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Higher commodity prices dented the margin

3QFY20 Result Update

- ATFL reported mixed set of numbers wherein sales remained in line with our expectation at Rs. 229 cr. with 6% YoY growth led by both volume & value growth from company's food and better performance from Sundrop oil business.
- The Company's food business posted a volume and value growth of 17% YoY to Rs. 70 cr. driven by Ready to Cook and Spreads category while cereals & confectionary (new to Portfolio) also contributed to the extent of 190 bps to the food business in 3QFY20.
- The total contribution of the newly launched products to company's food business collectively stood at 3.8% (in last 6 months) which includes Sweet Corn, Cereals and Chocolate Confectionery.
- The Company's edible oil business which comprise of Sundrop oil and Crystal grew by 9%/1% YoY in volumes and 2%/3% YoY in value terms led by specific strategic actions taken by the company in past at both the premium and lower end of the portfolio in Sundrop oil.
- Gross Margin contracted by 262 bps to 30.1% YoY on account of gross margin deterioration from edible oil business due to increase in commodity prices.
- EBITDA margin contracted by 202 bps to 6.34% YoY due to gross margin deterioration and increase in Ad & P expense by 47 bps. PAT de-grew by 24.9% YoY to Rs. 7 cr. (vs. expect. of Rs. 13 cr.) with PAT margin of 3.3%.

View and Valuation

ATFL has posted mixed set of numbers in 3QFY20; Revenue growth of 6% YoY was driven by better performance from food and edible oil business. Sundrop oil grew in both in volumes and value terms after several quarters of de-growth led by strategic measures taken by the company in past. The new launches in RTC (sweet corn), spreads (choco spreads) performed along with the new categories i.e. breakfast cereals and chocolate confectionery. Food continues to perform well. Major dampener for the quarter remained deterioration in gross as well as EBITDA margin which declined by 262 and 202 bps respectively. Although, management has indicated its intention future pricing action, the quantum of price hike will be key to watch out for. Considering margin contraction led by higher commodity prices we have reduced our PAT estimates for FY20 by 8% but kept our FY21e estimates largely the same keeping food business growth and margin boost due to food business. We continue to value ATFL at 25 x of FY21e eps and maintain our Neutral rating with the target price of Rs 571.

Key Risks to our rating and target

- Volatility in the volume growth of Sundrop oil and food business.
- Gross margin deterioration led by input inflation.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	808	812	824	852	957
EBITDA	61	66	65	66	86
EBIT	45	48	47	48	69
PAT	28	32	34	42	55
EPS (Rs)	11	13	14	17	23
EPS growth (%)	19%	14%	8%	23%	30%
ROE (%)	9%	9%	9%	10%	12%
ROCE (%)	14%	14%	13%	12%	15%
BV	126	139	154	168	186
P/B (X)	4	5	4	4	4
P/E (x)	45	56	41	39	30

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Mixed Performance

3QFY20 Results

Mixed Performance

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	215	200	198	204	229	6.1%	11.8%	812	824	1.5%
Other Income	1	1	1	1	1	-44%	-34.5%	1	4	304.3%
COGS	145	135	133	135	160	10.3%	18.7%	539	562	4.3%
Gross Margin	33%	32%	33%	34%	30%	-2.6%	-4.1%	34%	32%	-1.9%
Employ. Cost	12	11	10	11	11	-10.1%	-4.6%	54	56	3.0%
A&P expenses	5	3	5	6	6	29.3%	7.3%	-	-	-
Other Exp.	36	36	35	35	38	4.6%	8.4%	153	141	-7.6%
EBITDA	18	15	15	18	14	-19.6%	-21.5%	66	65	-2.0%
EBITDA Mar.	8%	7%	7%	9%	6%	-2.0%	-2.7%	8%	8%	-0.3%
Depreciation	4	4	5	5	5	17.9%	0.9%	18	17	-3.6%
EBIT	14	11	10	14	10	-30.3%	-29.2%	48	47	-1.4%
Interest	0	0	0	0	0	1367%	-2%	0	0	-64.0%
PBT	15	12	11	14	10	-34.3%	-30.4%	49	51	5%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	5	4	4	(1)	3	-51.9%	-362.9%	17	17	-2%
PAT	10	8	7	15	7	-24.9%	-51.4%	32	34	8%
PAT Margin	5%	4%	4%	8%	3%	-1.4%	-4.3%	4%	4%	0.3%

Concall Highlights

- Ready to cook segment volume growth excluding sweet corn stood at 15.5% in 3QFY20 while sweet corn contributed to the extent of 190 bps to the value growth in RTC category .Mgt envisages better growth to continue in RTC segment going forwards.
- RTE popcorn performed well in this category with a volume growth of 31% while value growth remained low because higher volumes came from lower revenue per ton packs.
- Management expects the category to grow in a range of 20-30% and is taking strategic measures to achieve the same.
- Peanut Butter grew by 19%/21% in value and volume terms driven by measures undertaken by the company to regain its market share.
- Choco spreads continued to do well and contributed to the extent of 400 bps to the value growth of spread category in 3QFY20.
- The Company's Peanut butter market share is constant at 34% since last 5 years.
- Breakfast cereals and Chocolate Confectionery
- Breakfast cereals and Chocolate Confectionery contributed to the extent of 120/70 bps to the foods business value growth.
- The Company has already launched Honey roasted oats (Breakfast cereals) and it will also launch one new product in next 3-6 months.
- The Company will be increasing prices on account of inflated commodity prices to sustain gross margin.
- The Company has added 150-200 distributors (in last 12-15 months) making a total to 1200 distributors while direct coverage stood at 400000-410000 stores as of 3QFY20.
- CAPEX for FY21:Rs. 35-40 cr.
- The Company has started commercial production in its Bangladesh factory since last 8-9 months and will continue to build up business gradually.

Exhibit: Sundrop oil volume growth

Witnessed volume & value growth led by measures taken by company to make edible oil business profitable.

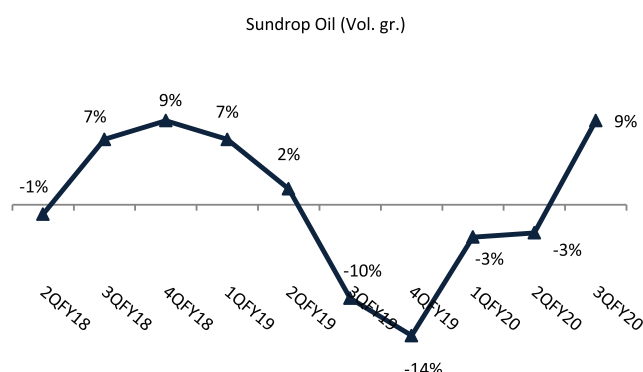


Exhibit: Spreads volume growth

Growth led by better vol. & value from peanut butter while newly launched Choco spreads also performed well.

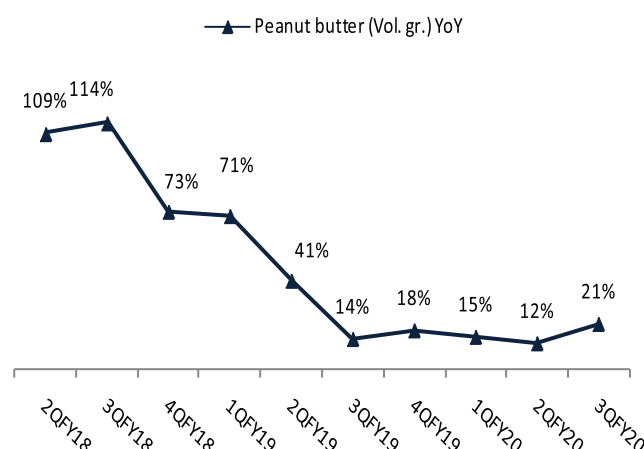


Exhibit: Sales and sales growth

Sales growth led by volumes from all the segments(except Crystal) under which the company operates.

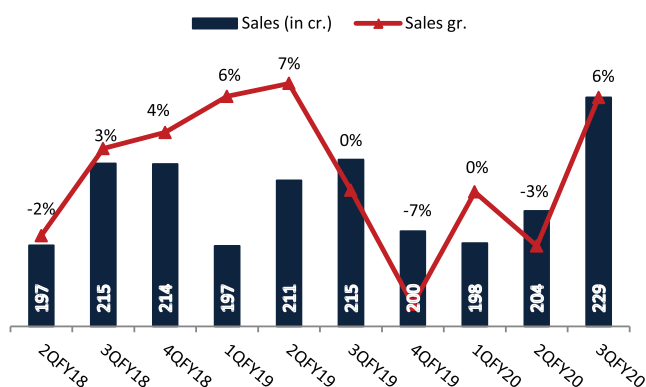


Exhibit: Gross margin and EBITDA margin

Gross margin deterioration led by by increase in commodity prices.

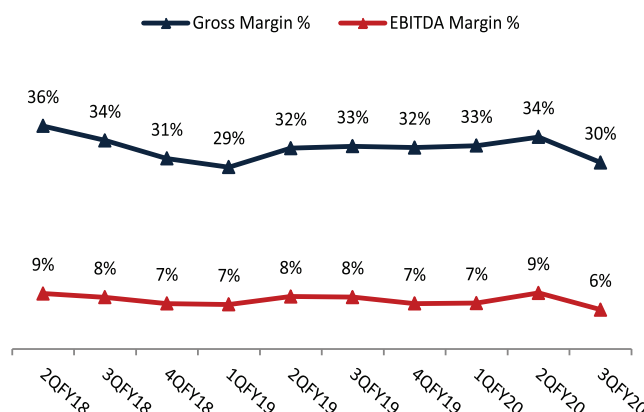


Exhibit: A&P expenses

Ad & Promotion exp. increased by 47 bps to 2.6% YoY.

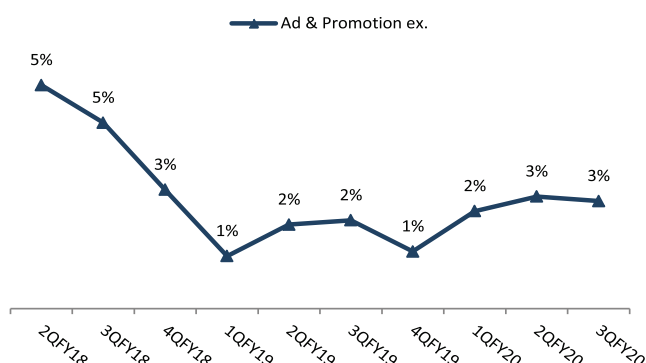
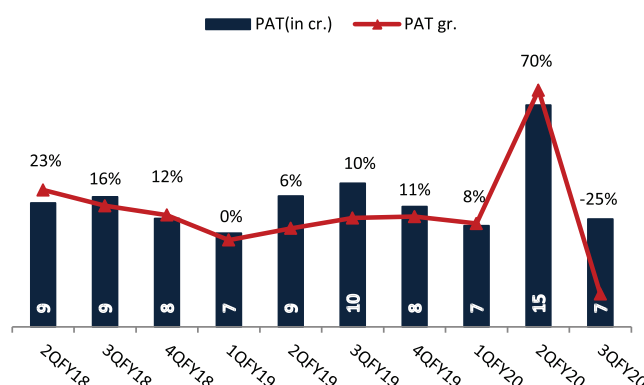


Exhibit: PAT and PAT growth

The Company has posted a PAT degrowth of 24.9% YoY while PAT margin stood at 3.3%.



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	385	429
Networth	282	314	337	306	340	376	409	453
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	453
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	98
Debtors	21	25	43	39	50	81	84	94
Cash & Bank	6	10	7	4	9	4	19	40
Other Current Assets	8	7	10	8	38	66	96	113
Current Assets	134	148	206	167	192	235	285	345
Creditors	40	40	41	53	65	64	66	74
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	90
Net Current Assets	72	82	152	94	110	157	205	255
Total Assets	376	425	508	409	437	470	505	558

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	852	957
Change (%)	-3%	-1%	3%	3%	0%	1%	3%	12%
EBITDA	70	61	57	61	66	65	66	86
Change (%)	8%	-13%	-7%	8%	8%	-2%	2%	31%
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	48	69
Int. & other fin. Cost	2	1	5	4	-	0	2	2
Other Income	-	-	-	-	1	4	6	6
EBT	57	45	35	40	49	51	51	73
Exp Item	-	-	-	4	-	-	-	-
Tax	14	8	12	17	17	17	9	18
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	43	37	23	28	32	34	42	55
Adjusted PAT	43	37	23	25	32	34	42	55
Change (%)	2%	-13%	-37%	19%	14%	8%	23%	30%
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%	10%	12%
ROCE	20%	14%	9%	14%	14%	13%	12%	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	NA	NA	NA	NA
P/E	29	32	51	45	56	41	39	30
Price / Book Value	4	4	4	4	5	4	4	4
EV/EBITDA	18	19	21	20	27	22	25	19
FCF per Share	(13)	(1)	(62)	86	43	3	67	50
Div Yield	0.4%	0.4%	0.0%	0.4%	0.3%	0.4%	0.5%	0.6%

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	51	73
(inc)/Dec in Working Capital	(22)	(11)	(66)	48	8	(25)	13	(14)
Non Cash Op Exp	11	15	16	17	18	18	18	18
Int Paid (+)	2	1	5	5	-	0	2	2
Tax Paid	(13)	(9)	(9)	(16)	(15)	(19)	(9)	(18)
others	-	-	-	-	(1)	(1)	-	-
CF from Op. Activities	35	41	(18)	101	60	31	75	61
(inc)/Dec in FA & CWIP	(48)	(42)	(44)	(14)	(17)	(29)	(8)	(11)
Free Cashflow	(13)	(1)	(63)	86	43	2	67	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)	-	(0)	(2)	(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)	(13)
Inc(Dec) in Cash	(5)	3	(3)	(2)	8	(5)	14	22
Add: Opening Balance	11	6	10	7	1	9	5	19
Closing Balance	6	10	7	4	9	4	18	40

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