

## Parag Milk Foods Ltd

Target Price Rs.390

### Company Details

CMP:	Rs.298.5
Face value:	Rs.10.00
Market cap:	Rs.2536.05 Crs.
TTM EPS	Rs.11.4
52 week high:	Rs.414.95
52 week low:	Rs.226.20
BSE Code:	539889
Sector	Packaged Food

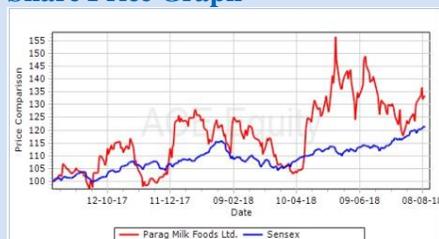
### Financial Highlights (YoY)

	Rs. in crores		
	FY18	FY17	% Var
Net Sales	1966.51	1743.63	12.78
Total Expendit	1761.22	1643.04	7.19
PBDIT	193.29	87.70	120.40
Op.Profit	205.29	100.59	104.09
OPM (%)	10.44	5.77	80.96
PBT	118.96	-1.06	-11322.64
PAT	87.06	4.71	1748.41
EPS (Rs.)	10.35	0.56	1748.41
Equity	84.12	84.12	0.00

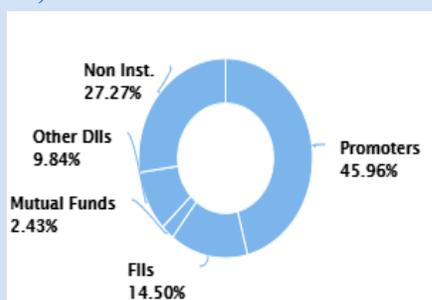
### Quarterly Performance (YoY)

	Rs. in crores		
	Q1FY19	Q1FY18	% Var
Net Sales	549.42	412.88	33.07
Total Expe	489.68	384.36	27.40
PBDIT	59.74	28.52	109.47
Op.Profit	61.52	30.06	104.66
OPM (%)	11.20	7.28	53.80
PBT	37.71	11.45	229.34
PAT	28.27	10.53	168.47
EPS (Rs.)	3.36	1.25	168.47

### Share Price Graph

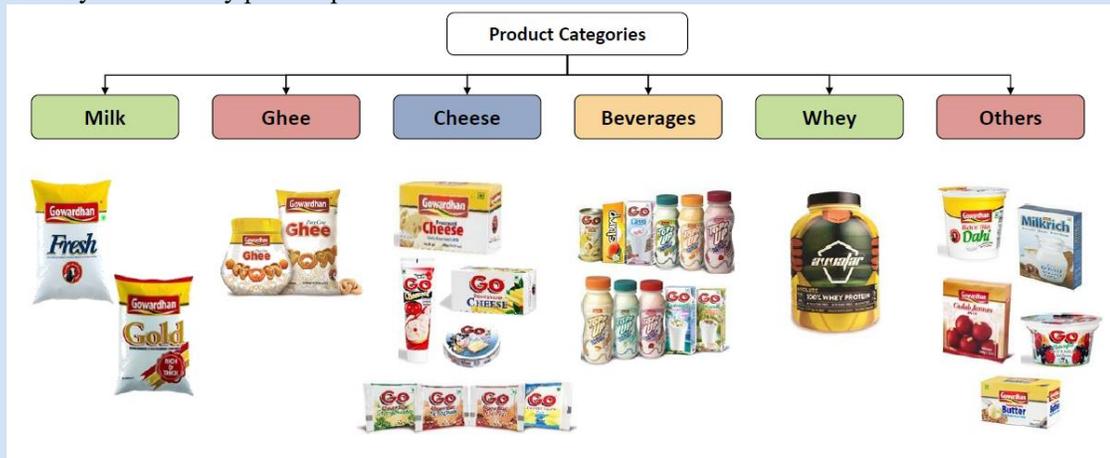


### Shareholding pattern as on June 30, 2018



### Company Background

**Parag Milk Foods Ltd.**, a Pune based company incorporated in 1992, is engaged in manufacture, distribution and export of over 15 dairy products. The Company has plants in Manchar (Pune) and Palamaner (Andhra Pradesh) with installed milk processing capacity of 2.9 mn liters/day. The company procures 100% cow's milk from more than 2 lakh farmers in 29 districts in Maharashtra, Andhra Pradesh, Tamil Nadu and Karnataka. It has its own dairy farm called Bhaghyalaxmi Dairy that houses over 2,000 Holstein Freisan Cows with an average yield of 20-25 liters per cow. The brand 'Pride of Cows' derives its milk from these cows. It has the largest cheese plant in India and country's first Whey protein plant.



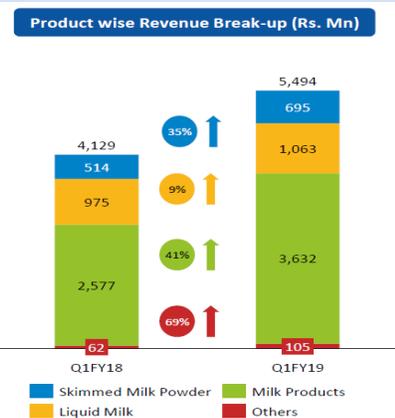
The company markets its products directly to hotels, restaurants, institutions, and caterers, as well as through a network of distributors to consumers in India. It also exports some of its product to the Middle East.

### Financial Performance

For Q1 FY19, the Net sales of the company increase by 33% to Rs. 549.42 crores compared to Rs 412.88 crores in Q1 FY18 on the back of growth in sales of Cheese, Ghee, Paneer and others. EBITDA for Q1 FY19 stood at Rs 59.7 crores as compared to Rs 28.5 crores in Q1 FY18 resulting in a growth of 109% Y-o-Y. The EBITDA margin stood at 10.9% for Q1 FY19 due to operating leverage and high capacity utilizations. **PAT for Q1FY19 stood at Rs. 28.3 crores as compared to Rs 10.5 crores in Q1 FY18 recording a growth of 169%. The PAT margin stood at 5.1% for Q1 FY19.**

### Investment Rationale

- As per IMARC Report, Although India is the largest Milk producer in the world; its per capita consumption is one of the lowest. Since the liberalization of the sector in 1991, the Milk production in India has increased by 4.3% CAGR led by entry of private players. Indian dairy market is valued at ~\$107bn out of which unorganized dairy captures the market share of ~\$92bn. Private players dominate by having 55% share in the organized dairy space. With the rising urbanization, changing consumer preference for healthy habits, and higher disposable income, the **organized dairy market has tremendous potential and is likely to experience good growth** in the coming years.
- The company has **acquired a new plant from Danone in Sonipat**; for Milk & Curd processing unit, which has started commercial production from July 2018. The company plans to generate Rs 60-70 crores in the current year from the facility and is looking to tap the opportunities in Delhi NCR.
- Healthy Top Line growth:** The Company has shifted its focus to higher and sustained margin products like Ghee and Cheese which contributes ~66% of the business. The company has 2<sup>nd</sup>



largest market share in Cheese in the country. The modern products (Cheese, Flavored Milk, UHT Milk and Whey) segment is expected to grow at 26% CAGR which has been the growth engines for the company for the last 3 years and as per the guidance the management will continue focus on these products.

- **Higher margin than competitors:** The Company enjoys higher operational margin compared to its competitors like Prabhat, Hatsun Agro etc.



- **Product Innovation;** the company has launched **Avvatar Advanced Muscle Gainer, Gowardhan Mishti Doi** which gives an edge over its competitors who are focusing on fresh milk product. Major players in the cheese segment has not launched new variant over the last three years, whereas the company has **innovative sub segmentation (Cheese Slices with spices and chutney, spread for Kids etc)** and scores high on innovation front.

- **Future ready technology platform:** The Company has fully integrated SAP, ERP, and Data Analytics

to optimize the procurement, operation and distribution management system. Currently, it has **Pan-India presence through both traditional and modern trade channels.**

The company has established strong relationships with over 2 lakh farmers and over 2.5 lakh retails outlets and targets to add about 9000 to 10000 outlets a month on distribution front. With Pan-India distribution network of 17 depots, over 140 super stockists and 3000+ distributors, the company has well integrated supply chain network.



- **Institutional clients and Digital presence:** The Company has been supplying to prominent burger, pizza and other food chain manufactures with which it has strong and long term relations. The digital presence on **Flipkart, Amazon, Grofers and Big Basket etc is expected to touch 150-190 mn FMCG customers.**
- **Higher ROCE and Sales growth:** As per the recent management guidance, the company's vision is to enhance product reach, increase value-added product portfolio, strengthen the brands, focus on health & nutrition and increase operational efficiencies. It is expecting **Revenue, EBITDA margin and ROCE to be Rs 2700-3000 crores, 11-12% and 18-20% respectively by 2020.**
- The promoters hold 46% equity of the company; whereas FIIs and DIIs own 14.5% and 12.3% respectively and the balance 27.2% shares are held by public.

#### Concerns

Increase in milk procurement prices and competition from others market players are some of the concerns.

#### Valuation

The share of the Company is trading at reasonable **TTM P/E of only 26x** which is lower than the industry P/E of 32x. Keeping in view the positive outlook for organized dairy industry, diversified product basket of the Company, sizeable expansion plans, emphasis on value added products, higher promoter and institutional holding and reasonable TTM P/E ratio which looks attractive at its evolving FMCG consumption story, we recommend a buy on the share of this Company with an expected price appreciation of about 30% over the next 12 months.

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