

23rd Aug 2019

Initiating Coverage (BUY)

**DFM FOODS LTD.**

CMP INR 248

Target Price INR 315

**Stock Details**

Industry	Packaged Foods
Bloomberg Code	DFMF:IN
BSE Code	519588
Face Value (Rs.)	2.00
Market Cap. (Rs. Cr.)	1,284.53
52wk. Low/High (Adjusted) (Rs.)	176.55/299.00

**Shareholding Pattern Mar '19**

Promoter (%)	38.27
FII (%)	10.99
DII (%)	4.26
Public - Other (%)	46.48
No. of Share Outstanding (Cr.)	5.01

**Valuation Summary**

	FY 18A	FY 19A	FY 20P	FY 21P
P/E (x)*	12.81	35.13	38.00	39.00
EV/EBITDA (x)	6.58	18.94	19.38	19.58
P/BV (x)	2.77	9.64	9.24	8.70

\*TTM for Current Year

 Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

**Key Financial**

Rs. Lakhs	FY 18A	FY 19A	FY 20P	FY 21P
Net Sales	42,965	48,872	55,197	63,006
EBITDA	5,517	7,002	7,641	8,172
Net Profit	2,331	3,276	3,746	4,044
EPS (Rs.)*	23.2	6.5	7.5	8.0

\*Un adjusted

**Key Ratios**

	FY 18A	FY 19A	FY 20P	FY 21P
EBITDA Margin (%)	12.8	14.3	13.8	13.0
EBIT Margin (%)	10.5	12.2	11.8	11.2
Net Pro. Margin (%)	5.4	6.7	6.8	6.4
Debt/Equity (x)	0.79	0.65	0.54	0.46
RoNW (%)	24.9	28.3	26.4	24.1
RoCE (%)	12.3	14.7	14.8	14.4

One Year Price / Volume



We recommend 'BUY' on DFM FOODS LIMITED for a target of INR 315 - valuing the company at P/E 39x of FY21E Earning.

**INVESTMENT RATIONALE:**

- DFM markets its products under the brand name "CRAX" and "NATKHAT" which has got strong recognition in the snacks category in the country.
- Robust Marketing and Distribution Network
- Limited project execution risk, commissioning of Line up-gradation at Ghaziabad Unit
- Experienced Promoters capable of managing the business growth
- High growth potential with solid track record and pays a dividend

**VALUATIONS AND VIEW:**

DFM Foods is an attractive stock for growth-seeking investors, with an expected double digit earnings growth in the upcoming year which is expected to flow into an impressive return on equity of 26% over the next couple of years. The stock price is available at a discount value compared to industry average. **We value the business at 39x FY21E EPS and recommend a BUY rating on the stock with a target price of INR 315 per share.**

## RISK & CONCERNS:

- **Geographical concentration, however diversifying in other regions:** DFM earns majority of its revenue from CRAX corn rings which contributes around 80-85% of its total income. Though, the company has geographical concentration, CRAX has been in existence for more than three decades and has developed acceptance among customers especially with the 6-10 years age group. Furthermore, DFM revenue is concentrated in the Northern region of the country from where it derives around 75%-80% of its revenue. However, the company has been improving its distribution network in other parts of the country and has witnessed growth in revenue from other regions as well.
- **High Competition from other players:** The company remains exposed to stiff competition from larger established companies and small regional players which have mushroomed across the country and has added to competitive intensity of the industry. Hence, the biggest challenge for the industry players would be scaling up their regional presence to a national level while maintaining highest quality standards. However, an established brand name enables DFM to have an edge over its competition.

## COMPANY BACKGROUND:

DFM Foods Limited (DFMFL) was established in 1983 as part of diversification process of Delhi Flour Mills Company

Limited. The company is engaged in the business of manufacturing, selling, and marketing of packaged foods. DFMFL's products profile consists of 13 distinct product variants. The company markets Corn Rings and Wheat Puffs under the 'CRAX' and 'NATKHAT' brand names. In FY18, DFMFL derived approximately 61% of its revenue from the Corn Rings and 27% of its revenue from Curls. The company had an installed capacity of 35,300 Metric Tonne (MT) per annum as on March 31, 2018. The company also undertook line up-gradation of additional 3800 MTPA with a total cost of Rs. 15 crore to be funded through debt of Rs. 14.10 core and internal accruals of Rs. 0.9 crore. The project has become operational in September, 2018 increasing the total installed capacity to 39100 Metric Tonne (MT) per annum.

### Businesses

- Manufacturing, selling, and marketing of packaged foods
- The company markets Corn Rings and Wheat Puffs under the 'CRAX' and 'NATKHAT' brand names.

## INDUSTRY OVERVIEW:

The organized snack food industry consists of four segments – traditional namkeens, potato chips, bridged and extruded snacks. Collectively the industry is estimated to be about H 23,000 crores per annum and from all counts is growing at a healthy clip.

The organized sector consists of several kinds of players. These competitors range from having a product portfolio covering all segments of the market and a national presence, to the majority who are concentrated in one segment and have a strong regional presence.

Besides the organized sector, a large unorganized sector also exists. The unorganized sector is very localized and normally operates in a single segment. The growth of the Industry has continuously attracted new entrants in both the organized and unorganized sector in virtually all the segments of the market.

## PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/ BV
Varun Beverages	645	42.3	17,677.4	-	406.9	34.11	2,810.5	36.49	7.07
Hatsun AgroProd.	618	78.0	9,995.8	0.80	51.2	35.21	1,423.2	15.18	12.42
KRBL	229	10.0	5,389.3	1.00	136.1	36.05	1,217.7	63.79	1.98
Tasty Bite Eat.	8,660	69.5	2,222.1	0.02	7.7	33.28	90.9	20.52	16.83
Mishtann Foods	39	158.0	1,952.5	-	3.1	21.71	125.9	(3.13)	28.22
Prataap Snacks	780	42.9	1,829.5	0.13	9.7	(7.12)	331.0	23.22	3.26
<b>DFM Foods</b>	<b>248</b>	<b>35.1</b>	<b>12,463.8</b>	<b>0.47</b>	<b>7.6</b>	<b>52.30</b>	<b>127.7</b>	<b>29.42</b>	<b>9.64</b>

\*TTM

## FINANCIAL OVERVIEW

Q1 FY20 Performance Highlight							
(in Cr.)	Jun FY19	Sep FY19	Dec FY19	Mar FY19	Jun FY20	YoY (%)	QoQ (%)
Revenue	98.69	118.34	134.84	131.75	127.72	29.42%	-3.06%
Other Income	0.64	1.04	1.62	1.8	0.91		
Total Income	99.33	119.38	136.46	133.55	128.63	29.50%	-3.68%
Expenditure	-89.21	-106.03	-119.91	-115.70	-114.06		
<i>As a % of Sales</i>	90.39%	89.60%	88.93%	87.82%	89.30%		
Interest	-2.57	-3.1	-2.6	-2.35	-2.38	-7.39%	1.28%
PBDT	10.12	13.35	16.55	17.85	14.57		
<i>As a % of Sales</i>	10.25%	11.28%	12.27%	13.55%	11.41%		
Depreciation	-2.54	-2.53	-2.76	-2.67	-2.75		
PBT	7.58	10.82	13.79	15.18	11.82	55.94%	-22.13%
<i>As a % of Sales</i>	7.68%	9.14%	10.23%	11.52%	9.25%		
Tax	-2.57	-3.77	-3.06	-5.21	-4.19	63.04%	-19.58%
Net Profit	5.01	7.05	10.73	9.97	7.63	52.30%	-23.47%
<i>As a % of Sales</i>	5.08%	5.96%	7.96%	7.57%	5.97%		
Equity	10.02	10.02	10.02	10.02	10.02	0.00%	0.00%
EPS (Rs)	5	1.41	2.14	1.99	1.52	-69.60%	-23.62%
CEPS (Rs)	7.53	1.91	2.69	2.52	2.07		
OPM %	10.25	11.28	12.27	13.55	11.41		
NPM %	5.08	5.96	7.96	7.57	5.97		

## Income Statement (Consolidated)

Y/E Mar (Rs Lakhs)	FY 16A	FY 17A	FY 18A	FY 19A	FY 20P	FY 21P	FY 22P
Net Sales	38,951	34,191	42,531	48,362	54,649	62,300	71,022
Other Operating Income	165	499	434	510	546	706	747
<b>Expenditure</b>	<b>34,242</b>	<b>31,008</b>	<b>37,448</b>	<b>41,870</b>	<b>47,555</b>	<b>54,834</b>	<b>61,799</b>
<b>EBITDA</b>	<b>4,874</b>	<b>3,682</b>	<b>5,517</b>	<b>7,002</b>	<b>7,641</b>	<b>8,172</b>	<b>9,970</b>
Depreciation	657	723	997	1,050	1,106	1,109	1,111
<b>EBIT</b>	<b>4,217</b>	<b>2,959</b>	<b>4,520</b>	<b>5,952</b>	<b>6,535</b>	<b>7,063</b>	<b>8,859</b>
Interest Expenses	567	449	1,002	1,063	1,244	1,395	1,603
<b>PBT</b>	<b>3,650</b>	<b>2,510</b>	<b>3,518</b>	<b>4,889</b>	<b>5,291</b>	<b>5,668</b>	<b>7,256</b>
Tax	1,146	664	1,187	1,461	1,545	1,623	1,955
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	(152)	-	-	-
<b>Net Income Before Adjustment</b>	<b>2,504</b>	<b>1,846</b>	<b>2,331</b>	<b>3,276</b>	<b>3,746</b>	<b>4,044</b>	<b>5,301</b>
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>2,504</b>	<b>1,846</b>	<b>2,331</b>	<b>3,276</b>	<b>3,746</b>	<b>4,044</b>	<b>5,301</b>

## Balance Sheet (Consolidated)

Y/E Mar (Rs Lakhs)	FY 16A	FY 17A	FY 18A	FY 19A	FY 20P	FY 21P	FY 22P
Equity share capita	1,000	1,000	1,002	1,002	1,002	1,002	1,002
Reserves & surplus	5,484	7,459	9,241	11,923	14,450	17,177	20,753
Share Warrents	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
<b>Net worth</b>	<b>6,484</b>	<b>8,459</b>	<b>10,243</b>	<b>12,925</b>	<b>15,452</b>	<b>18,179</b>	<b>21,755</b>
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
<b>Loan Funds</b>	<b>4,120</b>	<b>7,371</b>	<b>8,085</b>	<b>8,344</b>	<b>8,344</b>	<b>8,344</b>	<b>8,344</b>
Net deferred tax liability	935	1,178	1,586	2,024	2,024	2,024	2,024
Other Long-term Liabilities	767	252	396	398	450	513	584
Long-term Provisions	165	208	272	283	320	365	416
<b>Total Liabilities</b>	<b>12,471</b>	<b>17,469</b>	<b>20,583</b>	<b>23,976</b>	<b>26,590</b>	<b>29,427</b>	<b>33,125</b>
<b>Net block</b>	<b>11,252</b>	<b>15,901</b>	<b>15,925</b>	<b>17,159</b>	<b>16,206</b>	<b>15,218</b>	<b>14,240</b>
<b>Investment, Loan &amp; Adv.</b>	<b>624</b>	<b>2,944</b>	<b>3,052</b>	<b>2,284</b>	<b>2,446</b>	<b>3,243</b>	<b>3,457</b>
<b>Total Current Assets</b>	<b>7,219</b>	<b>7,080</b>	<b>7,965</b>	<b>11,675</b>	<b>16,444</b>	<b>20,732</b>	<b>26,723</b>
<b>Current Liabilities &amp; Provisions</b>	<b>6,624</b>	<b>8,457</b>	<b>6,360</b>	<b>7,144</b>	<b>8,507</b>	<b>9,768</b>	<b>11,297</b>
<b>Net Current Assets</b>	<b>595</b>	<b>(1,377)</b>	<b>1,605</b>	<b>4,531</b>	<b>7,937</b>	<b>10,964</b>	<b>15,426</b>
<b>Total Assets</b>	<b>12,471</b>	<b>17,469</b>	<b>20,584</b>	<b>23,976</b>	<b>26,590</b>	<b>29,427</b>	<b>33,125</b>

## Cash Flow (Consolidated)

Y/E Mar (Rs Lakhs)	FY 19A	FY 20P	FY 21P	FY 22P
Operating Cash Flow	6,311	4,752	6,973	7,957
Cash Flow from Investments	(4,784)	(320)	(922)	(353)
Cash Flow from Financing	(1,301)	(1,799)	(2,555)	(2,851)
Net Changes in Cash	226	2,634	3,496	4,752
Opening Cash	145	370	3,004	6,500
Closing Cash Balance	371	3,004	6,500	11,253

## Research Analyst Details

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