

Q4FY21 result review and
earnings revision

Dairy

Target price: Rs140

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 7.1	-
EBITDA	↓ 16.3	-
PAT	↓ 12.2	-

Target price revision

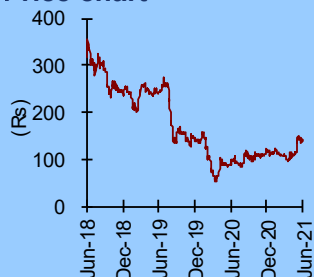
Rs140 from Rs108

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	46.2	46.1	46.2
Institutional investors	12.1	12.3	12.3
MFs and other	0.0	0.0	0.0
FIs/Banks	0.0	0.0	0.1
Venture Capital	0.0	6.5	6.1
FII	12.1	5.8	6.1
Others	41.7	41.6	41.5

Source: BSE

Price chart



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Parag Milk Foods

HOLD
Maintained

Lower HoReCa sales impacted revenues

Rs147

Key reasons for weak Q4FY21 performance: (1) Steep decline in HoReCa sales resulted in sharp 18.8% revenue decline. Lower sales to Modern trade also resulted in decline in liquid milk revenues and (2) While Gross margin was flat YoY, negative operating leverage resulted in 320bps lower EBITDA margin. We model (1) the revenues of core products (paneer, cheese, ghee etc.) to gradually recover in FY22-23 due to recovery in economy and favourable base, (2) off-take from HoReCa segment is also expected to recover in H2FY22 and (3) post equity infusion, the Balance Sheet will strengthen with reduction in debt and interest cost. Maintain HOLD with a DCF based revised target price of Rs140 (11x FY23E EPS; earlier TP Rs108).

- ▶ **Steep decline in B2B sales impacted revenues:** Parag reported revenue decline of 18.8% YoY due to (1) decline in demand from HoReCa segment and (2) lower demand from institutions. The liquid milk is largely distributed through Modern trade and closure of Modern trade due to localised lockdowns impacted consumer off-take. SMP sales were impacted due to lockdown related disruptions.
- ▶ **EBITDA margin impacted negative operating leverage:** While gross margin was flat YoY, EBITDA margin declined 320bps YoY. With 19% revenue decline, the negative operating leverage impacted margins. Normalised PAT declined 195% due to weak operating performance as well as higher tax rate.
- ▶ **Fund raising to strengthen Balance Sheet and reduce interest cost:** The company has raised equity funds of Rs1.25bn from IFC and Sixth Sense Ventures. The promoters have subscribed to convertible share warrants and will infuse Rs1.11bn in the company. We believe equity funding will help the company to reduce the additional debt burden and interest cost over FY22-23.
- ▶ **Expect recovery in FY22-23:** With gradual re-opening of markets, the demand for consumer products like ghee, cheese, paneer and UHT is improving. Also, demand from HoReCa segment is expected to revive gradually in the coming quarters. The company will continue to enjoy benefit of lower input prices even in H1FY22.
- ▶ **Maintain HOLD:** We model Parag to report strong revenue and PAT recovery in FY22-23 with reducing impact of lockdowns imposed after second covid wave. We maintain HOLD rating on the stock with DCF-based revised target price of Rs140 (11x FY23E EPS; earlier TP Rs108).

Market Cap	Rs14bn/US\$192mn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	PAMF.BO/ PARAGIN	Net Revenue (Rs mn)	24,379	18,418	23,667	27,049
Shares Outstanding (mn)	95.4	Net Profit (Rs mn)	937	207	965	1,271
52-week Range (Rs)	150/82	Dil. EPS (Rs)	11.2	2.5	10.1	12.1
Free Float (%)	53.8	% Chg YoY	(22.4)	(77.9)	311.0	19.2
FII (%)	6.1	P/E (x)	13.2	59.6	14.5	12.2
Daily Volume (US\$'000)	1,560	CEPS (Rs)	17.6	8.6	16.1	18.0
Absolute Return 3m (%)	36.8	EV/EBITDA (x)	7.5	12.7	8.8	8.5
Absolute Return 12m (%)	49.7	Dividend Yield (%)	0.0	0.0	0.0	0.0
Sensex Return 3m (%)	2.7	RoCE (%)	13.4	5.7	11.5	12.9
Sensex Return 12m (%)	58.6	RoE (%)	11.0	2.3	9.3	10.1

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 financial performance

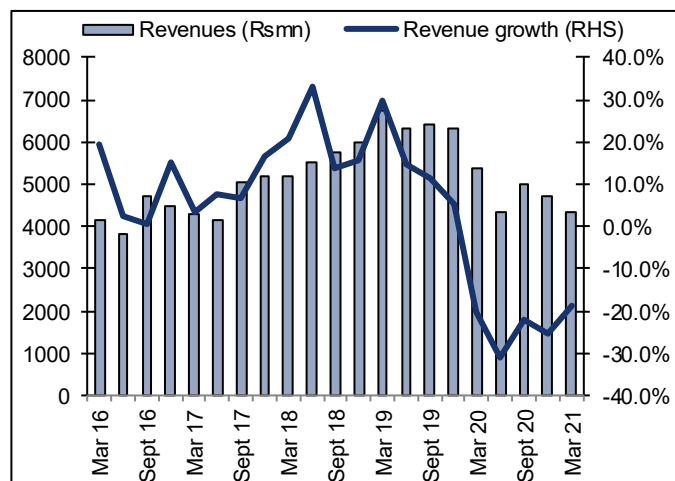
(Rs mn, year ending March 31)

Y/e March	Q4FY21	Q4FY20	YoY gr.	Q3FY21	QoQ gr.
Revenue	4,343	5,352	(18.8)	4,736	(8.3)
Expenditure					
Raw materials	3,295	4,059	(18.8)	3,455	(4.6)
% of revenue	75.9	75.8		73.0	
Employee cost	192	192	0.1	195	(1.7)
% of revenue	4.4	3.6		4.1	
Other expenditure	672	701	(4.2)	734	(8.4)
% of revenue	15.5	13.1		15.5	
Total expenditure	4,159	4,952	(16.0)	4,384	(5.1)
EBITDA	184	400	(53.9)	351	(47.6)
EBITDA margin	4.2	7.5		7.4	
Other income	68	9	627.1	30	128.6
PBDIT	253	409	(38.3)	381	(33.8)
Depreciation	124	137	(9.3)	127	(2.1)
PBIT	128	272	(52.9)	254	(49.6)
Interest	121	89	36.4	116	5.0
PBT	7	183	(96.3)	139	(95.2)
Prov for tax	103	82	25.6	26	290.8
% of PBT	1,537.1	44.8		19.0	
Adjusted PAT	(96)	101	(195.4)	112	(186.0)
Extra ordinary items	6	3		(0)	
Reported PAT	(90)	104	(186.7)	112	(180.4)

Source: Company data, I-Sec research

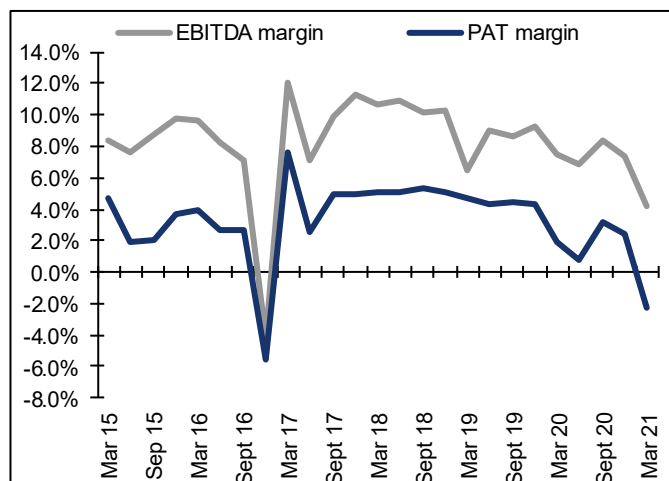
Key performance highlights

Chart 1: Revenues and revenue growth



Source: Company data, I-Sec research

Chart 2: EBITDA and PAT margins



Source: Company data, I-Sec research

Valuation and risks

We expect Parag to report PAT CAGR 148% over FY21- FY23E. We value the stock on DCF basis with a revised target price of Rs140 (earlier: Rs108). At this target price, the implied P/E works out to 11x FY22E EPS. We maintain our HOLD rating on the stock.

Table 2: DCF-based valuation

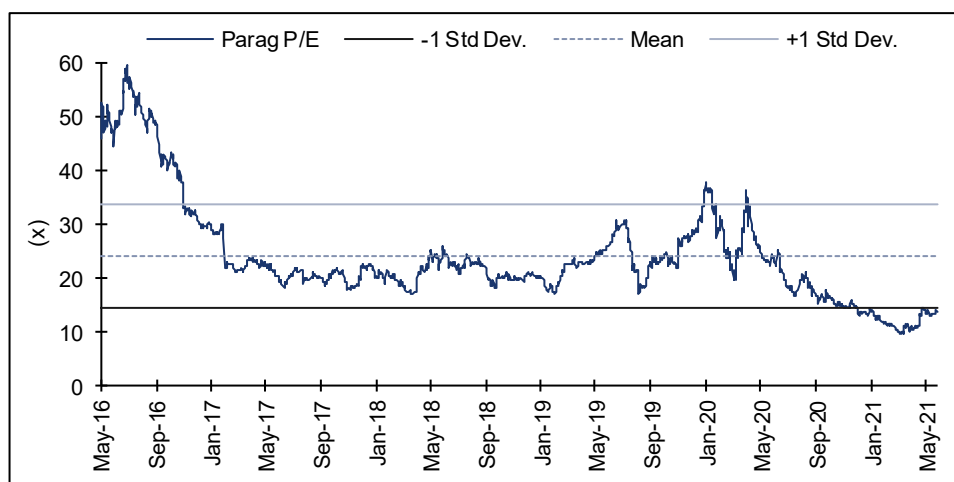
Particulars	Amt (Rs)
Cost of Equity (%)	11.9
Terminal growth rate (%)	3.0
Discounted interim cash flows (Rsmn)	5,102
Discounted terminal value (Rsmn)	6,643
Total equity value (Rsmn)	11,744
Value per share (Rs)	140

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 24x since its listing. As of now, it is trading at mean P/E – 1SD.

Chart 3: Mean P/E and standard deviation



Source: Company data, I-Sec research

Risks

Lower-than-expected off-take of new products

Any failure of new products may impact our estimates.

Sharp increase in input prices

Any major increase in commodity prices will impact our estimates.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	24,379	18,418	23,667	27,049
Operating Expenses	22,268	17,170	21,629	24,720
EBITDA	2,111	1,248	2,038	2,329
% margins	8.7	6.8	8.6	8.6
Depreciation & Amortisation	536	518	570	623
Gross Interest	381	458	239	64
Other Income	76	135	61	57
Recurring PBT	1,270	407	1,290	1,700
Less: Taxes	333	200	325	428
Less: Minority Interest	-	-	-	-
Net Income (Reported)	937	207	965	1,271
Extraordinaries (Net)	4	6	-	-
Recurring Net Income	940	213	965	1,271

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	11,714	11,859	11,872	13,726
of which cash & cash eqv.	278	187	142	704
Total Current Liabilities & Provisions	3,881	3,908	4,284	4,896
Net Current Assets	7,833	7,951	7,589	8,830
Investments	678	575	575	575
Net Fixed Assets	4,297	4,330	4,390	4,467
Capital Work-in-Progress	70	31	-	-
Total Assets	12,878	12,887	12,554	13,873
Liabilities				
Borrowings	3,854	3,636	1,136	136
Deferred Tax Liability	(88)	(31)	(31)	(31)
Minority Interest	-	-	-	-
Equity Share Capital	839	839	952	1,052
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	8,272	8,442	10,497	12,715
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	9,112	9,281	11,449	13,767
Total Liabilities	12,878	12,887	12,554	13,873

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	June 20	Sept 20	Dec 20	Mar 21
Net sales	4,356	4,982	4,736	4,343
% growth (YoY)	(30.8)	(22.2)	(25.2)	(18.8)
EBITDA	297	415	351	184
Margin (%)	6.8	8.3	7.4	4.2
Other income	15	22	30	68
Extraordinaries (Net)	(0)	-	(0)	6
Adjusted Net profit	32	159	112	(96)

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	1,520	762	1,535	1,895
Working Capital Changes	(2,550)	(193)	318	(680)
Capital Commitments	(315)	(430)	(600)	(700)
Free Cashflow	(1,345)	138	1,254	514
Cashflow from Investing Activities	2	(66)	-	-
Issue of Share Capital	-	-	1,250	1,110
Inc (Dec) in Borrowings	1,595	(184)	(2,500)	(1,000)
Dividend paid	(101)	(42)	(48)	(63)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	150	(154)	(44)	561

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	11.2	2.5	10.1	12.1
Cash EPS	17.6	8.6	16.1	18.0
Dividend per share (DPS)	0.5	0.5	0.6	0.7
Book Value per share (BV)	107.5	110.2	119.9	130.6
Growth (%)				
Net Sales	1.8	(24.5)	28.5	14.3
EBITDA	(5.5)	(40.9)	63.3	14.3
PAT	(22.4)	(77.9)	366.1	31.7
Cash EPS	(22.4)	(77.9)	311.0	19.2
Valuation Ratios (x)				
P/E	13.2	59.6	14.5	12.2
P/CEPS	8.4	17.0	9.1	8.2
P/BV	1.4	1.3	1.2	1.1
EV / EBITDA	7.5	12.7	8.8	8.5
EV / Sales	0.6	0.9	0.8	0.7
Operating Ratios				
Raw Material / Sales (%)	74.4	73.9	74.3	74.3
Employee cost / Sales (%)	3.9	4.2	4.0	4.0
SG&A / Sales (%)	2.4	3.5	3.5	3.5
Other Income / PBT (%)	6.0	33.2	4.7	3.4
Effective Tax Rate (%)	26.2	49.2	25.2	25.2
Working Capital (days)	113.1	153.9	114.8	109.7
Inventory Turnover (days)	94.8	137.7	94.9	94.9
Receivables (days)	45.4	31.5	36.5	36.5
Payables (days)	58.0	77.3	65.7	65.7
Net D/E (x)	0.4	0.4	0.1	(0.0)
Profitability Ratios (%)				
Net Income Margins	3.8	1.1	4.1	4.7
RoACE	13.4	5.7	11.5	12.9
RoAE	11.0	2.3	9.3	10.1
Dividend Payout	4.5	20.3	5.9	5.8
Dividend Yield	0.3	0.3	0.4	0.5
EBITDA Margins	8.7	6.8	8.6	8.6

Source: Company data, I-Sec research

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