

PARAG MILK FOODS

RESULT UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	139
12 month price target (INR)	117
Market cap (INR bn/USD bn)	13/0.2
Free float/Foreign ownership (%)	54.0/17.7
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

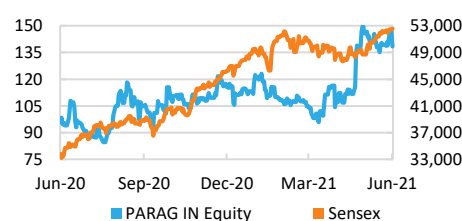
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth			•
Overall			•

FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	18,418	21,698	25,097	28,217
EBITDA	1,248	1,570	2,064	2,371
Adjusted profit	207	566	1,009	1,255
Diluted EPS (INR)	2.5	6.0	9.6	10.9
EPS growth (%)	(77.9)	141.1	61.4	13.5
RoAE (%)	2.3	5.9	9.7	10.8
P/E (x)	44.0	18.3	11.3	10.0
EV/EBITDA (x)	10.0	8.1	5.4	4.6
Dividend yield (%)	0.5	0.5	0.5	0.4

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Recovery lagging peers

Parag Milk Foods' (Parag) Q4FY21 revenue fell 19% YoY (13% below estimate) due to dip in milk sales as pick-up in HORECA and modern trade remained slow. EBITDA slid 54% YoY (46% below estimate) due to lower sales and 22% QoQ jump in procurement prices.

Capital raise of INR3.8bn (from IFC, Sixth sense) has been utilised to cut working capital debt by INR1.5bn and INR800mn has been earmarked for capex. With a higher share of modern trade and HORECA, management estimates 25% plus sales growth in FY22 post 25% dip in FY21. Hence, we revise target P/E to 15x (10x earlier) Q2FY23E. However, due to underperformance and dilution, we cut FY22/23E EPS 32%/13%. Maintain 'REDUCE' with revised TP of INR117.

Tepid modern trade; rise in procurement prices

Sales contracted 19% YoY as modern trade sales (~50% of milk sales) remained weak; versus 5% sales decline for Heritage Foods. While HORECA had started to normalise in Q4FY21, with second wave and subsequent challenges, the trend reversed. Further, with milk prices on an uptrend (22% QoQ), gross margin slipped 290bps QoQ. Thus, with lower sales, EBITDA plunged 46% YoY and margin for Q4FY21 fell to 4.2%—lowest since Q3FY17. Parag shifted to the new tax regime and thus had a tax loss in the quarter, resulting in a loss at the PAT level.

FY22 to improve gradually

While Q1FY22 continues to remain challenging given the severity of the second wave, management anticipates the sales dip to mitigate from Q2FY22. However, we anticipate some relief from reduction in procurement prices, which have softened owing to low demand during the lockdown. Thus, gross margin should ease hereon. Parag raised INR3.8bn during April 2021 via a variety of instruments, which will be utilised for working capital debt and limit reduction. Further, management anticipates a sharp cut in interest costs as a result of the same. It estimates revenue growth of 25% in FY22. Post 41% decline in EBITDA in FY21, we expect 26% EBITDA growth in FY22 and 29% CAGR over FY21-23E.

Outlook and valuations: Headwinds persist; maintain 'REDUCE'

Post a challenging FY21, with HORECA and modern trade picking up, Parag expects 25% sales growth in FY22. We maintain 'REDUCE' with revised TP of INR114 (INR98 earlier) valuing the stock at 15x Q2FY23E EPS led by reducing working capital burden. The stock trades at 25x FY22E/15x FY23E.

Financials

Year to March	Q4FY21	Q4FY20	% Change	Q3FY21	% Change
Net Revenue	4,344	5,352	(18.8)	4,736	(8.3)
EBITDA	184	400	(53.9)	351	(47.5)
Adjusted Profit	(96)	101	(195.3)	112	(185.9)
Diluted EPS (INR)	(1.1)	1.2	(195.3)	1.3	(185.9)

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	18,418	21,698	25,097	28,217
Gross profit	4,799	5,467	6,402	7,117
Employee costs	782	860	955	1,060
Other expenses	2,769	3,037	3,384	3,687
EBITDA	1,248	1,570	2,064	2,371
Depreciation	518	554	586	627
Less: Interest expense	458	324	206	159
Add: Other income	135	63	74	89
Profit before tax	407	755	1,346	1,674
Prov for tax	200	189	336	418
Less: Other adjustment	0	0	0	0
Reported profit	207	566	1,009	1,255
Less: Excp.item (net)	0	0	0	0
Adjusted profit	207	566	1,009	1,255
Diluted shares o/s	84	95	105	115
Adjusted diluted EPS	2	6	10	11
DPS (INR)	0.5	0.6	0.5	0.5
Tax rate (%)	49.2	25.0	25.0	25.0

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Milk (% of revenue)	10.0	11.1	11.5	11.4
VADP (% of revenue)	72.9	71.7	72.0	72.2
Gross margin (%)	26.1	25.2	25.5	25.2
EBITDA margin (%)	6.8	7.2	8.2	8.4
Net profit margin (%)	1.1	2.6	4.0	4.4
Revenue growth (% YoY)	(24.5)	17.8	15.7	12.4
EBITDA growth (% YoY)	(40.9)	25.8	31.5	14.8
Adj. profit growth (%)	(77.9)	173.4	78.3	24.4

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	9.0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	75.0	73.0	72.0	71.0
Procurement (INR/l)	27.9	29.0	29.0	29.3
Procurement (mn l/day)	1.0	1.3	1.5	1.8
B2C Sales (%)	68.4	69.2	69.1	68.6
B2B Sales (%)	31.6	30.8	30.9	31.4
Freight (% of sales)	3.9	3.9	3.8	3.8
Ad Spends (% of sales)	2.8	2.7	2.7	2.7

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	44.0	18.3	11.3	10.0
Price/BV (x)	1.0	1.0	1.0	1.0
EV/EBITDA (x)	10.0	8.1	5.4	4.6
Dividend yield (%)	0.5	0.5	0.5	0.4

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	838	950	1,050	1,150
Reserves	8,442	8,942	9,896	11,097
Shareholders funds	9,280	9,892	10,947	12,247
Minority interest	0	0	0	0
Borrowings	3,508	4,308	3,308	2,908
Trade payables	3,041	2,890	3,175	3,468
Other liabs & prov	922	1,092	1,268	1,429
Total liabilities	16,794	18,233	18,756	20,118
Net block	4,713	4,659	4,673	4,547
Intangible assets	19	19	19	19
Capital WIP	31	31	31	31
Total fixed assets	4,763	4,709	4,723	4,597
Non current inv	8	8	8	8
Cash/cash equivalent	187	789	1,327	1,209
Sundry debtors	1,589	3,448	3,782	4,252
Loans & advances	4	4	4	4
Other assets	10,243	9,274	8,912	10,048
Total assets	16,794	18,233	18,756	20,118

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	207	566	1,009	1,255
Add: Depreciation	518	554	586	627
Interest (net of tax)	458	324	206	159
Others	(1,209)	(573)	(2,291)	(889)
Less: Changes in WC	(193)	(871)	489	(1,151)
Operating cash flow	(220)	0	0	0
Less: Capex	0	0	0	0
Free cash flow	(220)	0	0	0

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	2.3	5.9	9.7	10.8
RoCE (%)	6.8	8.0	10.9	12.5
Inventory days	178	153	128	118
Receivable days	46	42	53	52
Payable days	80	67	59	57
Working cap (% sales)	42.6	40.2	32.8	33.2
Gross debt/equity (x)	37.8	43.6	30.2	23.7
Net debt/equity (x)	35.8	35.6	18.1	13.9
Interest coverage (x)	1.6	3.1	7.2	11.0

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	(77.9)	141.1	61.4	13.5
RoE (%)	2.3	5.9	9.7	10.8
EBITDA growth (%)	(40.9)	25.8	31.5	14.8
Payout ratio (%)	20.2	9.7	5.4	4.4

Exhibit 1: Liquid milk sales were sharply impacted in Q4FY21

(INR mn)	Q4FY21	Q3FY20	% YoY	Q2FY21	% QoQ	FY21	FY20	% YoY
SMP	776	776	0%	521	49%	2,812	3,128	-10%
Liquid milk	500	1,001	-50%	511	-2%	1,918	4,528	-58%
Milk products	3,741	3,597	4%	3,632	3%	14,069	16,441	-14%
Others	-674	-21	3046%	71	-1048%	-382	283	-235%
Total	4,344	5,352		4,736		18,418	24,379	

Source: Company, Edelweiss Research

Exhibit 2: Quarterly financial snapshot

Year to March	Q4FY21	Q4FY20	% change	Q3FY21	% change	FY21	FY22E	FY23E
Revenues	4,344	5,352	(18.8)	4,736	(8.3)	18,418	21,698	25,097
Raw material	3,295	4,059	(18.8)	3,455	(4.6)	13,619	16,231	18,694
Staff costs	192	192	0.1	195	(1.7)	782	860	955
Others	672	701	(4.2)	734	(8.4)	2,769	3,037	3,384
Total expenditure	4,159	4,952	(16.0)	4,384	(5.1)	17,170	20,128	23,033
EBITDA	184	400	(53.9)	351	(47.5)	1,248	1,570	2,064
Depreciation	124	137	(9.3)	127	(2.1)	518	554	586
EBIT	60	263	(77.2)	224	(73.2)	730	1,016	1,478
Interest	121	89	36.4	116		458	324	206
Other income	68	9	627.1	30	128.6	135	63	74
Add: Exceptional items	0	0		0				
Profit Before Tax	7	183	(96.3)	139	(95.1)	407	755	1,346
Less: Provision for Tax	103	82	25.6	26	290.8	200	189	336
Reported Profit	-96	101	(195.3)	112	(185.9)	207	566	1,009
Adjusted Profit	-96	101	(195.3)	112	(185.9)	207	566	1,009
Equity capital (FV INR 10)	839	839		839		838	950	1,050
No. of Diluted shares outstanding (mn)	84	84		84		84	95	105
Adjusted Diluted EPS	(1.1)	1.2	(195.3)	1.3	(185.9)	2.5	6.0	9.6
P/E (x)						59.3	24.6	15.2
EV/EBITDA (x)						12.5	11.1	8.4
ROAE(%)						2.3	5.9	9.7
As % of net revenues								
Raw material	75.9	75.8		73.0		73.9	74.8	74.5
Staff expenses	4.4	3.6		4.1		4.2	4.0	3.8
Other expenses	15.5	13.1		15.5		15.0	14.0	13.5
EBITDA	4.2	7.5		7.4		6.8	7.2	8.2
Net profit	(2.2)	1.9		2.4		1.1	2.6	4.0

Source: Company, Edelweiss Research

Exhibit 3: We have cut our FY22/23E EPS by 32/13%

(INR mn)	Old		New		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	21,628	24,342	21,698	25,097	0.3	3.1
EBITDA	1,924	2,232	1,570	2,064	-18.4	-7.5
PAT	738	924	566	1,009	-23.3	9.2
EPS	8.8	11.0	6.0	9.6	-32.3	-12.6

Source: Edelweiss Research

Company Description

Parag, incorporated in 1992 with operations in just collection and distribution of milk, has now developed into a FMCG dairy company. It has diversified its product portfolio with 170 plus SKUs to cater to a wide range of customers via 6 brands—Gowardhan, Go, Pride Of Cows, ToppUp, Milkrich and Avvatar. The company has recently ventured into the whey consumer protein powder segment with Avvatar brand and fruit beverages category with Slurp brand.

The company's aggregate milk processing capacity stands at 2mn ltr per day. Its cheese plant boasts of one of the largest production capacities in India with raw cheese capacity of 60MT per day.

Investment Theme

Parag Milk Foods (Parag) has made a commendable leap in a short span by capturing leading market share in high-margin value-added products (VADP)—No. 2 in cheese (32% market share) and largest cow ghee brand in India. Parag boasts of strongest value-added portfolio contributing 64% to sales, way ahead industry's 34%.

FY21 was a challenging year where in sales declined 25% led by hit in modern trade and HORECA segments. EBITDA declined 41%. While HORECA sales are gradually improving, company expects sales recovery from Q2FY22 and reach FY20 level in sales leading to 24% growth. Gross margins may take a hit, owing to procurement prices inching up. Led by reduced working capital over two years with the funds raised we expect 80% PBT growth in FY22. But we maintain a Reduce as we build in recovery and value at 15x Q2FY23.

Key Risks

Volatility in raw milk prices

Any material and sudden rise in milk prices may impact Parag's margin. Milk procurement prices jumped 27% in FY17, which Parag was able to absorb due to premiumisation as demonstrated by 39bps rise in gross margin.

Competitive pressure

The domestic dairy products industry is highly competitive with presence of large multinational companies as well as regional and local players. The company also competes with large dairy cooperatives; incentives offered by central or state governments to these could benefit such entities. Any steep increase in competitive pressure—Amul getting aggressive in the HORECA segment—may impact Parag's revenue growth prospects.

Failure of launches

Parag is steadily launching new products. If these products are not successful it may lead to increased expenses with no proportionate sales.

Additional Data

Management

Chairman	Devendra Shah
MD	Pritam Shah
CFO	Shashikant Dalmia
CS & Compliance Officer	Rachana Sangneria
Auditor	Sharp & Tannan

Holdings – Top 10*

	% Holding		% Holding
Somerset EM Sma	2.16	Fidueram - Inte	0.04
Quant Money Man	0.72	Manulife Financial	0.00
Macquarie EM	0.45	Norges Bank	0.00
Dimensional Fun	0.39	Legato Capital	0.00
Canara Robeco MF	0.05		

*Latest public data

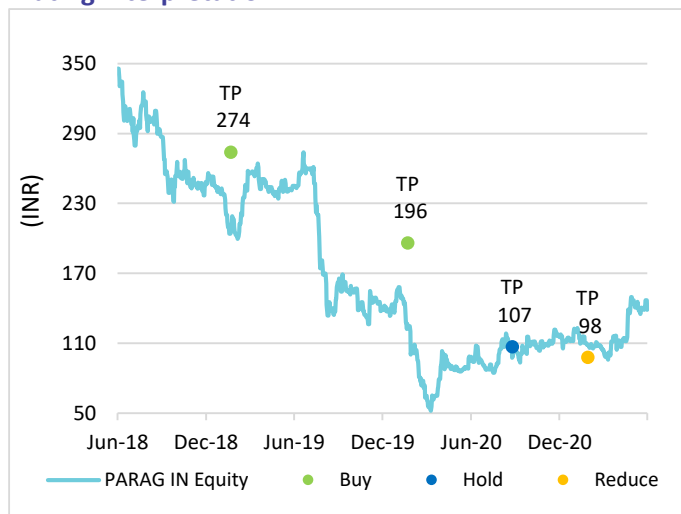
Recent Company Research

Date	Title	Price	Reco
11-Feb-21	Recovery still distant; <i>Result Update</i>	108.7	Reduce
10-Nov-20	Modern trade, HORECA sour recovery; <i>Result Update</i>	98.45	Hold
08-Sep-20	Parag Milk Foods - Result Update Q1FY21 ; <i>Result Update</i>	97.5	Hold

Recent Sector Research

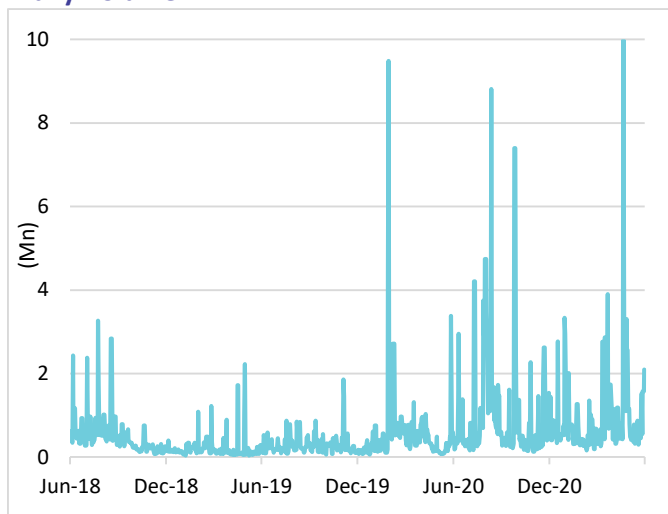
Date	Name of Co./Sector	Title
21-May-21	Heritage Foods	Spreads dip sequentially; <i>Result Update</i>
01-Feb-21	Heritage Foods	Strong spreads sustain; <i>Result Update</i>
10-Dec-20	Heritage Foods	Future stake sale: Overhang eliminated; <i>Company Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	163	62	17	243
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	209	44	3	256

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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