

Industry
Bloomberg
BSE CODE

Cons. Staples
ATFL IN
500215

Better traction from food business continued.

RATING	BUY
CMP	490
Price Target	605
Potential Upside	23%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	686/451
Mkt Capital (Rs Cr)	1194
Free float (%)	48%
Avg. Vol 1M (,000)	10
No. of Shares (Cr)	2
Promoters Pledged %	NA

1QFY20 Result Update

- ATFL has reported mixed set of numbers wherein, sales growth remained flat to Rs. 198 cr. (vs. expect. of Rs. 195 cr.) impacted by de-growth in Sundrop edible oil (by 4%) and cristal business (by 11%).
- The Company's food business posted a growth of 14% YoY to Rs. 56 cr. driven by Ready to Cook, Ready to Eat and Spread category with a growth of 6%, 35% and 15% YoY in volumes terms and 12%, 31% and 13% in value terms.
- Gross Margin remained in line with our expectation and improved by 347 bps to 32.8% YoY led by higher margins from Food and Sundrop oil business. Thus the gross margin expansion was further utilized in increasing the company's Ad spends which restricted the EBITDA margin expansion.
- EBITDA margin improved by 21 bps to 7.39% YoY (vs. expect. of 7.1% YoY) led by higher Advertising and other expense by 110 bps and 243 bps while employee expense reduced by 28 bps.
- PAT grew by 7.8% YoY to Rs. 7 cr. (vs. expect. of Rs. 7.8 cr.). Depreciation and amortization includes an amount of Rs. 0.67 cr. on account of first time adoption of 'Ind AS 116-Leases'. However the benefits from non operation of Unnao facility continues.
- The Company has restarted the production of Sundrop breakfast cereals at Hyderabad plant which was stopped due to fire at Unnao facility and has also entered sweet corn business under ready to cook portfolio for which commercial production has already started in June 2019 but shipments will happen starting July 2019.

View and Valuation

ATFL has posted mixed set of numbers for Q1FY20, sales remained flat to Rs 198 cr (vs expect. Rs 195 cr) while PAT grew by 8% YoY to Rs 7 cr (expect. Rs 7.8cr). Better traction from food business continued, food business grew by 14% YoY, largely driven by volume, to Rs 56 cr. While Sundrop Oil portfolio declined by 4% (vs expect. 9% decline) in value terms. Going forward, new launches in different segments and relaunches (which was stopped due to Unnao fire) are expected to drive revenue growth. On the other hands, margin will be taken care of higher contribution of food business in the total business. Considering better performance of Sundrop oil than our expectation and aggressive new product pipeline, we have increased our FY20e sales estimates by 4% leaving sales of FY21e largely unchanged. We kept PAT estimates of FY20 and FY21 almost same, while maintaining BUY with the previous target price of Rs 605.

Key Risks to our rating and target

- Volatility in the volume growth of Sundrop oil and food business.
- Shrinkage in the gross margin of Sundrop oil due to inflation in key input prices.

RESEARCH ANALYST

RAJEEV ANAND

rajeev.anand@narnolia.com
+91-22-62701229

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	808	812	824	876	950
EBITDA	61	66	65	78	91
EBIT	45	48	47	60	73
PAT	28	32	34	42	52
EPS (Rs)	11	13	14	17	21
EPS growth (%)	19%	14%	8%	22%	24%
ROE (%)	9%	9%	9%	10%	12%
ROCE (%)	14%	14%	13%	15%	16%
BV	126	139	154	168	185
P/B (X)	4	5	4	3	3
P/E (x)	45	56	41	28	23

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Mixed Performance

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	197	211	215	200	198	0.3%	-1.3%	812	824	1.5%
Other Income	1	1	1	1	1	77%	0.0%	1	4	304.3%
COGS	139	143	145	135	133	-4.6%	-1.7%	539	562	4.3%
Gross Margin	29%	32%	33%	32%	33%	3.5%	0.3%	34%	32%	-1.9%
Employ. Cost	11	12	12	11	10	-4.8%	-7.8%	54	56	3.0%
A&P expenses	3	4	5	3	5	86.2%	68.3%	-	-	-
Other Exp.	30	34	36	36	35	16.1%	-3.4%	153	141	-7.6%
EBITDA	14	18	18	15	15	3.3%	-0.3%	66	65	-2.0%
EBITDA Mar.	7%	8%	8%	7%	7%	0.2%	0.1%	8%	8%	-0.3%
Depreciation	4	4	4	4	5	1.3%	20.7%	18	17	-3.6%
EBIT	10	13	14	11	10	4.1%	-7.5%	48	47	-1.4%
Interest	0	0	0	0	0	2150.0%	1400%	0	0	-64.0%
PBT	10	14	15	12	11	4.3%	-10.4%	49	51	5%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	4	5	5	4	4	-1.9%	2.5%	17	17	-2%
PAT	7	9	10	8	7	7.8%	-15.9%	32	34	8%
PAT Margin	3%	4%	5%	4%	4%	0.2%	-0.6%	4%	4%	0.3%

Maintained growth momentum in Food business

The Company's food business grew by 14% YoY to Rs 56 Cr led by strong performance of Ready to Cook and Ready to Eat snacks. Ready to Cook snacks posted a volume and value growth of 6% and 12%. The difference in volume and value growth was due to better performance of premium end which includes microwave popcorn and other higher priced instant popcorn. Ready to Eat Snacks posted a value and volume growth of 31% and 35% YoY led by 69% and 97% YoY growth in Ready to Eat Popcorn and Extruded Snacks while Tortilla Chips de-grew by 10% due to supply chain issues. Spreads showed a volume and value growth of 15% and 13% YoY. Going forward, the company will continue to focus on food business, and will enter into new categories like nut butter & nut based chocolates as well will also focus on increasing the product portfolio in existing category like increasing full range of spreads.

Gross Margin expansion attracted higher Advertising spend

ATFL's Gross margin remained in line with the expectation and improved by 347 bps to 32.8% YoY led by higher margins from food and Sundrop business. The gross margin improvement was further utilized in increasing the advertising spends which in turn restricted the EBITDA margin expansion. EBITDA margin improved by 21 bps to 7.39% YoY led by higher Advertising and other expense to the extent of 110 bps and 243 bps while employee expenses reduced by 28 bps. Going forward, company will continue focusing on maintaining gross margin of its edible oil business and invest it in ramping up its food business.

Concall Highlights

- Management aims for sustainable profitable business growth. Investment on A&P will be dependent to expansion in gross margin.
- The company has taken several steps for fixing Spread business, now, it in the a place from where it can clock 20-25% growth going forward. The Company expects spread business to become at Rs. 60- 70 cr. in FY20.
- The Company entered into sweet corn business, adjacencies of ready to cook portfolio for which commercial production has already started in June 2019 but shipments will happen starting July 2019.
- The Company expect sweet corn portfolio to do better on the back of company's advantage with regard to strong brand name (ACTII), Supply chain, Cost, location, energy advantage and familiarity with the business model of Popcorn.
- The Management expects sweet corn to become ~50% of total Ready to cook Popcorn category in coming years.
- The Company is in the process of diversifying peanut butter portfolio led by new launches and will expand the total spread category going ahead.
- The Company will enter into full range of nut butter category in next few months and have also installed capacity for chocolate based spreads and will start in next few months.
- The Company is on track of entering into nut based chocolates category in next 2-3 months.
- The Company restarted the production of Sundrop breakfast cereals at Hyderabad plant which was stopped due to fire at Unnao facility.
- Other Income includes the impact of Rs. 1.04 cr. in income from investment in Mutual Funds.

Exhibit: Sundrop oil volume growth

Witnessed lower volume & value de growth than last quarter in 1QFY20.

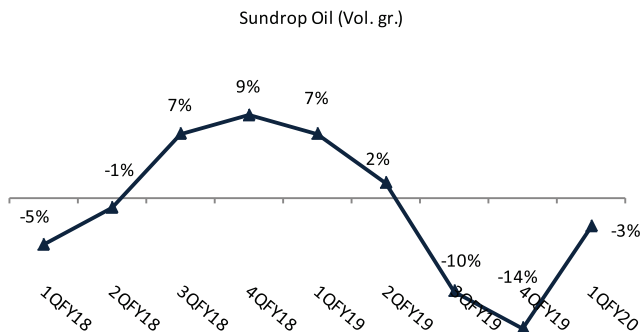


Exhibit: Peanut butter volume growth

Posted volume and value growth of 15% and 13%; will launch new products in this category in coming quarters.

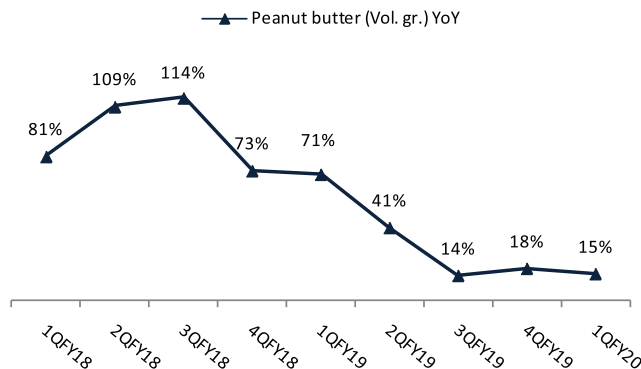


Exhibit: Sales and sales growth

Sales remained in line, impacted by de-growth in Sundrop edible oil (by 4%) and cristal business (by 11%).

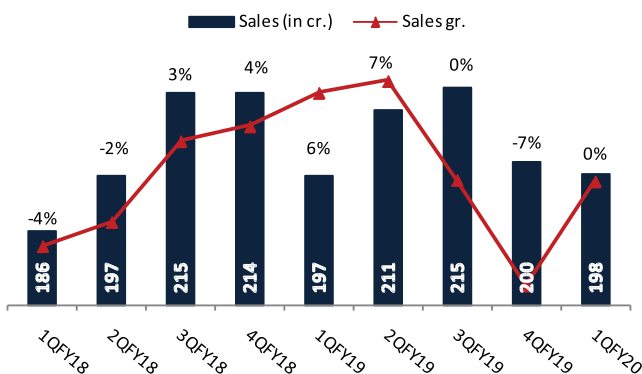


Exhibit: Gross margin and EBITDA margin

Gross margin improved supported by higher margin from company's food and Sundrop oil business.

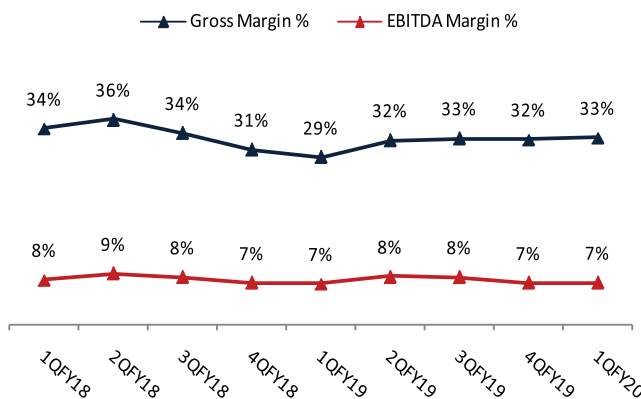


Exhibit: A&P expenses

Ad & Promotion exp. increased by 110 bps to 2.4% YoY led by Gross margin expansion.

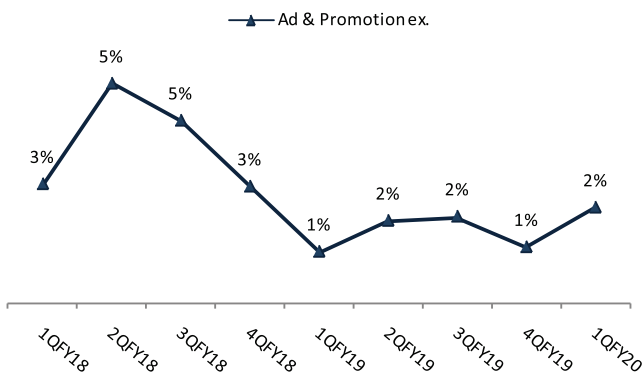
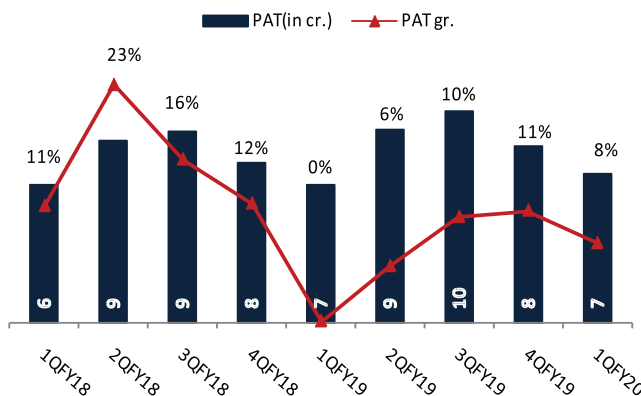


Exhibit: PAT and PAT growth

The Company posted a PAT growth of 7.8% YoY while PAT margin improved by 25 bps YoY to 3.6%.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	24	24	24	24	24	24	24	24
Reserves	258	289	313	282	315	352	385	426
Networth	282	314	337	306	340	376	409	451
Debt	15	26	96	18	-	-	-	-
Other Non Current Liab	16	19	22	12	15	15	15	15
Total Capital Employed	297	340	433	324	340	376	409	451
Net Fixed Assets (incl CWIP)	164	199	222	213	208	193	183	176
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	242	277	302	242	245	234	220	213
Non Current Assets	242	277	302	242	245	234	220	213
Inventory	99	106	146	116	95	84	89	97
Debtors	21	25	43	39	50	81	86	93
Cash & Bank	6	10	7	4	9	4	15	39
Other Current Assets	8	7	10	8	38	66	97	113
Current Assets	134	148	206	167	192	235	287	342
Creditors	40	40	41	53	65	64	68	73
Provisions	7	7	1	7	7	5	6	6
Other Current Liabilities	15	19	11	13	10	9	10	10
Curr Liabilities	62	66	53	73	82	78	83	89
Net Current Assets	72	82	152	94	110	157	205	253
Total Assets	376	425	508	409	437	470	507	555

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	764	760	782	808	812	824	876	950
Change (%)	-3%	-1%	3%	3%	0%	1%	6%	8%
EBITDA	70	61	57	61	66	65	78	91
Change (%)	8%	-13%	-7%	8%	8%	-2%	21%	16%
Margin (%)	9%	8%	7%	8%	8%	8%	9%	10%
Depr & Amor.	11	15	16	17	18	17	18	18
EBIT	59	46	41	45	48	47	60	73
Int. & other fin. Cost	2	1	5	4	-	-	2	-
Other Income	-	-	-	-	1	4	6	6
EBT	57	45	35	40	49	51	64	79
Exp Item	-	-	-	4	-	-	-	-
Tax	14	8	12	17	17	17	22	27
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	43	37	23	28	32	34	42	52
Adjusted PAT	43	37	23	25	32	34	42	52
Change (%)	2%	-13%	-37%	19%	14%	8%	22%	24%
Margin(%)	6%	5%	3%	3%	4%	4%	5%	5%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	15%	12%	7%	9%	9%	9%	10%	12%
ROCE	20%	14%	9%	14%	14%	13%	15%	16%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	10	12	20	18	22	36	36	36
Inv Days	47	51	68	52	43	37	37	37
Payable Days	19	19	19	24	29	28	28	28
Int Coverage	29	37	8	10	NA	NA	33	182
P/E	29	32	51	45	56	41	28	23
Price / Book Value	4	4	4	4	5	4	3	3
EV/EBITDA	18	19	21	20	27	22	15	13
FCF per Share	(13)	(1)	(62)	86	43	3	63	50
Div Yield	0%	0%	0%	0%	0%	0%	1%	1%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	57	45	35	46	49	51	64	79
(inc)/Dec in Working Capital	(22)	(11)	(66)	48	8	(25)	9	(10)
Non Cash Op Exp	11	15	16	17	18	18	18	18
Int Paid (+)	2	1	5	5	-	-	2	-
Tax Paid	(13)	(9)	(9)	(16)	(15)	(19)	(22)	(27)
others	-	-	-	-	(1)	(1)	-	-
CF from Op. Activities	35	41	(18)	101	60	31	72	61
(inc)/Dec in FA & CWIP	(48)	(42)	(44)	(14)	(17)	(29)	(8)	(11)
Free Cashflow	(13)	(1)	(63)	86	43	2	63	50
(Pur)/Sale of Inv								
others	1	1	1	-	(21)	376	-	-
CF from Inv. Activities	(47)	(42)	(43)	(14)	(38)	(37)	(50)	(26)
inc/(dec) in NW								
inc/(dec) in Debt	15	11	70	(78)	(15)	-	-	-
Int. Paid	(2)	(1)	(5)	(5)	-	-	(2)	-
Div Paid (inc tax)	(6)	(6)	(6)	(6)	(6)	(7)	(9)	(11)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	7	4	59	(89)	(14)	1	(11)	(11)
Inc(Dec) in Cash	(5)	3	(3)	(2)	8	(5)	10	24
Add: Opening Balance	11	6	10	7	1	9	5	15
Closing Balance	6	10	7	4	9	4	15	39

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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, AJC 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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