

Agro Tech Foods Ltd.

Industry	Cons. Staples
Bloomberg	ATFL IN
BSE CODE	500215

Margins remained impacted on account of fire at Unnao facility; Food business continues to be the company's focus

RATING	ACCUMULATE
CMP	598
Price Target	683
Potential Upside	14%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	820/451
Mkt Capital (Rs Cr)	1458
Free float (%)	48%
Avg. Vol 1M (,000)	30
No. of Shares (Cr)	2
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND

rajeev.anand@narnolia.com

+91-22-62701229

Q3FY19 Result update

- ❑ ATFL has reported numbers below than our expectation, wherein sales stood at Rs 215 Cr (Vs our expect. of Rs 234 Cr) driven by growth in food business to the extent of 12% YoY to Rs 60 Cr.
- ❑ The Company's food business revenue growth was driven by Ready to Eat snacks category grew 54% YoY in value and 60% YoY in volumes.
- ❑ The Gross margin of the company declined by 92 bps to 32.7% YoY (Vs our expect. of 33%) on account of fire at Unnao facility.
- ❑ The Company maintained its EBITDA margin at 8.36% YoY (Vs our expect. of 8.21% YoY) by reducing the advertising expenses by 240 bps while other expense and employee expense (on account of wage increase to the employees) has increased by 123 bps and 21 bps.
- ❑ Fire at Company's Unnao facility impacted the sales to the extent of 500bps -700 bps thus post fire, the production of RTE Popcorn, Extruded snacks, Tortilla chips is being addressed through alternate plants and third party to maintain the supplies.
- ❑ As a result of fire at Unnao facility, the company's breakfast cereal category(Choco popz) remained impacted as the company did not had any alternative to continue its production and thus is expected to return to the market by 2QFY20

View and Valuation

ATFL has reported numbers below than our expectation, sales remained flat on the back of fire in Unno factory and intense competition in premium edible oil & spread business. However, management is confident on better revenue from Q4FY19 onwards as company has done arrangement for uninterrupted supply from other plant and third-party manufactures. Competition in spread business will be tackled by higher A&P investment from Q4FY19 onwards. The company is in a way of launching new products in food segment and plans to expand margin to 10%(currently 8.1%) going ahead. Pricing action in Sundrop is expected to come in Q2FY20e as anti-profiteering clause expires on June 19 which will boost company's margin even further. But presently ,considering flat revenue and intense competition in edible oil segment, we have reduced our sale and PAT estimates for FY19/FY20 by 3% each respectively and according changed our target price to Rs 683 (35x FY20e's eps) with the ACCUMULATE rating.

Key Risks to our rating and target

- ❑ Receivable from insurance company on account of fire at Unnao facility.
- ❑ Increasing competitive intensity in company's food business.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	782	808	812	847	972
EBITDA	57	61	66	66	85
EBIT	41	45	48	49	68
PAT	23	28	32	34	47
EPS (Rs)	10	11	13	14	19
EPS growth (%)	-37%	19%	14%	7%	40%
ROE (%)	7%	9%	9%	9%	12%
ROCE (%)	12%	15%	14%	13%	17%
BV	138	126	139	150	165
P/B (X)	4	4	5	4	4
P/E (x)	51	45	56	43	31

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3Q FY 19 Results

Below than our expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	215	214	197	211	215	0.4%	2.1%	808	812	0.4%
Other Income	0	0	1	1	1	408%	71.4%	0	1	203.2%
COGS	142	149	139	143	145	1.8%	1.6%	533	539	1.1%
Gross Margin	34%	31%	29%	32%	33%	-0.9%	0.3%	34%	34%	-0.5%
Employee Cost	11	11	11	12	12	4.5%	-2.4%	51	54	6.5%
A&P expenses	10	6	3	4	5	-52.3%	7.4%	-	-	-
Other Exp.	33	33	30	34	36	8.4%	5.7%	164	153	-6.6%
EBITDA	18	16	14	18	18	0.8%	1.1%	61	66	8.0%
EBITDA Mar.	8%	7%	7%	8%	8%	0.0%	-0.1%	8%	8%	0.6%
Depreciation	4	4	4	4	4	-8.6%	-10.5%	17	18	8.7%
EBIT	13	11	10	13	14	3.9%	5.0%	45	48	7.8%
Interest	0	0	0	0	0	50%	200%	4	0	-94.4%
PBT	14	12	10	14	15	11.5%	8.5%	40	49	21%
Exceptional	-	-	-	-	-	-	-	(4)	-	-100%
Tax	5	4	4	5	5	13.5%	6.2%	17	17	1%
PAT	9	8	7	9	10	10.4%	9.8%	28	32	14%
PAT Margin	4%	4%	3%	4%	5%	0.4%	0.3%	3%	4%	0.5%

Witnessed volume and value growth in its Food business portfolio

The company posted a growth of 12% YoY to Rs 60 Cr in revenue from its food business on account of improvement in both value and volume terms across all categories under which it operates. Despite of fire at Unnao plant Ready to eat snacks posted a volume and value growth of 60% and 54% on the back of strong performance by Popcorn, Extruded Snacks. While Spreads segment posted a volume and value growth of 14% and 7% which remained slightly subdued on account of competitive intensity. Ready to cook snacks posted 5% YoY value growth and a flat volume growth on account of free promotional samples which were present in corresponding previous quarter. Thus overall the company will continue investing in innovation, new launches and advertising in its core categories i.e. RTE popcorn, Peanut butter and bagged snacks business.

Performance of Sundrop edible oil and Crystal business

Sundrop Edible Oils (contributes ~ 55.5% to the revenue) saw lower Volume & Value growth driven by growth in the lower end of the business and posted a de growth in value and volume to the extent of 7% and 10% respectively. While the Company's Crystal business (contributes ~16.45% to the revenue) posted a value growth of 15% led entirely by pricing growth

Concall Highlights

- The Company is focusing on protecting its edible Oil business margin and investing it to food business.
- The company will continue focusing on the core of their business which are RTE popcorn, Peanut butter and bagged snacks business.
- The Company targets to make its food business worth Rs 500 Cr with ready to Cook posting a steady growth, peanut butter to grow aggressively backed by innovation in this category and new launches while contribution from bagged snacks is also expected to increase.
- Present focus of management is to achieve 10% EBITDA margin.
- Management envisages growth in snack business to continue led by new launches and better distribution.
- Ready to cook popcorn distribution stood in a range of 280000-290000 stores, while peanut butter has its presence in 80000 stores, Nachos is present in 60000 stores and is expected to reach 70000 stores post restart of Unnao facility.
- The Company will increase its media expense for next quarter for RTE Popcorn and Peanut butter.
- The Company's Chittor plant is expected to become operational by 3QFY20 while West Bengal plant is expected to become operational by FY21.
- Ready to cook snacks posted 5% YoY value growth and a flat volume growth on account of free promotional samples which were present in corresponding previous quarter.
- Ready to Eat Snacks delivered a revenue growth of 54% driven by Ready to Eat Popcorn and Extruded Snacks.
- In peanut butter, the company is witnessing higher level of competitive intensity from Funfoods and Veeba.

Exhibit: Sundrop oil volume growth

Sundrop Edible Oils saw lower Volume & Value growth driven by growth in the lower end of the business.

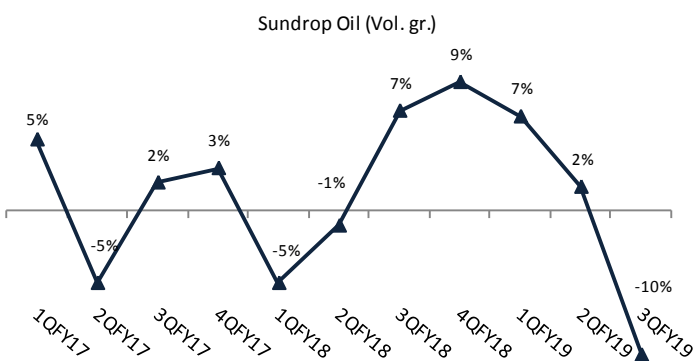


Exhibit: Peanut butter volume growth

Peanut butter volume growth remained bit subdued on account of competitive intensity.

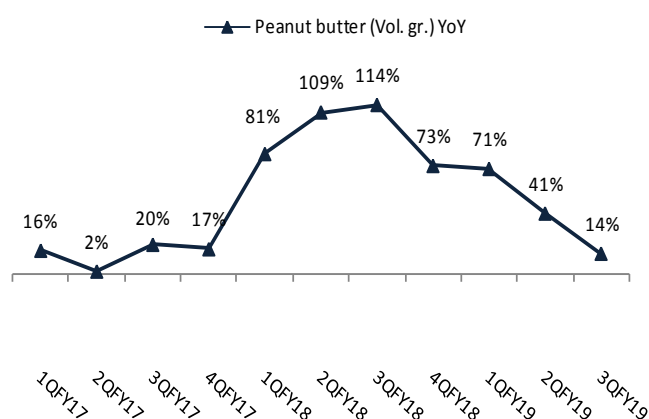


Exhibit: Sales and sales growth

The company sales remained flat while food business grew by 12% (~28% of the total revenue).

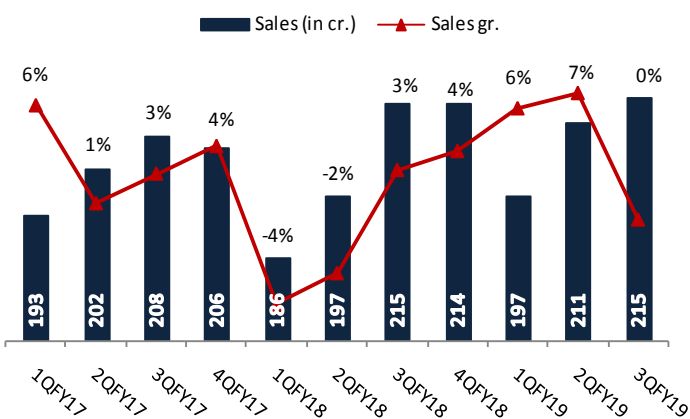


Exhibit: COGS and Ad & Promotion exp.

COGS stood at 67% while Ad & Promotion exp. was reduced by 240 bps which maintained the EBITDAM.

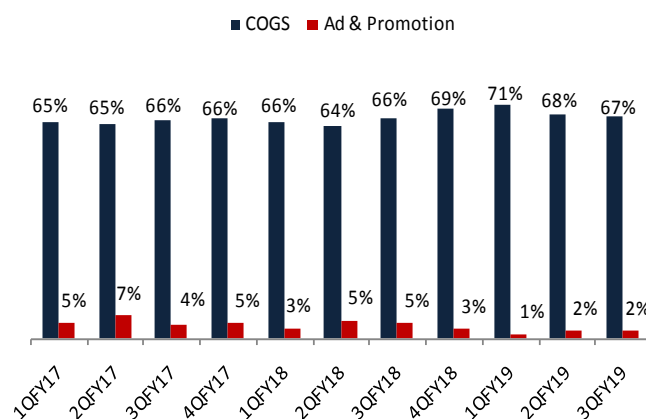


Exhibit: Gross margin and EBITDA margin

Gross margin remained impacted on account of fire at Unnao facility declined by 92 bps YoY.

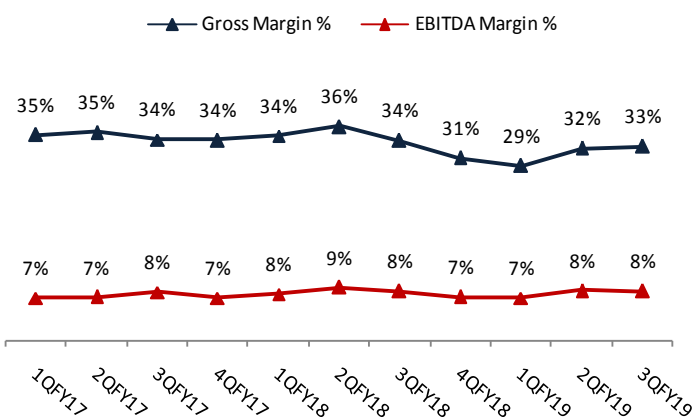
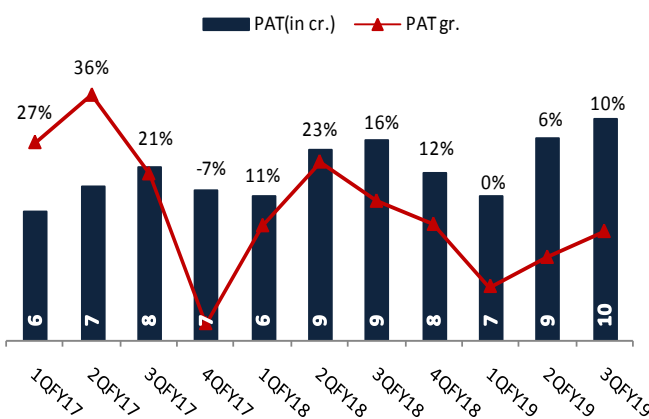


Exhibit: PAT and PAT growth

PAT posted a growth of 10% on account of increase in other income and reduction in depreciation.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	24	24	24	24	24	24	24	24
Reserves	221	258	289	313	282	315	342	378
Networth	245	282	314	337	306	340	366	402
Debt	-	15	26	96	18	-	-	-
Other Non Current Liab	11	16	19	22	12	14	14	14
Total Capital Employed	245	297	340	433	324	340	366	402
Net Fixed Assets (incl CWIP)	127	164	199	222	213	208	194	187
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	186	242	277	302	242	243	229	222
Non Current Assets	186	242	277	302	242	243	229	222
Inventory	57	99	106	146	116	95	99	113
Debtors	43	21	25	43	39	50	52	60
Cash & Bank	11	6	10	7	4	9	28	18
Other Current Assets	27	8	7	10	8	39	57	100
Current Assets	138	134	148	206	167	192	236	291
Creditors	44	40	40	41	53	65	68	78
Provisions	7	7	7	1	7	7	7	8
Other Current Liabilities	17	15	19	11	13	10	10	11
Curr Liabilities	68	62	66	53	73	81	85	96
Net Current Assets	70	72	82	152	94	111	152	195
Total Assets	324	376	425	508	409	435	465	513

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	789	764	760	782	808	812	847	972
Change (%)		-3%	-1%	3%	3%	0%	4%	15%
EBITDA	65	70	61	57	61	66	66	85
Change (%)		8%	-13%	-7%	8%	8%	0%	29%
Margin (%)	8%	9%	8%	7%	8%	8%	8%	9%
Depr & Amor.	7	11	15	16	17	18	17	17
EBIT	58	59	46	41	45	48	49	68
Int. & other fin. Cost	0	2	1	5	4	0	-	-
Other Income	3	0	0	0	0	1	3	5
EBT	61	57	45	35	40	49	52	73
Exp Item	-	-	-	-	4	-	-	-
Tax	19	14	8	12	17	17	19	25
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	42	43	37	23	28	32	34	47
Adjusted PAT	42	43	37	23	25	32	34	47
Change (%)		2%	-13%	-37%	19%	14%	7%	40%
Margin(%)	5%	6%	5%	3%	3%	4%	4%	5%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	15%	12%	7%	9%	9%	9%	12%
ROCE	24%	20%	14%	9%	14%	14%	13%	17%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	20	10	12	20	18	22	22	22
Inv Days	27	47	51	68	52	43	43	43
Payable Days	20	19	19	19	24	29	29	29
Int Coverage	1,933	29	37	8	10	NA	NA	NA
P/E	29	29	32	51	45	56	43	31
Price / Book Value	5	4	4	4	4	5	4	4
EV/EBITDA	18	18	19	21	20	27	22	17
FCF per Share	(29)	(13)	(1)	(62)	86	43	39	41
Div Yield	0%	0%	0%	0%	0%	0%	0%	1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	61	57	45	35	46	49	52	73
(inc)/Dec in Working Capital	(30)	(22)	(11)	(66)	48	8	(4)	(13)
Non Cash Op Exp	7	11	15	16	17	18	17	17
Int Paid (+)	0	2	1	5	5	0	-	-
Tax Paid	(18)	(13)	(9)	(9)	(16)	(15)	(19)	(25)
others	(3)	(0)	(0)	(0)	(0)	(1)	-	-
CF from Op. Activities	18	35	41	(18)	101	60	47	51
(inc)/Dec in FA & CWIP	(47)	(48)	(42)	(44)	(14)	(17)	(3)	(10)
Free Cashflow	(29)	(13)	(1)	(63)	86	43	45	41
(Pur)/Sale of Inv								
others	4	1	1	1	0	1	-	-
CF from Inv. Activities	(43)	(47)	(42)	(43)	(14)	(38)	(43)	(50)
inc/(dec) in NW								
inc/(dec) in Debt	-	15	11	70	(78)	(15)	-	-
Int. Paid	(0)	(2)	(1)	(5)	(5)	(0)	-	-
Div Paid (inc tax)	(5)	(6)	(6)	(6)	(6)	(6)	(7)	(11)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(5)	7	4	59	(89)	(14)	(7)	(11)
Inc(Dec) in Cash	(30)	(5)	3	(3)	(2)	8	(2)	(10)
Add: Opening Balance	41	11	6	10	7	1	31	28
Closing Balance	11	6	10	7	4	9	28	18

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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