

Parag Milk Foods

Performance Update

Y/E March (₹ cr)	Q4FY18	Q4FY17	% yoy	Q3FY18	% qoq
Net sales	518	428	20.9	519	0.3
EBITDA	55	39	43	59	7
EBITDA margin (%)	10.6%	9.0%	161bps	11.3%	(68.3)bps
Adjusted PAT	26.2	22.1	18.3	25.5	12.5

For Q4FY2018, Parag Milk Foods (PARAG) posted decent performance with 20%/18% yoy growth in revenue/ PAT and decent margin expansion. The company is introducing many new products/ variants and improving its supply chain management which would drive 20%+ earnings growth in next two years.

Revenue rose 21%: Its Q4's top-line rose due to aggressive distribution expansion and new variants addition 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.

Margins were decent: On the operating front, the company's margin were robust at 10.6% due to better revenue mix. The company has slightly upgraded margins guidance to 11-12% from earlier 10-11% for the next two years.

Outlook and Valuation: We have slightly upgraded our earnings estimates in view of new products pipeline, better off take in whey protein and the revised margin guidance from the management. We now expect PARAG to report a CAGR of ~18%/37% in revenue/ earnings over FY18-20E. The stock has given 35% return since our initiation in April. The stock is currently trading at 17.5x its FY2020 earnings, which still looks attractive looking at its evolving FMCG story. **Hence we recommend BUY with a target price of ₹410 (21x FY2020E EPS).**

Key Financials

Y/E March (Rs cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	1,645	1,731	1,955	2,271	2,706
% chg	13.9	5.2	12.9	16.2	19.2
Net Profit	49.4	35.9	87.1	115.4	162.1
% chg	33.0	(27.2)	142.2	32.6	40.5
OPM (%)	9.0	5.1	9.9	10.4	11.1
EPS (Rs)	5.9	4.3	10.3	13.7	19.3
P/E (x)	57.3	78.7	32.5	24.5	17.5
P/BV (x)	5.8	3.2	2.8	2.4	2.1
RoE (%)	13.6	5.5	11.7	13.4	15.9
RoCE (%)	15.3	4.3	14.9	17.2	20.8
EV/Sales (x)	2.0	1.7	1.5	1.3	1.1
EV/EBITDA (x)	21.7	33.7	15.2	12.6	9.8

Source: Company, Angel Research

BUY

CMP	₹336
Target Price	₹410

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

Stock Info

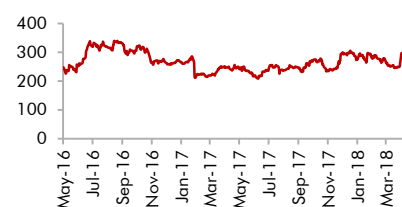
Sector	Dairy Products
Market Cap (₹ cr)	2,830
Net Debt (₹ cr)	209
Beta	1.1
52 Week High / Low	346/206
Avg. Daily Volume	2,43,852
Face Value (₹)	10
BSE Sensex	35,557
Nifty	10,480
Reuters Code	PAMF.NS
Bloomberg Code	PARAG.IN

Shareholding Pattern (%)

Promoters	48.7
MF / Banks / Indian Fls	13.4
FII / NRIs / OCBs	16.6
Indian Public / Others	21.4

Abs. (%)	3m	1yr	3yr
Sensex	1.5	13.5	35.3
PARAG	12.8	33.5	-

Price Chart



Source: Company, Angel Research

Nidhi Agrawal

022 – 3935 7800 Ext: 6872

nidhi.agrawal@angelbroking.com

Exhibit 1: Q4FY2018 Performance

In Cr	Q4FY18	Q4FY17	YOY %	FY18	FY17	YOY %
Net Sales	518	428	20.9%	1955	1731	12.9%
Raw Material Consumed	374	296	26.2%	1304	1341	-2.7%
Stock Adjustment	-36	-27	32.6%	-5	-155	-96.7%
Purchase of Finished Goods	14	21	-31.6%	69	73	-6.3%
Employee Expenses	22	19	11.6%	86	79	8.9%
Other Expenses	89	80	10.9%	307	323	-5.0%
Total Expenditure	463	390	18.7%	1761	1661	6.0%
As a % of sales						
Raw Material Consumed	72%	68%		66%	77%	
Stock Adjustment	-7%	-6%		0%	-9%	
Purchase of Finished Goods	3%	5%		4%	4%	
COGS	68%	67%		70%	72%	
Gross Margin %	32%	33%		30%	28%	
Employee Expenses	4%	4%		4%	5%	
Other Expenses	17%	18%		16%	19%	
Total Expenditure	89%	90%		90%	95%	
				0		
EBITDA	55	39	42.5%	193	69	178.2%
Other Income	4	5	-6.8%	12	12	3.0%
Interest	10	9	13.2%	36	32	13.1%
PBDT	50	35	43.1%	170	50	242.2%
Depreciation	12	17	-25.8%	51	49	3.3%
PBT	37	18	107.3%	119	1	-
Tax	11	-7	-260.6%	31	-6	-580.8%
Reported Profit After Tax	26	25	4.6%	87	5	1641.2%
Extra-ordinary Items	0	-3		0	-19	-100.0%
Adjusted PAT	26	22	18.3%	87	20	341.3%
Ratios						
EBITDA margin (%)	10.6%	9.0%		9.9%	4.0%	
PAT margin %	5.0%	5.8%		4.5%	0.3%	
Tax rate %	30.0%	-38.7%		26.2%	-	

Source: Company, Angel Research

Outlook and Valuation

- We have slightly upgraded our earnings estimates in view of new products pipeline, better off take in whey protein and the upgraded margin guidance from the management. We now expect PARAG to report a CAGR of ~18%/37% 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 effort to improve its supply chain under the consultation of VECTOR CONSULTING is also likely to improve its working capital cycle as well as utilization of production capacity.
- 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 India.

Valuation

The stock has given 35% return since our initiation in April. The stock is currently trading at 17.5x 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	FY2018E	FY2019E	FY2020E
Total operating income	1,645	1,731	1,955	2,271	2,706
% chg	13.9	5.2	12.9	16.2	19.2
Total Expenditure	1,497	1,642	1,761	2,036	2,406
Raw Material	1,333	1,414	1,675	1,754	2,070
Personnel	67	79	86	95	114
Selling and Administration Expenses	82.4	113.1	-	140.8	167.8
Others Expenses	15	36	-	45	54
EBITDA	148	89	193	235	300
% chg	38.2	(40.1)	117.7	21.8	27.7
(% of Net Sales)	9.0	5.1	9.9	10.4	11.1
Depreciation & Amortisation	33	49	51	59	65
EBIT	115	40	143	176	236
% chg	44.1	(65.3)	258.4	23.3	34.0
(% of Net Sales)	7.0	2.3	7.3	7.7	8.7
Interest & other Charges	50	33	36	22	14
Other Income	2	11	12	5	5
(% of PBT)	2.3	62.7	10.1	3.1	2.2
Share in profit of Associates	-	-	-	-	-
Recurring PBT	67	18	119	159	227
% chg	94.9	(73.8)	579.0	33.8	42.4
Tax	19	0	32	44	65
(% of PBT)	29.2	2.3	26.8	27.5	28.5
PAT (reported)	47	17	87	115	162
Extraordinary Items	(2)	(19)	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
PAT after MI (reported)	47	17	87	115	162
ADJ. PAT	49	36	87	115	162
% chg	33.0	(27.2)	142.2	32.6	40.5
(% of Net Sales)	3.0	2.1	4.5	5.1	6.0
Fully Diluted EPS	5.9	4.3	10.3	13.7	19.3
% chg	33.0	(27.2)	142.2	32.6	40.5

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	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	1,038	1,150

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	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	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	57.3	78.7	32.5	24.5	17.5
P/CEPS	26.0	31.7	15.2	12.0	9.2
P/BV	5.8	3.2	2.8	2.4	2.1
EV/Sales	2.0	1.7	1.5	1.3	1.1
EV/EBITDA	21.7	33.7	15.2	12.6	9.8
EV / Total Assets	4.2	3.2	3.0	2.9	2.6
Per Share Data (₹)					
EPS (fully diluted)	5.9	4.3	10.3	13.7	19.3
Cash EPS	9.6	7.9	16.4	20.8	27.0
DPS	0.2	0.4	0.1	0.1	0.1
Book Value	43.0	78.2	88.4	102.0	121.2
Dupont Analysis					
EBIT margin	7.0	2.3	7.3	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	12.3	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	14.9	17.2	20.8
Angel ROIC (Pre-tax)	15.5	4.9	16.8	17.7	20.9
ROE	13.6	5.5	11.7	13.4	15.9
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.1	3.0	3.0	3.2	3.5
Inventory / Sales (days)	60	90	85	85	85
Receivables (days)	52	45	45	45	45
Payables (days)	58	99	99	99	99
Working capital cycle (ex-cash) (days)	55	37	31	31	31
Solvency ratios (x)					
Net debt to equity	1.1	0.2	0.1	0.2	0.1
Net debt to EBITDA	2.6	1.8	0.5	0.6	0.4
Interest Coverage (EBIT / Interest)	2.3	1.2	4.0	8.1	16.8

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

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.

Angel Broking Pvt. Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

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.

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 Pvt. 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 Pvt. 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 Pvt. Limited endeavours 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.

Angel Broking Pvt. Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Pvt. 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.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Parag Milk Foods
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	-------------------------------------	---	--------------------