

AGRO TECH FOODS LTD.

BUY

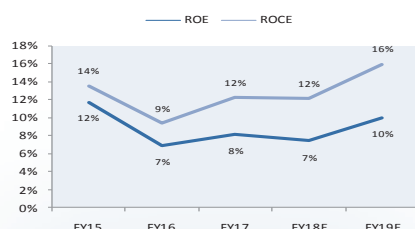
14-Sep-17

INDUSTRY - Con. Staples
BSE Code - 500215
NSE Code - ATFL
NIFTY - 10079

Company Data

| | |
|-----------------------|---------|
| CMP | 520 |
| Target Price | 630 |
| Previous Target Price | 0 |
| Upside | 21% |
| 52wk Range H/L | 609/422 |
| Mkt Capital (Rs Cr) | 1,268 |
| Av. Volume (,000) | 8 |

RoE & ROCE

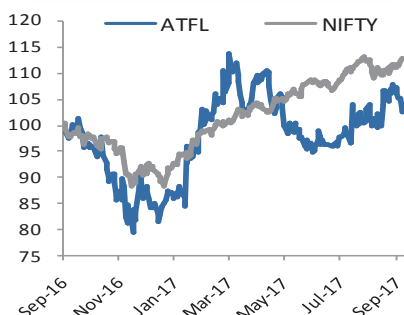


Shareholding patterns %

| | 1QFY18 | 4QFY17 | 3QFY17 |
|-----------|--------|--------|--------|
| Promoters | 52 | 52 | 52 |
| Public | 44 | 44 | 44 |
| Others | 5 | 5 | 5 |
| Total | 100 | 100 | 100 |

Stock Performance %

| | 1Mn | 3Mn | 1Yr |
|--------------|-------|-----|--------|
| Absolute | 0.9 | 6.6 | (1.8) |
| Rel.to Nifty | (0.2) | 2.1 | (14.8) |



Key Highlights of the Report:

- ✓ Increasing contribution of food business in total sales will ensure margin improvement going ahead.
- ✓ The management envisages lower capex going ahead which will put company in a cash accumulation mode.
- ✓ Aggressive expansion of wholesale network by the company from last two quarters and addition of 50000 new outlets in FY18E, will boost volume going ahead.
- ✓ We expect company's ROE to improve by 187 bps in FY19 based on 123 bps improvement in EBITDA margin and better sales.
- ✓ We value ATFL at 37 times of FY19's expected EPS and initiate BUY with target price of Rs 630.

| Financials/Valu | FY15 | FY16 | FY17 | FY18E | FY19E |
|-----------------|------|------|------|-------|-------|
| Net Sales | 760 | 782 | 807 | 828 | 892 |
| EBITDA | 61 | 57 | 64 | 63 | 81 |
| EBIT | 46 | 41 | 46 | 46 | 66 |
| PAT | 37 | 23 | 29 | 28 | 41 |
| EPS (Rs) | 15 | 10 | 12 | 12 | 17 |
| EPS growth (%) | -13% | -37% | 26% | -4% | 46% |
| ROE (%) | 12% | 7% | 8% | 7% | 10% |
| ROCE (%) | 14% | 9% | 12% | 12% | 16% |
| BV | 129 | 138 | 148 | 157 | 169 |
| P/B (X) | 4 | 4 | 3 | 3 | 3 |
| P/E (x) | 32 | 51 | 42 | 45 | 31 |

ATFL's Current initiatives and future plans :

- ✓ In FY'17, Company appointed 60 additional 'Feet on Street' in select states for the wholesale channel, a move which will help to get scale at plants, logistics and distribution network.
- ✓ The company's 6th plant will be operational in the middle of CY18 at Chittoor in Andhra Pradesh which will be an effective sourcing point for both Tamil Nadu and Karnataka.
- ✓ The company has near term goal of making Act II, a Rs 500 crore brand.
- ✓ The company launched Microwave Popcorn Tub in FY17. Company is expected to launch one new product under the brand name of Sundrop in next 3-4 months.

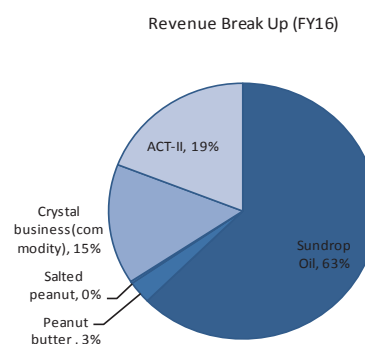
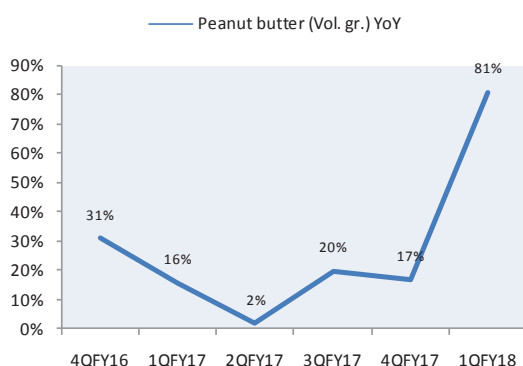
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Quarterly Performance

| Financials | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | YoY % | QoQ% | FY16 | FY17 | YoY % |
|----------------|--------|--------|--------|--------|--------|-------|------|------|------|-------|
| Net Sales | 193 | 201 | 208 | 206 | 188 | -3% | -9% | 782 | 807 | 3% |
| Other Income | 0 | 0 | - | 0 | 0 | -67% | -78% | 0 | 0 | 380% |
| COGS | 127 | 131 | 139 | 137 | 122 | -4% | -11% | 518 | 535 | 3% |
| Employee Cost | 10 | 11 | 11 | 10 | 11 | 9% | 9% | 47 | 48 | 2% |
| A&P expenses | 9 | 14 | 9 | 10 | 6 | -38% | -43% | | | |
| Other Expenses | 33 | 31 | 32 | 33 | 35 | 4% | 5% | 161 | 160 | 0% |
| EBITDA | 14 | 15 | 18 | 16 | 15 | 4% | -7% | 57 | 64 | 12% |
| Depreciation | 4 | 4 | 4 | 4 | 4 | 6% | 0% | 16 | 17 | 8% |
| Interest | 1 | 2 | 1 | 0 | 0 | -82% | -56% | 5 | 5 | -15% |
| PBT | 9 | 9 | 12 | 11 | 10 | 14% | -8% | 35 | 42 | 19% |
| Tax | 3 | 6 | 4 | 4 | 4 | 19% | -2% | 12 | 17 | 39% |
| PAT | 6 | 7 | 8 | 7 | 6 | 11% | -11% | 23 | 29 | 26% |

Revenue impacted by GST led de-stocking in Q1FY18:

- ✓ ATFL's sales for this quarter declined by 3% YoY to Rs188 cr led by destocking related to GST especially in high value edible oil.
- ✓ Gross margin improved by 66 bps YoY to 35.2% while EBITDA margin improved by 54 bps YoY to 7.8%.
- ✓ Employee cost and other expenses went up by 63 bps and 117 bps YoY while COGS and A&P expenses declined by 66 and 169 bps YoY respectively in Q1FY18.
- ✓ Volumes of Sundrop Oil declined by 5% YoY whereas Crystal business volume has shown growth of 10%.
- ✓ Major positive for this quarter remained 81% YoY volume growth in Peanut butter while value growth remained 55%.
- ✓ ACT-II(Consumer business) grew by 2% YoY led by de-stocking related to GST while value growth remained 2%.
- ✓ ATFL's PAT grew by 12%YoY to Rs6.5 cr in Q1FY18.

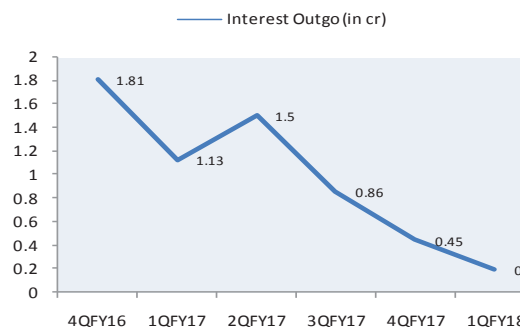
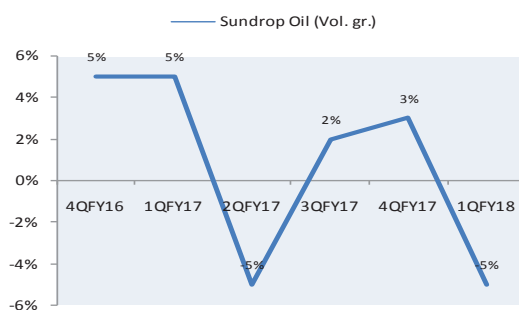


| Margin % | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | YoY(+/-) | QoQ(+/-) | FY16 | FY17 | YoY(+/-) |
|---------------|--------|--------|--------|--------|--------|----------|----------|-------|-------|----------|
| Gross Margin | 34.5% | 34.7% | 33.4% | 33.4% | 35.2% | 0.66% | 1.81% | 33.8% | 33.7% | -0.10% |
| EBITDA Margin | 7.2% | 7.3% | 8.5% | 7.6% | 7.8% | 0.54% | 0.16% | 7.3% | 7.9% | 0.64% |
| PAT Margin | 3.0% | 3.6% | 4.0% | 3.5% | 3.5% | 0.45% | -0.08% | 3.0% | 3.6% | 0.67% |

- ✓ Gross margin for this quarter improved by 66 bps YoY to 35.2% from 34.5% led by lower input cost YoY.
- ✓ Lower A&P expenses by 169 bps YoY led improvement in EBITDA margin by 54 bps YoY in Q1FY18. Other and employee expenses went up by 117 and 63 bps YoY respectively.
- ✓ PAT margin improved by 45 bps YoY to 3.5% from 3%. Tax provisioning for this quarter increased by 143 bps YoY while interest outgo declined from Rs 1.13 cr to Rs 0.2 cr in Q1FY18.

Expect Sundrop Oil volume to stabilize from Q2FY18 onwards

ATFL will be debt free in FY18.



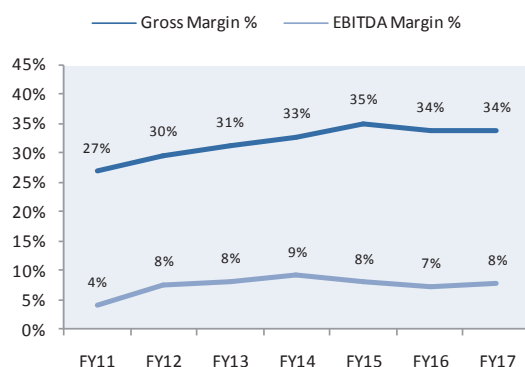
Concall & Mgt. Highlights(Q1FY18):

- ✓ The company reduced advertisement expenses by Rs 3.5cr in Q1FY18.
- ✓ Employee cost in Q1FY18 was higher due to investment in distribution reach.
- ✓ Distribution Reach: The Company is planning to add 50000 new stores in FY18.
- ✓ Company is expected to launch one new product under the brand name of Sundrop in next 3-4 months.
- ✓ Western snacks has better gross margin than Indian snacks.
- ✓ According to the management, Company has done enough capital expansion till now. Now company will accumulate cash.
- ✓ Management expects around Rs 8-10 cr of capex in FY18.
- ✓ Chittoor plant will be operational in Middle of next year.
- ✓ Presently Capacity utilization of Food business: 40%. Company's next focus will be increasing capacity utilization going forward.
- ✓ Company sees strong growth opportunity in ready to eat pop corn business.
- ✓ The Company has started expanding whole sale network aggressively from last 2 quarters. The company expects, ready to eat pop corn which includes Tortilla chips and extruded snacks, to become equal to the size of ready to cook popcorn in times to come.

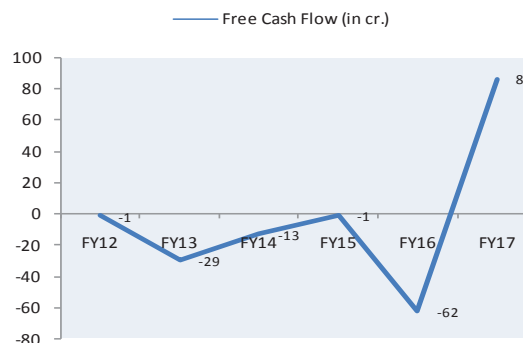
Investment Arguments:

- ✓ **Enough capacity in place:** ATFL has been steadily improving its' footprint across the country. It had opened 5th Foods facility in Mangaldai (Assam) in March 2017. The company has 2 plants dedicated to manufacture of Popcorn in Kothur (Telangana) and kashipur (Uttarakhand) and one plant for manufacturing peanut butter at Jhagadia in Gujarat. New Chittoor plant is expected to be operational in the middle of next year. It will expand ATFL's reach to pan India. Present capacity utilization is 40% which will give company enough room to expand with benefit of operating leverage without major capex .
- ✓ **Aggressive distribution expansion will ensure strong volume growth:** The company 's aggressive expansion of wholesale network in last 2 quarters and addition of 50000 new outlets in FY18E, will boost volume going ahead. Presently, Edible Oil, Peanut butter, Tortilla Chips and ACT-II is distributed in around 60000, 50000, 25000 and 2.5 lakh outlets respectively.
- ✓ **Margin improvement on cards:** We expect company's margin to improve further from here on, considering gradual increase of the contribution of the food business especially ACT-II(ready to eat) in the total sales. Strong Volume growth form 2HFY18 onwards, will give ATFL benefit of operating leverage which in turn will improve the overall margins going forward.
- ✓ **Improvement in cash flows:** The management envisages lower capex going ahead which will put company in a cash accumulation mode. Improvement in cash flow may be used by management for rewarding shareholders in terms of higher dividends. The company may look for inorganic opportunities going ahead.

We expect 92 and 90 bps gross margin improvement in FY18 & FY19 respectively.



We expect Rs 40 cr and Rs 54 cr of FCF in FY18 & FY19 respectively.



View & Valuation

Agro Tech Foods Ltd (ATFL) is engaged in the business of marketing food and food ingredients to consumers and institutional customers. ACT-II and Sundrop are the two prominent brands it has. ATFL's sales declined by 3%YoY while PAT grew by 12% in Q1FY18. Going forward we expect volume to come back in 2QFY18 onward on the back of re-stocking of trade channels. The company is aggressively increasing its wholesale network from last few quarters. This year company will add 50000 more stores in its distribution coverage. It will ensure strong volume growth for the company from 2HFY18 onwards. Margin expansion is also on cards especially in FY19 led by better products mix and benefits of operating leverage (presently capacity utilization is 40%). Management envisages lower capex going ahead which will put company in a cash accumulation mode. We expect this cash to be used in rewarding shareholders in terms of better dividend payout or any acquisitions going ahead which may lead to rerating of this stock. We value ATFL at 37 times of FY19's expected EPS and initiate BUY with the target price of Rs 630.

Financials Snap Shot

Income Statement

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|----------------------------------|-----------|-----------|-----------|-----------|
| Revenue from Operation | 782 | 807 | 828 | 892 |
| Change (%) | 3% | 3% | 3% | 8% |
| Other Operating Income | | | | |
| EBITDA | 57 | 64 | 63 | 81 |
| Change (%) | -7% | 12% | -2% | 30% |
| Margin (%) | 7% | 8% | 8% | 9% |
| Dep & Amortization | 16 | 17 | 16 | 15 |
| EBIT | 41 | 46 | 46 | 66 |
| Interest & other finance cost | 5 | 5 | 0 | - |
| Other Income | 0 | 0 | 1 | 4 |
| EBT | 35 | 42 | 47 | 69 |
| Exceptional Item | - | 4 | - | - |
| Tax | 12 | 17 | 19 | 28 |
| Minority Int & P/L share of Ass. | - | - | - | - |
| Reported PAT | 23 | 29 | 28 | 41 |
| Adjusted PAT | 23 | 27 | 28 | 41 |
| Change (%) | -37% | 16% | 5% | 46% |
| Margin(%) | 3% | 3% | 3% | 5% |

Balance Sheet

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|------------------------------|------------|------------|------------|------------|
| Share Capital | 24 | 24 | 24 | 24 |
| Reserves | 313 | 336 | 357 | 389 |
| Networth | 337 | 360 | 382 | 413 |
| Debt | 96 | 18 | 0 | 0 |
| Other Non Current Liab | 22 | 23 | 23 | 23 |
| Total Capital Employed | 433 | 378 | 382 | 413 |
| Net Fixed Assets (incl CWIP) | 222 | 219 | 201 | 191 |
| Non Current Investments | - | - | - | - |
| Other Non Current Assets | 302 | 300 | 282 | 272 |
| Non Current Assets | 302 | 300 | 282 | 272 |
| Inventory | 146 | 116 | 113 | 117 |
| Debtors | 43 | 39 | 36 | 34 |
| Cash & Bank | 7 | 4 | 26 | 69 |
| Other Current Assets | 10 | 7 | 7 | 8 |
| Current Assets | 206 | 167 | 183 | 229 |
| Creditors | 41 | 51 | 45 | 49 |
| Provisions | 1 | 1 | 1 | 1 |
| Other Current Liabilities | 11 | 13 | 14 | 15 |
| Curr Liabilities | 53 | 65 | 60 | 64 |
| Net Current Assets | 152 | 101 | 123 | 164 |
| Total Assets | 508 | 466 | 465 | 500 |

Key Ratios

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|--------------------|------|------|-------|-------|
| ROE | 7% | 8% | 7% | 10% |
| ROCE | 9% | 12% | 12% | 16% |
| Asset Turnover | 1.5 | 1.7 | 1.8 | 1.8 |
| Debtor Days | 20 | 18 | 16 | 14 |
| Inventory Days | 68 | 53 | 50 | 48 |
| Payable Days | 19 | 23 | 20 | 20 |
| Interest Coverage | 8 | 10 | 232 | - |
| P/E | 51 | 42 | 45 | 31 |
| Price / Book Value | 4 | 3 | 3 | 3 |
| EV/EBITDA | 21 | 19 | 20 | 15 |
| FCF per Share | (62) | 86 | 40 | 54 |
| Dividend Yield | 0.0% | 0.4% | 0.4% | 0.7% |

Assumptions

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|---------------------------|------|------|-------|-------|
| Sundrop Oil | NA | 1% | 3% | 6% |
| Crystal business | NA | 3% | 6% | 5% |
| Peanut butter | NA | 0 | 0 | 0 |
| ACT-II(Consumer business) | NA | 11% | 10% | 15% |

Cash Flow Statement

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|--------------------------------|-------------|-------------|-------------|-------------|
| PBT | 35 | 46 | 47 | 69 |
| (inc)/Dec in Working Capital | (66) | 48 | 0 | 2 |
| Non Cash Op Exp | 16 | 17 | 16 | 15 |
| Interest Paid (+) | 5 | 5 | 0 | - |
| Tax Paid | (9) | (16) | (19) | (28) |
| others | (0) | (0) | - | - |
| CF from Op. Activities | (18) | 101 | 45 | 59 |
| (inc)/Dec in FA & CWIP | (44) | (14) | 2 | (6) |
| Free Cashflow | (63) | 86 | 46 | 54 |
| (Pur)/Sale of Investment | | | | |
| others | 1 | 0 | - | - |
| CF from Inv. Activities | (43) | (14) | 2 | (6) |
| inc/(dec) in NW | | | | |
| inc/(dec) in Debt | 70 | (78) | (18) | - |
| Interest Paid | (5) | (5) | (0) | - |
| Dividend Paid (inc tax) | (6) | (6) | (7) | (10) |
| others | - | - | - | - |
| CF from Fin. Activities | 59 | (89) | (25) | (10) |
| Inc(Dec) in Cash | (3) | (2) | 22 | 44 |
| Add: Opening Balance | 10 | 7 | 4 | 26 |
| Closing Balance | 7 | 4 | 26 | 69 |