

Industry	Cons. Staples
Bloomberg	ATFL IN
BSE CODE	500215

Subdued performance of RTE snacks & Edible oil impacted sales

RATING	NEUTRAL
CMP	565
Price Target	571
Potential Upside	1%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	678/451
Mkt Capital (Rs Cr)	1377
Free float (%)	48%
Avg. Vol 1M (,000)	4
No. of Shares (Cr)	2
Promoters Pledged %	NA

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2QFY20 Result update

- ❑ ATFL reported mixed set of numbers; Sales de-grew 3% YoY to Rs. 204 cr. (vs. expect. of Rs. 217 cr.) mainly impacted by lower than expected volume & value growth from Ready to Eat Snacks (due to supply chain issues), de-growth in Sundrop edible oil & Crystal Edible Oil business.
- ❑ The Company's food business posted a growth of 12% YoY to Rs. 69 cr. driven by Ready to Cook, and Spread category with volume growth of 12% YoY each while value growth stood at 14%/9% YoY respectively.
- ❑ Gross Margin improved by 182 bps to 34.2% YoY led by higher margins from food on the back of premiumization. However, the gross margin expansion was further utilized in increasing the company's Ad spends.
- ❑ Despite higher gross margin expansion, EBITDA margin remained restricted and improved by 58 bps to 9.02% YoY (vs. expect. of 8.6% YoY) due to higher Advertising and other expense by 69 bps and 83 bps while employee expense remained at lower level and declined by 29 bps.
- ❑ PAT growth remained high by 69.6% YoY to Rs. 15 cr. (vs. expect. of Rs. 12 cr.) with PAT margin of 7.5%. Lower provisioning of taxes impacted PAT positively, provisioning of the taxes for the quarter remained negative 1 cr against Rs 5 cr in Q2FY19.

View and Valuation

ATFL has posted mixed set of numbers in 2QFY20; Sales remained impacted on account of muted performance from Ready to Eat (RTE) snacks due to supply chain issues and volatility in edible oil market. Going forward, we expect company to perform well in the long run on the back of new launches in the existing category as well as entering new category (confectionary), distribution expansion and premiumization. The decline in growth from bagged snacks being temporary and is expected to be addressed with commissioning of Chittoor & Unnao facility which will bring in volumes for bagged snacks in FY21. Performance of company's edible oil business will remain key watch-out, as there are pricing actions which are expected. On the other hands, margin will be taken care of higher contribution of food business in the total business. We have kept PAT estimates of FY20 and FY21 largely the same, but as stock has sharp run up in few days, we have changed our rating from Accumulate to Neutral with the previous target price of Rs. 571.

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.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	808	812	824	851	935
EBITDA	61	66	65	71	85
EBIT	45	48	47	53	67
PAT	28	32	34	46	55
EPS (Rs)	11	13	14	19	23
EPS growth (%)	19%	14%	8%	34%	19%
ROE (%)	9%	9%	9%	11%	12%
ROCE (%)	14%	14%	13%	13%	15%
BV	126	139	154	169	187
P/B (X)	4	5	4	3	3
P/E (x)	45	56	41	30	25

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2QFY20 Results

Mixed Performance

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Net Sales	211	215	200	198	204	-3.0%	3.5%	812	824	1.5%
Other Income	1	1	1	1	1	47%	4.6%	1	4	304.3%
COGS	143	145	135	133	135	-5.7%	1.3%	539	562	4.3%
Gross Margin	32%	33%	32%	33%	34%	1.8%	1.4%	34%	32%	-1.9%
Employ. Cost	12	12	11	10	11	-8.0%	7.4%	54	56	3.0%
A&P expenses	4	5	3	5	6	29.4%	19.0%	-	-	-
Other Exp.	34	36	36	35	35	1.9%	-1.2%	153	141	-7.6%
EBITDA	18	18	15	15	18	3.7%	26.4%	66	65	-2.0%
EBITDA Mar.	8%	8%	7%	7%	9%	0.6%	1.6%	8%	8%	-0.3%
Depreciation	4	4	4	5	5	4.7%	3.3%	18	17	-3.6%
EBIT	13	14	11	10	14	3.3%	36.8%	48	47	-1.4%
Interest	0	0	0	0	0	4400%	0%	0	0	-64.0%
PBT	14	15	12	11	14	2.6%	35.1%	49	51	5%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	5	5	4	4	(1)	-119.4%	-126.5%	17	17	-2%
PAT	9	10	8	7	15	69.6%	119.4%	32	34	8%
PAT Margin	4%	5%	4%	4%	8%	3.2%	4.0%	4%	4%	0.3%

Maintained growth momentum in Food business

The Company's food business grew by 12% YoY to Rs. 69 cr. led by both value and volume growth from Ready to Cook, Ready to Eat snacks(although lower than expect.) and Spreads performance. Ready to Cook snacks posted a volume growth of 12% YoY and value growth of 14% YoY driven by Premiumization. Ready to Eat Snacks both volumes as well as value remained impacted due to supply chain issues on Tortilla Chips and Extruded snacks and posted a volume and value growth of 14%/7% YoY. Peanut Butter continued its steady growth momentum and posted a volume and value growth stood at 12%/9% YoY. Going forward, the company has entered into confectionary segment with the production of Sundrop Cocoa Nut, choco- almond spread and Sundrop Duo in 2QFY20 in order to strengthen its food portfolio by launching differentiated products.

Gross Margin expansion led to higher Advertising spend

ATFL's Gross margin improved by 182 bps to 34.2% YoY led by higher margins from food 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 58 bps to 9.02% YoY despite higher gross margin expansion mainly due to higher other expense and Advertising to the extent of 83 bps and 69 bps while employee expenses reduced by 29 bps.

Concall Highlights

- Ready to eat snacks posted lower growth on account of subdued performance of Tortilla chips due to supply chain issues. In short term, company is scaling up the supply of Tortilla chips through 3rd party and better results are expected from 4QFY20. However 3QFY20 will remain impacted.
- Management expects adequate supply of Tortilla chips from early FY21 post Chittoor and Unnao plant being operational.
- Extruded snacks growth remained impacted due supply chain, manufacturing & packaging issues but is expected to get partially resolved in 3QFY20 and fully resolved post commissioning of Chittoor and Unnao plant.
- The Company witnessed good response from large packs of Caramel bliss popcorn.
- Management expects spreads to grow post necessary corrections undertaken led by market share stabilization (the company lost some market share in 2QFY19).
- The Management expects the new launches Act II Sweet Corn, Sundrop Popz Cereals, Sundrop Cocoa Nut, choco- almond spread and Sundrop Duo to deliver 5% growth in order to achieve growth of 20%.
- The Company will come up with more nut based chocolates in coming quarters as the company has capabilities (Jhagadia Plant) in Nuts.
- The Management targets sweet corn and choco popz to make available at 2 lac & 1.5 lac stores.
- The Company witnessed sharp decline of 23% YoY in volumes in Crystal business led by price cuts and selling pressure. Thus, Management expects the pricing to come down in next 3-6 months.

Exhibit: Sundrop oil volume growth

Witnessed volume & value de growth along with gross margin decline than previous year.

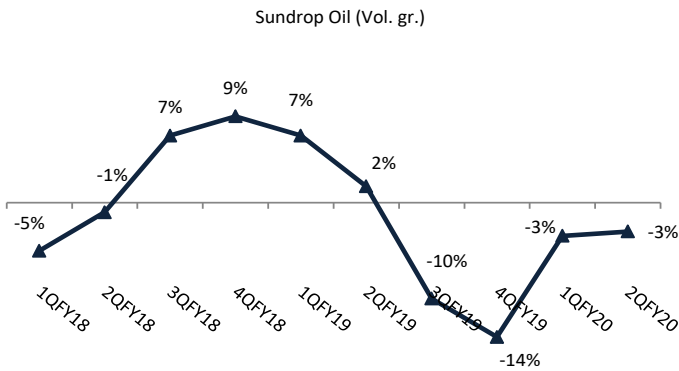


Exhibit: Peanut butter volume growth

Steady growth momentum in both volume & value terms; Started production of choco almond spread in 2QFY20.

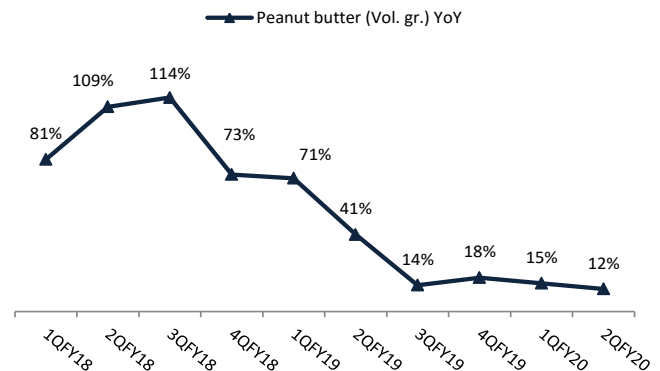


Exhibit: Sales and sales growth

Sales remained impacted due to subdued performance in Tortilla chips and edible oil.

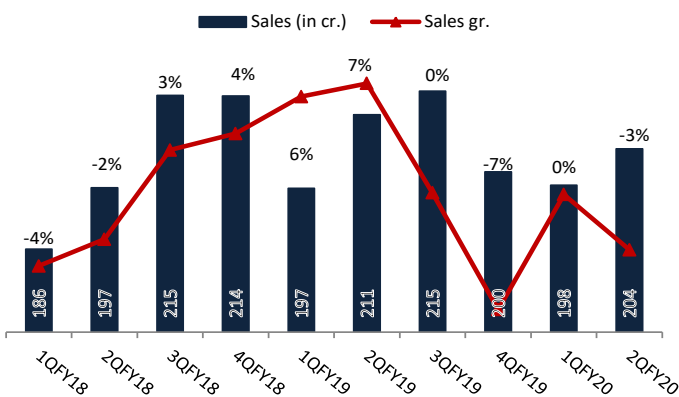


Exhibit: Gross margin and EBITDA margin

Gross margin improvement supported by higher margin from company's food on the back of premiumization.

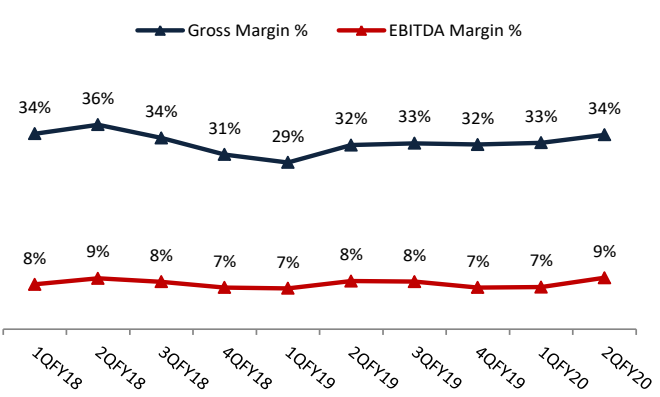


Exhibit: A&P expenses

Ad & Promotion exp. increased by 69 bps to 2.8% YoY led by Gross margin expansion.

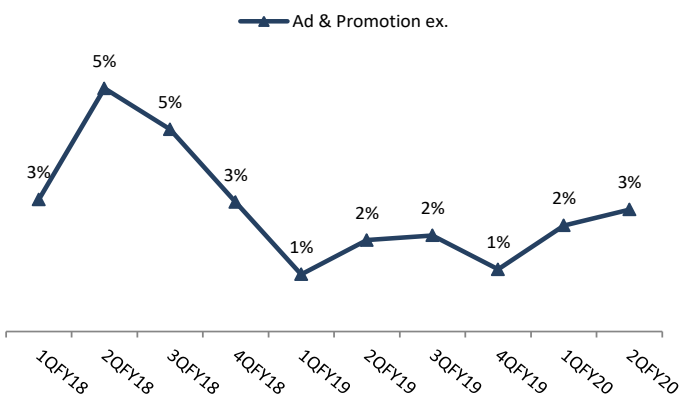
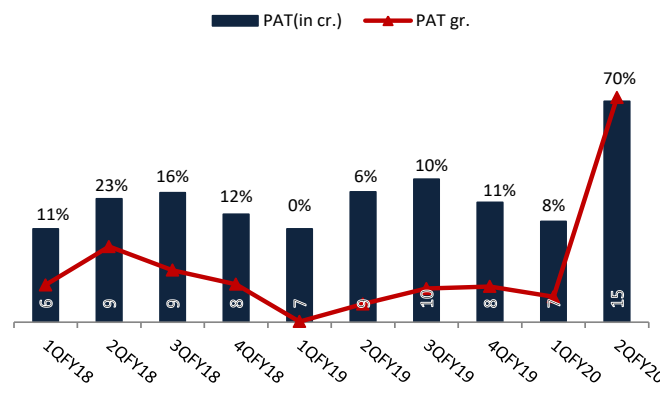


Exhibit: PAT and PAT growth

The Company posted a PAT growth of 69.6% YoY while PAT margin improved by 323 bps to 7.5%.



Financial Details

Balance Sheet

Fig in Rs Cr

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	388	432
Networth	282	314	337	306	340	376	412	456
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	412	456
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	87	95
Debtors	21	25	43	39	50	81	84	92
Cash & Bank	6	10	7	4	9	4	22	46
Other Current Assets	8	7	10	8	38	66	96	113
Current Assets	134	148	206	167	192	235	288	346
Creditors	40	40	41	53	65	64	66	72
Provisions	7	7	1	7	7	5	6	6
Other Current Liabilities	15	19	11	13	10	9	9	10
Curr Liabilities	62	66	53	73	82	78	81	88
Net Current Assets	72	82	152	94	110	157	208	258
Total Assets	376	425	508	409	437	470	508	559

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	764	760	782	808	812	824	851	935
Change (%)	-3%	-1%	3%	3%	0%	1%	3%	10%
EBITDA	70	61	57	61	66	65	71	85
Change (%)	8%	-13%	-7%	8%	8%	-2%	10%	20%
Margin (%)	9%	8%	7%	8%	8%	8%	8%	9%
Depr & Amor.	11	15	16	17	18	17	18	18
EBIT	59	46	41	45	48	47	53	67
Int. & other fin. Cost	2	1	5	4	0	0	2	0
Other income	0	0	0	0	1	4	6	7
EBT	57	45	35	40	49	51	57	73
Exp Item	-	-	-	4	-	-	-	-
Tax	14	8	12	17	17	17	11	18
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	43	37	23	28	32	34	46	55
Adjusted PAT	43	37	23	25	32	34	46	55
Change (%)	2%	-13%	-37%	19%	14%	8%	34%	19%
Margin(%)	6%	5%	3%	3%	4%	4%	5%	6%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	15%	12%	7%	9%	9%	9%	11%	12%
ROCE	20%	14%	9%	14%	14%	13%	13%	15%
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	192	527	29	168
P/E	29	32	51	45	56	41	30	25
Price / Book Value	4	4	4	4	5	4	3	3
EV/EBITDA	18	19	21	20	27	22	19	16
FCF per Share	(13)	(1)	(62)	86	43	3	71	51
Div Yield	0%	0%	0%	0%	0%	0%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	57	45	35	46	49	51	57	73
(inc)/Dec in Working Capital	(22)	(11)	(66)	48	8	(25)	13	(11)
Non Cash Op Exp	11	15	16	17	18	18	18	18
Int Paid (+)	2	1	5	5	0	0	2	0
Tax Paid	(13)	(9)	(9)	(16)	(15)	(19)	(11)	(18)
others	(0)	(0)	(0)	(0)	(1)	(1)	-	-
CF from Op. Activities	35	41	(18)	101	60	31	79	62
(inc)/Dec in FA & CWIP	(48)	(42)	(44)	(14)	(17)	(29)	(8)	(11)
Free Cashflow	(13)	(1)	(63)	86	43	2	71	51
(Pur)/Sale of Inv								
others	1	1	1	0	(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)	(0)	(0)	(2)	(0)
Div Paid (inc tax)	(6)	(6)	(6)	(6)	(6)	(7)	(10)	(11)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	7	4	59	(89)	(14)	1	(12)	(12)
Inc(Dec) in Cash	(5)	3	(3)	(2)	8	(5)	17	24
Add: Opening Balance	11	6	10	7	1	9	5	22
Closing Balance	6	10	7	4	9	4	22	46

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