

AGRO TECH FOODS LTD.

BUY

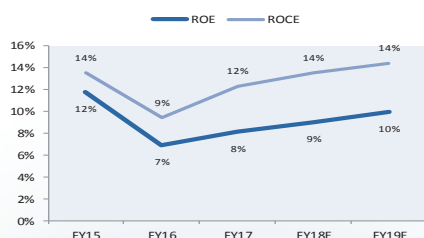
27-Oct-17

INDUSTRY - Con. Staples
BLOOMBERG ID ATFL IN
BSE Code - 500215
NSE Code - ATFL
NIFTY - 10344

Company Data

CMP	527
Target Price	630
Previous Target Price	630
Upside	20%
52wk Range H/L	609/422
Mkt Capital (Rs Cr)	1,283
Av. Volume (,000)	8

RoE & ROCE

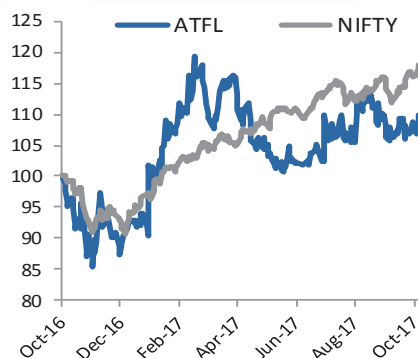


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	52	52	52
Public	44	44	44
Others	5	5	5
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(0.2)	(0.9)	5.6
Rel.to Nifty	(2.2)	(5.7)	(13.4)



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Key Highlights of the Report:

- ✓ ATFL has posted a mixed set of numbers for Q2FY18, sales declined by 2% YoY to Rs 197 cr while PAT shown handsome growth of 23%.
- ✓ Gross margin were up by 98 bps YoY in Q2FY18, in spite of passing all input credit, mainly due to benign edible oil prices.
- ✓ EBITDA margin improved by 164 bps YoY and EBITDA grew by 19% YoY to Rs 18 cr.
- ✓ Volume of Peanut butter and ACT-II(ready to eat) grew robustly by 109% and 59% YoY respectively.
- ✓ Considering lower sales growth of Q2FY18 and headwinds related to alternative channel, we have tweak our sales growth for FY19, downward by 3% and increased PAT by 1%. We still value ATFL at 37 times of FY19's expected EPS and maintain BUY with the previous target price of Rs 630

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	760	782	807	803	864
EBITDA	61	57	64	69	76
EBIT	46	41	46	52	60
PAT	37	23	29	35	42
EPS (Rs)	15	10	12	14	17
EPS growth (%)	-13%	-37%	26%	19%	19%
ROE (%)	12%	7%	8%	9%	10%
ROCE (%)	14%	9%	12%	14%	14%
BV	129	138	148	159	172
P/B (X)	4	4	3	3	3
P/E (x)	32	51	42	37	31

ATFL's initiatives and future plans :

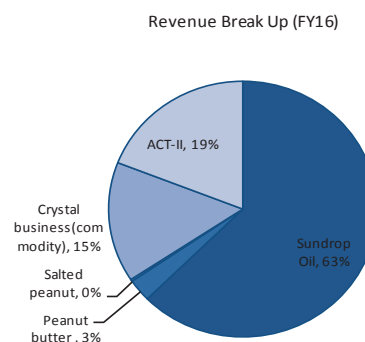
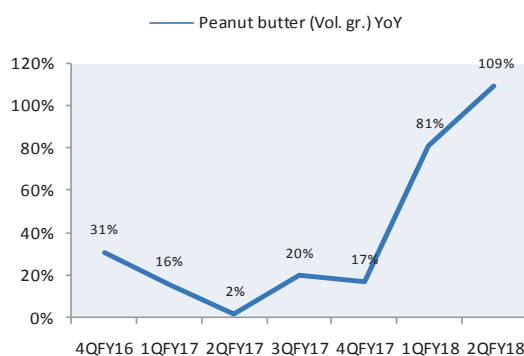
- ✓ The company launched ACT-II Caramel in this quarter. It will also launch one product in peanut butter range going ahead.
- ✓ The company's 6th plant will be operational in the middle of CY18 at Chittoor in Andhra Pradesh which will be an effective sourcing point for both Tamil Nadu and Karnataka.
- ✓ The company has near term goal of making Act II, a Rs 500 crore brand.
- ✓ For Last few quarters company has focused towards increasing its distribution reach. ATFL has added over 130 distributors in the first half of FY18. It has added 25000 to 30000 stores in its direct reach in first half.

Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	202	208	206	188	197	-2%	5%	782	807	3%
Other Income	0	-	0	0	0	300%	500%	0	0	380%
COGS	131	139	137	122	126	-4%	4%	518	535	3%
Employee Cost	11	11	10	11	12	5%	6%	47	48	2%
A&P expenses	14	9	10	6	11	-22%	96%			
Other Expenses	31	32	33	35	31	-1%	-12%	161	160	0%
EBITDA	15	18	16	15	18	19%	21%	57	64	12%
Depreciation	4	4	4	4	4	7%	2%	16	17	8%
Interest	2	1	0	0	0	-100%	-95%	5	5	-15%
PBT	9	12	11	10	13	54%	32%	35	42	19%
Exceptional Items	4								4	
Tax	6	4	4	4	5	-20%	31%	12	17	39%
PAT	7	8	7	6	9	23%	32%	23	29	26%

Volume growth impacted due to slower recovery of alternative channels:

- ✓ Sales declined by 2% YoY to Rs 197 cr mainly due to decline in volume of its flagship brand Sundrop by 1%YoY although better by 4% as compared to Q1FY18 and GST related accounting
- ✓ Volume of Peanut butter and ACT-II(ready to eat) grew robustly by 109% and 59% YoY respectively in this quarter.
- ✓ Sundrop and ACT-II (ready to eat) did not grow in this quarter due to its higher saliency in alternative channel like CSD. Sales lost due to under performance of alternative channel was Rs 500 cr.
- ✓ EBITDA margin improved by 164 bps YoY on the back of 136 bps YoY decline in A&P expenses and impact of GST accounting change. A&P expenses for this quarter was Rs 11 cr (Rs 14 cr in Q2FY17).
- ✓ PAT margin improved by 91 bps YoY to 4.4%. Provisioning of Tax was lower by Rs 1 cr in Q2FY18.
- ✓ The company has reported a PAT growth of 23% YoY to Rs 9 cr Vs Rs 7 cr in the previous quarter. Previous year's Rs 7 cr included exceptional item of Rs 4.21 cr which company received from Tax department. If we exclude this than adjusted PAT growth for Q2FY18 will be around 57% YoY.

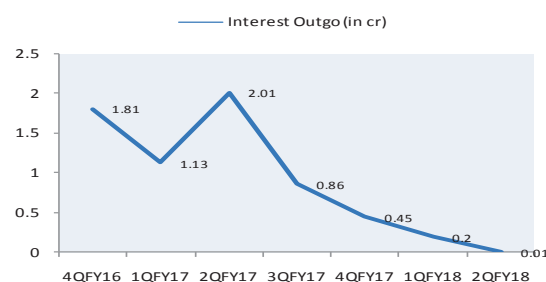
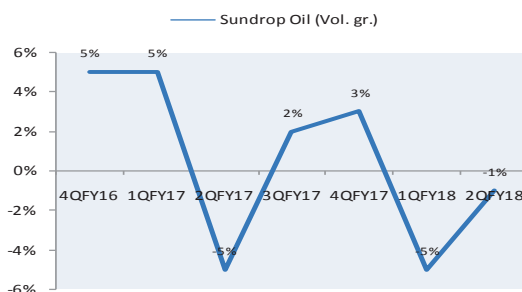


Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	35.0%	33.4%	33.4%	35.2%	36.0%	0.98%	0.82%	33.8%	33.7%	-0.10%
EBITDA Margin	7.3%	8.5%	7.6%	7.8%	8.9%	1.64%	1.16%	7.3%	7.9%	0.64%
PAT Margin	3.4%	4.0%	3.5%	3.5%	4.4%	0.91%	0.90%	3.0%	3.6%	0.67%

- ✓ Gross margin were up by 98 bps YoY in Q2FY18, in spite of passing all input credit, mainly due to benign edible oil prices.
- ✓ EBITDA margin improved by 164 bps YoY on the back of 136 bps YoY decline in A&P expenses. A&P expenses for this quarter was Rs 11 cr (Rs 14 cr in Q2FY17).
- ✓ PAT margin improved by 91 bps YoY to 4.4%. Provisioning of Tax was lower by Rs 1 cr in Q2FY18.

Expect Sundrop Oil volume to stabilize from Q3FY18 onwards

ATFL will be debt free in FY18.



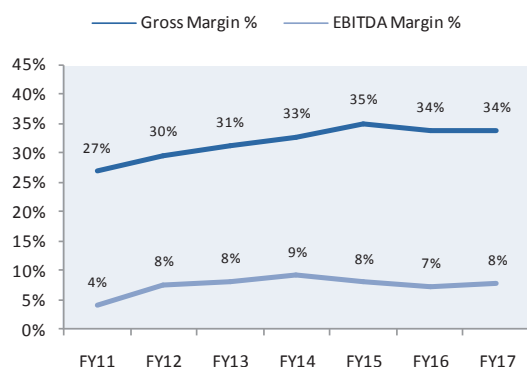
Concall & Mgt. Highlights(Q2FY18):

- ✓ Modern trade and traditional trade have return to normalcy while alternative channels related to government are still facing headwinds.
- ✓ Food share of business moved up to 27% of the total business in Q2FY18.
- ✓ As discretionary spending will improve, A&P expenses will also go up.
- ✓ Company's medium term goal is to cross 10% of EBITDA margin level.
- ✓ Overall volume growth remained flat while sales declined by 2% YoY. Volume growth was impacted due to slower recovery of alternative channels.
- ✓ Company has added over 130 distributors in 1HFY18.
- ✓ The company launched ACT-II Caramel in this quarter. It will also launch one product in peanut butter range going ahead.
- ✓ The company expects Rs 200 cr of revenue from food business in FY18.
- ✓ Management sees freight cost coming down to below 10% of sales after all seven plant being operational.
- ✓ Sundrop and ACT-II (ready to eat) did not grow in this quarter due to its higher saliency in alternative channel like CSD. Sales lost due to under performance of alternative channel was around 500 bps.

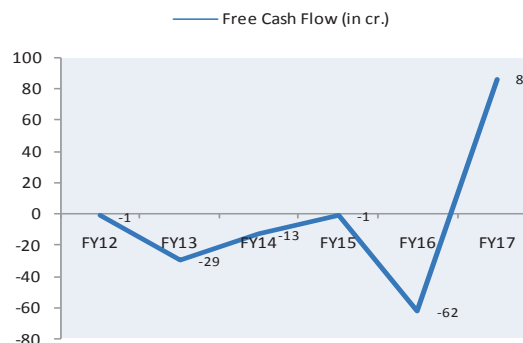
Investment Arguments:

- ✓ **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 65 bps and 23 bps EBITDA margin improvement in FY18 & FY19 respectively.



We expect Rs 56 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. ATFL has posted a mixed set of numbers for Q2FY18, sales declined by 2% YoY to Rs 197 cr while PAT shown handsome growth of 23% YoY. Overall volume growth remained flat. Going forward we expect volume to come back in 2QFY18 onward considering recovery in CSD and other alternative channels. Company is also aggressively increasing its wholesale network from last few quarters which will help to boost volume growth going ahead. Company has added over 130 distributors in 1HFY18. This year company will add 50000 more stores in its distribution coverage. Margin expansion is also on cards especially in FY19 led by better products mix and benefits of operating leverage (presently capacity utilization is 40%). Considering lower sales growth of Q2FY18 and headwinds related to alternative channel, we have tweak our sales growth for FY19, downward by 3% and increased PAT by 1%. We still value ATFL at 37 times of FY19's expected EPS and maintain BUY with the previous target price of Rs 630.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	782	807	803	864
Change (%)	3%	3%	0%	8%
Other Operating Income				
EBITDA	57	64	69	76
Change (%)	-7%	12%	8%	10%
Margin (%)	7%	8%	9%	9%
Dep & Amortization	16	17	16	15
EBIT	41	46	52	60
Interest & other finance cost	5	5	0	-
Other Income	0	0	2	4
EBT	35	42	54	64
Exceptional Item	-	4	-	-
Tax	12	17	19	23
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	23	29	35	42
Adjusted PAT	23	27	35	42
Change (%)	-37%	26%	19%	19%
Margin(%)	3%	3%	4%	5%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	7%	8%	9%	10%
ROCE	9%	12%	14%	14%
Asset Turnover	1.5	1.7	1.7	1.7
Debtor Days	20	18	16	14
Inventory Days	68	53	50	48
Payable Days	19	23	20	20
Interest Coverage	8	10	249	-
P/E	51	42	37	31
Price / Book Value	4	3	3	3
EV/EBITDA	21	19	18	16
FCF per Share	(62)	86	49	54
Dividend Yield	0.0%	0.4%	0.5%	0.6%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Sundrop Oil	NA	1%	1%	5%
Crystal business	NA	3%	1%	-2%
ACT-II(Consumer business)	NA	11%	10%	15%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	24	24	24	24
Reserves	313	336	362	394
Networth	337	360	387	418
Debt	96	18	0	0
Other Non Current Liab	22	23	23	23
Total Capital Employed	433	378	387	418
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	110	114
Debtors	43	39	35	33
Cash & Bank	7	4	34	78
Other Current Assets	10	7	7	8
Current Assets	206	167	186	232
Creditors	41	51	44	47
Provisions	1	1	1	1
Other Current Liabilities	11	13	13	14
Curr Liabilities	53	65	58	62
Net Current Assets	152	101	128	169
Total Assets	508	466	468	504

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	35	46	54	64
(inc)/Dec in Working Capital	(66)	48	3	2
Non Cash Op Exp	16	17	16	15
Interest Paid (+)	5	5	0	-
Tax Paid	(9)	(16)	(19)	(23)
others	(0)	(0)	-	-
CF from Op. Activities	(18)	101	54	59
(inc)/Dec in FA & CWIP	(44)	(14)	2	(6)
Free Cashflow	(63)	86	56	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)	(8)	(10)
others	-	-	-	-
CF from Fin. Activities	59	(89)	(26)	(10)
Inc(Dec) in Cash	(3)	(2)	30	44
Add: Opening Balance	10	7	4	34
Closing Balance	7	4	34	78