

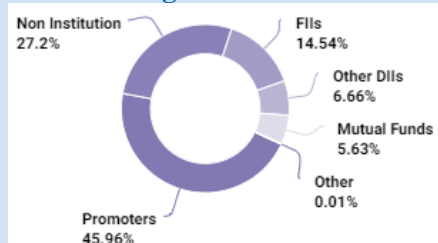
Company Details

CMP:	Rs.243
Face value:	Rs.10
Market cap:	Rs.2,048.19Cr.
TTM EPS	Rs.14.38
52 week high:	Rs. 414.95
52 week low:	Rs.197.00
BSE Code:	539889
Sector	Packaged Foods

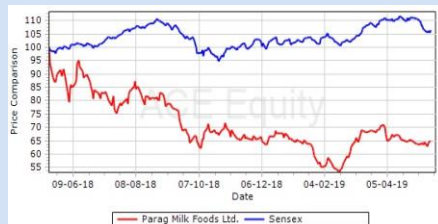
Consolidated Financial Highlights (YoY)

Rs. in crores			
	FY19	FY18	% Var
Net Sales	2395.66	1954.51	22.6%
Total Expendit	2172.17	1761.22	23.3%
PBDIT	223.50	193.29	15.6%
Op.Profit	233.76	205.29	13.9%
OPM (%)	9.8%	10.5%	-7.1%
PBT	147.79	118.96	24.2%
PAT	120.72	87.06	38.7%
EPS (Rs.)	14.38	10.35	39.0%
Equity	83.94	84.12	-0.2%

Shareholding Pattern



Price Vs Sensex Chart



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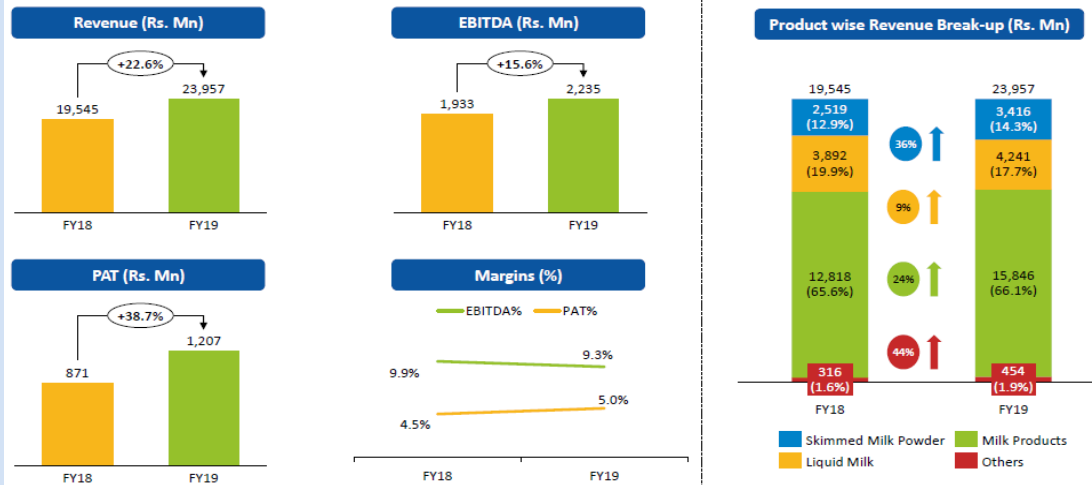
Satco Capital Markets Ltd.

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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.



Source: Company

Financial Performance

The company has reported Net sales of Rs. 2395.66 crore during FY19 higher by 22.6% against Rs. 1954.51 crores during FY18 on the back of increase in milk products by 23.6% YoY to Rs. 1584.6 crores. The share of milk product for FY19 is 66% of total revenue while, the liquid milk, it was 17.7% and the same for skim milk powder was 14.3%. The PBDIT for FY19 grew by 15.6% YoY to Rs. 223.76 crore vis-à-vis to Rs. 193.29 crores in FY18. There was softness in operating margin due to investment in talent acquisition & development, sales & distribution, marketing spends and futuristic infra investments to improve reach and range.

The Net profit was at Rs.120.72 crore in FY19 up by 38.7% against that of Rs.87.06 crores in FY18. The PAT margin was higher at 5% for FY19 against 4.5% in FY18. The EPS has improved from Rs. 10.35 in FY18 to Rs. 14.38 in FY19. The Board recommended a final dividend of Re.1/- per equity share of face value Rs.10/- each (10%) for the FY19, subject to the approval of the shareholders at the ensuing Annual General Meeting of the Company.

Investment Rationale

- New product launch:
 - Avvatar Absolute Isorich – with this launch, the company has completed the range of products of whey protein under the Avvatar Brand and it's growing at more than CAGR of 25%. The revenue mix of about 2.5% has grown to 3.5% on the back of newer variance, which will get added because of new geographies which have come in. And the target is about 5 crores in FY20.
 - Gowardhan Swarna Ghee – which is a sub brand of Gowardhan Ghee, designed for the southern region. The raw material sourcing and manufacturing will be done at the Palamaner Plant, Andhra Pradesh.
 - Gulab Jamun and Rasgulla – this has been launched across India and expected to introduce Mysore Pak, Shahi Gulab Jamun and other related products in future.
 - Pride of Cows introduced in Delhi/NCR market – subscription based milk is being transported via air from Pune farm to Delhi with a premium price of Rs. 120/- per liter and the company is planning to expand the product portfolio by introducing new milk variants under Pride of Cows.
- Q4FY19 Conference Call Update :
 - Strategic acquisition from the Danone plant in the north region Sonipat, which are running optimum utilization. The company has started supplying the fresh products such as liquid milk, cup curd, pouch curd in Sonipat, Delhi NCR Regions. Expect to see contribution of about INR 90 to 100 crores, and the performance of the response from the market has been pretty good. But the company expects to exit this year with a run rate of about INR 7 to 8 crores per year.
 - Expanding the overall retail presence from 2.5 lakhs outlet in FY18 to 3.75 lakhs outlet

as on the date.

- The company expects to account 3-3.5% of overall sales for marketing spend.
- Other expenses driven by volume growth and one time provisioning for and other expenses. The company is confident that the long term plans on profitability will stay intact in the quarters to come.
- The working capital cycle has improved from 72 days in FY18 to 68 days in FY19. The improvement is largely driven by higher throughput and much stronger discipline followed across all working capital components.
- The company is looking to increase the procurement of milk by roughly ~ 6 to 7%, over the current year. The average procurement price of milk was around Rs. 24 to Rs. 25 per liter for the entire year FY19 and it's likely to increase and it should settle at a range of around Rs. 26 to Rs. 27 per liter on annualized basis.
- Expect the Revenue of Rs. 2700 – 3000 crores and EBITDA margins to be 10 to 11% and PAT at 5%. Capex of about 2 to 2.5% of revenue. (Rs. 60 to 65 crores) in FY20.
- 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 **P/E of 16.9x**. 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 P/E ratio which looks attractive at its evolving FMCG consumption story, **we expect the revenue to grow by 14% in FY20 and to report an EPS of about Rs. 17.5 for FY20E and with PE of 18x** and accordingly, we estimate the price of the scrip to appreciate to about Rs. 315 (an appreciation of about 30%) over the next 12 months.



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Satco Capital Market Ltd. is acting as a Research Analyst and is registered under SEBI (Research Analyst) Regulations, 2014. SEBI Registration No. INH000002343

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