

AgroTech Foods (ATFL) revenue growth at 1% YoY was a major disappointment. Sundrop volume growth in the recent past has been volatile; being flat for 2 consecutive quarters. While we remain concerned of the sluggish revenue growth in the edible oil business as the company focuses on margin expansion, we are positively surprised by the robust volume offtake in the Rs. 90 recruiting price point. We estimate volume traction to sustain in the Rs. 90 SKU. We believe that going ahead an improvement in the demand environment should support volume recovery in the other SKU's for Sundrop also and translate into better realizations. We remain positive on the ability of the Snack Foods business delivering 30% revenue CAGR. New product launches in the near term in the Snack business are potential triggers. We expect operating performance to improve in the forthcoming quarters. We maintain our BUY recommendation on the stock.

Sundrop oil reports value degrowth of 1% YoY impacted by change in mix and flat volume growth: Sundrop brand growth was negatively impacted by lower realizations on account of change in mix. While the company has exercised a weighted average price hike of 6 – 7% YoY, the sharp volume offtake in the Rs. 90 SKU negated the pricing impact effectively translating to pricing degrowth of 1% YoY. Flat volume is also indicative of volume degrowth in the other SKU's of Sundrop. We expect demand improvement to contribute to revival in the volume growth for the higher priced SKU's. Hence along with sustenance of volume traction in the Rs. 90 SKU we expect Sundrop volume growth to improve to ~5% CAGR in the medium term with better realizations. Crystal brand reported degrowth of 6% YoY as volume was disrupted by strikes in the main market of coastal Andhra.

Act – II popcorn reported growth of 15% YoY: Act II brand growth decelerated to 15% YoY. Sundrop peanut butter reported growth of 30% YoY primarily led by pricing. Sundrop peanut Butter is to commence commercial productions from Jan 2014, with the launch of new SKU's. The brand is currently being test marketed in Gujarat to improve product taste to suit consumer preferences. The management has maintained revenue growth rate target of 40% for the Act – II popcorn brand. The management has guided for launch of two new products in the Snack Foods business in the near term. The resultant expansion in the scale of Snack business can drive ahead of expectations improvement in key operating metrics of volume and margins in the future. We view any new material product launch in the Snack business as a potential trigger.

Gross margins expand by 155 bps YoY to 32.6%: ATFL has exercised judicious price hikes to mitigate the negative impact of currency depreciation on the input basket. The 214 bps YoY sharp increase in Other operating expenses was on account of higher freight cost and spends on feet on street. ATFL is to calibrate its existing distribution network and focus on expanding product line in the medium term. ATFL is expected to increase its contracted period of corn from 12 to 18 months. Although the rupee has depreciation, the global corn prices have corrected sharply. Hence we estimate a probability of input cost savings in H1FY15.

PAT growth aided by lower effective tax rate: Lower effective Tax rate at 21% as against 34% in Q2FY13 was on account of tax benefits from the Kashipur plant which has turned profitable. The tax benefits are eligible till March 2015.

Revision of estimates and target price, maintain BUY recommendation: We have revised our revenue estimates downwards for FY14E and FY15E, however on account of tax benefits are earnings estimates remain unchanged. As per our DCF based valuation we have lowered our price objective to Rs. 570 (earlier Rs. 620). Considering the upside of 12% we maintain our BUY recommendation.

BUY

ATFL IN | CMP RS 510
TARGET RS 570 (+12%)

Company Data

O/S SHARES (MN) :	24
MARKET CAP (RSBN) :	13
MARKET CAP (USDMN) :	0.23
52 - WK HI/LO (RS) :	585 / 414
LIQUIDITY 3M (USDMN) :	0.2
FACE VALUE (RS) :	10

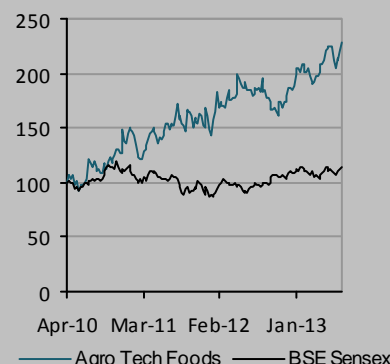
Share Holding Pattern, %

PROMOTERS :	51.8
FII / NRI :	3.8
FI / MF :	8.7
NON PROMOTER CORP. HOLDINGS :	11.4
PUBLIC & OTHERS :	24.4

Price Performance, %

	1mth	3mth	1yr
ABS	6.8	-7.9	22.2
REL TO BSE	2.4	-10.2	11.2

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY13	FY14E	FY15E
Net Sales	7,872	8,342	9,427
EBITDA	625	709	837
Net Profit	417	476	581
EPS, Rs	17.1	19.5	23.8
PER, X	29.8	26.1	21.4
EV/EBITDA, x	19.7	17.4	14.2
EV/Net Sales, x	1.6	1.5	1.3
ROE, %	17.0	16.7	17.4

Source: PhillipCapital India Research Est.

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Quarterly result

(Rs mn)	Q2FY14	Q1FY14	QoQ, %	Q2FY13	YoY, %
Net sales	1,946	1,834	6.1	1,923	1.2
Growth, %	1.2	7.7		5.5	
Total income	1,946	1,834	6.1	1,923	1.2
Gross Profit	633	579	9.4	596	6.2
Margin %	32.6	31.6		31.0	
Advertising Spends	89	101	-11.5	116	-22.9
% of Net sales	4.6	5.5		6.0	
Operating expenses	387	370	4.7	337	14.9
EBITDA	157	108	45.2	144	9.4
Growth, %	9.4	32.4		19.1	
Margin, %	8.1	5.9		7.5	
Depreciation	24	22	7.1	16	49.1
EBIT	133	86	55.1	128	4.4
Margin, %	6.9	4.7		6.6	
Interest paid	4	1		-	
Other Non-Operating Income	6	4		13	
Pre-tax profit	135	89	52.1	141	-4.2
Tax provided	28.7	25.2		48.4	-40.7
PC Net Profit	106	63	67.2	92	14.9
Reported PAT	106	63	67.2	92	14.9
Growth, %	14.9	16.3		15.9	
Margin, %	5.5	3.5		4.8	
Adj Fully Dilluted EPS, Rs	4.36	2.61	67.2	3.79	14.9

Source: Company, PhillipCapital India Research Estimates

Change in estimates

(Rs mn)	___ Earlier estimates ___		___ Revised estimates ___		Upgrade/(downgrade) (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net Sales	8,776	10,075	8,342	9,427	-4.9%	-6.4%
EBITDA	749	902	709	837	-5.3%	-7.2%
EBITDA margin (%)	8.5	9.0	8.5	8.9	(3)	(8)
PBT	695	851	632	774	-9.0%	-9.0%
Adj PAT	477	583	476	581	-0.2%	-0.4%
Adj PAT margin (%)	5.4	5.8	5.7	6.2	27	37
Adj EPS (Rs)	19.6	23.9	19.5	23.8	-0.3%	-0.3%

Source: Company, PhillipCapital India Research Estimates

Revenue Model

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Net Sales	7,021	7,872	8,342	9,427	10,714	12,247	14,030	16,115	18,537
o/w Edible Oil	6,012	6,576	6,813	7,440	8,130	8,913	9,779	10,760	11,843
- Sundrop	4,960	5,557	5,738	6,296	6,911	7,616	8,396	9,287	10,274
- Crystal	1,052	999	1,054	1,118	1,185	1,250	1,319	1,385	1,454
o/w Foods	1,010	1,296	1,529	1,988	2,584	3,334	4,250	5,355	6,694
- Act II Popcorn	900	1,152	1,475	1,880	2,369	2,961	3,672	4,480	5,375
- Sundrop Peanut Butter	50	69	(39)	(9)	69	189	350	590	961
- Others	60	75	94	117	146	183	229	286	358
Growth YoY %									
Net Sales		12.1	6.0	13.0	13.7	14.3	14.6	14.9	15.0
o/w Edible Oil		9.38	3.60	9.20	9.28	9.63	9.71	10.03	10.07
- Sundrop		12.04	3.26	9.73	9.78	10.20	10.24	10.62	10.63
- Crystal		-5.00	5.50	6.00	6.00	5.50	5.50	5.00	5.00
o/w Foods		28.3	18.0	30.0	30.0	29.0	27.5	26.0	25.0
- Act II Popcorn		28.0	28.0	27.5	26.0	25.0	24.0	22.0	20.0
- Sundrop Peanut Butter		38.6	-156.9	-76.0	-830.7	175.2	84.6	68.7	63.0
- Others		25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Contribution %									
Edible Oil	85.6	83.5	81.7	78.9	75.9	72.8	69.7	66.8	63.9
Foods	14.4	16.5	18.3	21.1	24.1	27.2	30.3	33.2	36.1
Company Volume Growth YoY %		5.99	4.05	10.02	10.71	11.09	11.30	11.36	11.53
Company Price Growth YoY %		6.12	1.92	2.99	2.95	3.22	3.26	3.51	3.50

Source: Company, PhillipCapital India Research

Fair Value Calculation

We have valued ATFL based on an explicit medium-term forecast for the next eight years and our estimated normalised EBIDTA and PAT margins. We expect the company to have an EBIDTA margin in the range of ~11% in the long run and PAT margins are likely to be ~8%.

Medium-term forecasts

Rs mn	Sales 2013E	CAGR (7 years)	Sales 2020E	EBIDTA margin (%) (N)	EBIDTA (N)	EBIT margin (%) (N)	EBIT (N)	PAT (%) (N)	PAT (N)
Agro Tech Foods Ltd.	7,872	13.0	18,537	10.9	2,027	10.0	1,862	7.5	1,387

Source: PhillipCapital India Research Estimates

We have assigned an FY20E exit multiple of 15x PER largely in line with the listed FMCG Sector companies. We believe the Valuation to be justified as we expect ATFL business growth to outperform the broader FMCG sector and we expect sustenance of traction in revenue and earnings growth to support the Valuations.

Derivation of Enterprise value 2020 (excluding intermediate FCF)

Rs mn	Sales 2020E	EBIDTA 2020E (N)	EBIT 2020E (N)	PAT 2020E (N)	EV/Sales 2020E	EV/EBIDTA 2020E	EV/EBITA 2020E	P/E (x) 2020E	EV (x) 2020E
Agro Tech Foods Ltd.	18,537	2,027	1,862	1,387	1.1	10.3	11	15.0	20,806

Source: PhillipCapital India Research Estimates

We have discounted the medium-term cash flows at 14%, considering the risk-free rate of 8% and equity risk premium of 6%, implying a Beta of 1.

Medium-Term cash flow generation

Rs mn	2013	2014E	2015E	2016E	2017E	2018e	2019e	2020E
EBIT	559	613	728	834	1,011	1,237	1,515	1,862
NOPLAT	400	458	560	588	721	891	1,096	1,352
Depreciation	66	96	109	119	129	140	152	164
Capex	237	400	200	150	160	170	180	190
FCF	228	154	469	557	690	861	1,068	1,327
% conversion	41	25.1	64.5	66.8	68.2	69.6	70.5	71.2
Discount factor	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.4
PV	228	135	361	376	408	447	486	530
NPV	228	364	725	1,101	1,509	1,956	2,443	2,973

Source: PhillipCapital India Research Estimates

Derivation of Fundamental value

Rs mn/ Rs per share	Value
Enterprise value-2020	20,806
NPV Intermediate FCF	2,973
Net cash- end of FY2013	99
Return requirement	14%
EV Future value end of FY2013	11,288
Target value end of FY2013	11,387
Target value per share (end Mar 2013)	467
Target value per share (end of Sep 2014)	570
Implied FY14 multiple (P/E)	29.2
Implied 2 -year forward multiple (P/E)	23.9
CMP	510
CMP at 1-year forward multiple (P/E)	26.1
% upside	11.8

Source: MF Global India Research Estimates

We value the company at Rs. 570 based on our DCF based methodology. The terminal value contributes 68% of the Valuation. Our target price implies upside of 12%. We maintain our BUY recommendation.

Financials

Income Statement

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Net sales	7,021	7,872	8,342	9,427
Growth, %	-2	12	6	13
Total income	7,021	7,872	8,342	9,427
Raw material expenses	-4,954	-5,420	-5,631	-6,311
Employee expenses	-321	-370	-404	-456
Other Operating expenses	-1,232	-1,456	-1,597	-1,823
EBITDA (Core)	515	625	709	837
Growth, %	87.7	21.4	13.4	18.0
Margin, %	7.3	7.9	8.5	8.9
Depreciation	-57	-66	-96	-109
EBIT	458	559	613	728
Growth, %	100.3	22.0	9.7	18.7
Margin, %	6.5	7.1	7.4	7.7
Interest paid	-1	0	-11	-11
Other Non-Operating Income	49	46	30	57
Pre-tax profit	506	605	632	774
Tax provided	-145	-188	-156	-194
Profit after tax	362	417	476	581
Net Profit	362	417	476	581
Growth, %	151.8	15.3	14.2	21.9
Net Profit (adjusted)	362	417	476	581
Unadj. shares (m)	24	24	24	24
Wtd avg shares (m)	24	24	24	24

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Cash & bank	408	99	255	568
Debtors	346	427	434	465
Inventory	645	573	617	674
Loans & advances	485	850	1,019	1,084
Other current assets	14	4	4	4
Total current assets	1,899	1,953	2,329	2,795
Investments	14	47	47	47
Gross fixed assets	839	1,076	1,476	1,676
Less: Depreciation	-249	-304	-393	-502
Add: Capital WIP	285	478	478	478
Net fixed assets	874	1,250	1,560	1,651
Total assets	2,810	3,253	4,118	4,515
Current liabilities	724	807	845	924
Total current liabilities	724	807	845	924
Total liabilities	724	807	1,266	1,175
Paid-up capital	244	244	244	244
Reserves & surplus	1,843	2,202	2,608	3,096
Shareholders' equity	2,087	2,446	2,851	3,340
Total equity & liabilities	2,810	3,253	4,118	4,515

Source: Company, PhillipCapital India Research Estimates

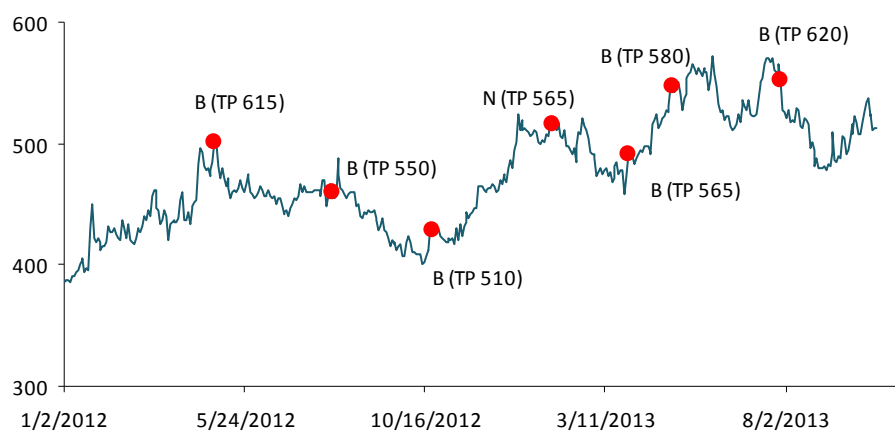
Cash Flow

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Pre-tax profit	506	605	632	774
Depreciation	57	66	96	109
Chg in working capital	-159	-280	-112	85
Total tax paid	-136	-167	-153	-194
Cash flow from operating activities	241	190	411	712
Capital expenditure	-257	-442	-406	-200
Chg in investments	0	-33	0	0
Cash flow from investing activities	-257	-475	-406	-200
Free cash flow	-16	-286	5	512
Equity raised/(repaid)	27	31	41	51
Dividend (incl. tax)	-50	-57	-73	-92
Cash flow from financing activities	-22	-26	138	-211
Net chg in cash	-39	-312	143	301

Valuation Ratios

	FY12	FY13	FY14E	FY15E
Per Share data				
EPS (INR)	14.8	17.1	19.5	23.8
Growth, %	151.8	15.3	14.2	21.9
Book NAV/share (INR)	85.6	100.4	117.0	137.1
FDEPS (INR)	14.8	17.1	19.5	23.8
CEPS (INR)	17.2	19.8	23.5	28.3
CFPS (INR)	9.0	7.3	25.2	22.9
DPS (INR)	1.8	2.0	2.4	3.1
Return ratios				
Return on assets (%)	13.1	13.8	13.1	13.6
Return on equity (%)	17.3	17.0	16.7	17.4
Return on capital employed (%)	18.8	18.4	16.9	17.1
Turnover ratios				
Asset turnover (x)	4.8	4.0	3.5	3.6
Sales/Total assets (x)	2.5	2.6	2.3	2.2
Sales/Net FA (x)	9.1	7.4	5.9	5.9
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Working capital days	39.9	48.6	53.8	50.5
Liquidity ratios				
Current ratio (x)	2.6	2.4	2.8	3.0
Quick ratio (x)	1.7	1.7	2.0	2.3
Interest cover (x)	704.8	1,863.4	55.7	66.2
Dividend cover (x)	8.5	8.6	8.1	7.7
Net debt/Equity (%)	(19.6)	(4.0)	(3.0)	(17.0)
Valuation				
PER (x)	34.4	29.8	26.1	21.4
Price/Book (x)	6.0	5.1	4.4	3.7
Yield (%)	0.3	0.4	0.5	0.6
EV/Net sales (x)	1.7	1.6	1.5	1.3
EV/EBITDA (x)	23.3	19.7	17.4	14.2
EV/EBIT (x)	26.2	22.1	20.1	16.3

Recommendation History



Source: PhillipCapital India Research

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