	141	29.2%
As a % of sales								
Raw Material Consumed	59%	58%		61%		59%	68%	
Stock Adjustment	6%	1%		1%		1%	0%	
Purchase of Finished Goods	7%	10%		7%		9%	4%	
COGS	71%	69%		70%		69%	71%	
Gross Margin %	29%	31%		30%		31%	29%	
Employee Expenses	4%	4%		4%		4%	4%	
Other Expenses	14%	17%		16%		16%	15%	
EBITDA	50	58	16.3%	60	-2.7%	118	79	48.5%
Other Income	4	1	-59.5%	2	-17.6%	3	5	-37.2%
Interest	7	8	3.7%	10	-25.6%	18	15	17.2%
PBDT	46	52	12.3%	51	1.3%	103	69	49.0%
Depreciation	13	13	3.4%	14	-1.4%	27	24	9.9%
PBT	33	39	15.8%	38	2.3%	76	45	70.4%
Tax	7	8	15.5%	9	-13.6%	18	10	68.0%
PAT	25	30	22.2%	28	7.6%	59	35	65.7%
Ratios								
OPM (%)	9.9%	10.1%		10.9%		10.5%	8.7%	
PAT margin %	4.9%	5.3%		5.1%		5.2%	3.9%	
Tax rate %	21.2%	21.1%		25.0%		23.1%	23.4%	

Source: Company, Angel Research

Risks to our estimates

- 1) Inability to procure sufficient good quality raw milk at commercially viable prices
- 2) Increase in competitive intensity
- 3) Delay in launch of new products

Consolidated 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)	44.0	60.4	24.3	18.8	13.4
P/CEPS	26.0	31.7	14.9	14.9	12.0
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	1.6	1.3	1.1	1.0	0.8
EV/EBITDA	17.2	26.3	11.5	9.8	7.6
EV / Total Assets	3.3	2.5	2.3	2.2	2.0
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	16.7	20.8
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

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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%)
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