

Dated : 31st Dec. 2018

ACCUMULATE

Price ₹	268
Accumulate	
Upside	-
Div Yield	-
Tenure	2-3 Years
Sensex	36068.33
Nifty	10862.55
Group/Index	B / S&P BSE Small Cap

Stock Details

M.Cap (₹ in cr)	537
Equity (₹ In cr)	20.02
52 wk H/L ₹	315.50/191
Face Value ₹	10.00
NSE code	ADFFOODS
BSE code	519183

Key Valuation Ratios

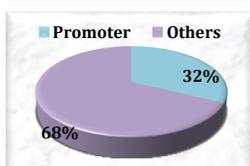
RONW	13%
P/E	21.97
P/BV	2.8
EV/EBIDTA	10.74

IN ₹

Key Financial

EV (₹ in cr)	519.61
BV (₹ in cr)	95.69
NW (₹ in cr)	191.57
Adj.EPS (TTM)	12.20

Share Holding Pattern



1 day 5 days 1 month 6 months YTD 1 year 5 years Max



Investment Rationale

Promoter stake sale - Not A Big Constraint for company's growth ahead

Stock was continuously under pressure in past one year mainly due to decreased in Promoter Stake from 51% in FY16 to 30.3% in June-18 Quarter.

Company founder late Mr. Hariram have two sons late Mr. Ramesh and Mr. Ashok. Mr. Ramesh was chairman till 2013-2014 till his death. After his death Mr. Ashok become chairman. Now company is run by Mr. Bimal Thakkar who is son of late Mr. Ramesh as Managing director since a decade and also the Executive Chairman after the resignation of his uncle Ashok Thakkar and his real brother Bhavesh Thakkar from the company in May 2018. Further, **outgoing chairman Mr. Ashok thakkar and Mishal Ashok thakkar sell their stake due to any family dispute or whatever the reason can't say, hence nearly 20% stake was reduced.**

This also marks the entry of **Dangi Group through Alpna Dangi and Mentor Capital Limited** who bought 14.32% stake in the company out of the 26.22% stake sold by Ashok Thakkar, Mishal Ashok Thakkar, Bhavesh Thakkar and Priyanka Bhavesh Thakkar. However, Present chairman Mr. Bimal has not sold any single share of ADF FOODS in last 5 year and now started increasing their stake.

Considering above, we can say that leaving of company members does not became a big obstacle for company because Mr. Bimal who is son of Mr. Ramesh Thakkar has no further intentions to reduce promoter stake. Although, he is more aggressive for growth and looking for More Opportunities in Domestic as well as International Market. In last Buyback offer in FY2018 promoter didn't participated hence promoter stake increased to 32.31 % in SEP2018 from 30.3 % JUNE2018.

Well penetrated brands - Scaling up Domestic business

Company exports its products to almost 52 with offerings in US constitute of core brands like **Nate's, Ashoka, Truly Indian and PJ's** and in UK as **Brand Soul**. ADF has been successful in launching new products in major supermarket chains and natural grocery stores across US and expect to launch new products in next few years too. Similarly, its brands **Camel and Aeroplane** have strong presence in Middle-East. Moreover, it has proven track record of developing domestic brands and re-entered under its **umbrella brand SOUL** which now accessible on ecommerce sites like **FlipKart, Grofers and will be soon available on Amazon**. This segment currently is 5% revenues and is incurring losses at EBIDTA level. Although, **company is confident of ramping up the domestic business in market with its innovative and healthy range of products in next couple of years.**

Outlook - Way Forward

► Many Recent Launch of Ready to eat & other product and Launch in ecommerce sites like **FlipKart online supermarket, Big basket, Grofers will provide explosive growth in coming years**

► Frozen Product has good Margin and % share of this product is increasing in Domestic and international market, in last one year it increased from 25% to 40% of Total Revenue.

► 95 % of revenue comes from international business includes US Subsidiary and 5 % comes from domestic business. Though, there is scope to grow domestic business & **expect business to contribute 25 % of sales by FY20.**

VALUATION (₹ In Cr except per share)

FY 21Est. Earnings	45.36
Equity Share Capital	20.02
FV	10.00
No. of Equity Shares	2.00
EPS(FY21Est.)	22.66
Estimated Price/share (dis.@10% for 2yr)	375

Note: P/E has been estimated at 20x

Corporate Governance Transparency Ratio's

Year End	201803	201703	201603	201503
Tax Rate %	43.64	35.84	39.02	24.32
Rece. days	67.00	64.00	60.00	58.00
Div. Pay. %	-	36.33	-	47.35

- ▶ Goal is to scale the **US subsidiary to \$15 Mn by FY 20**
- ▶ Modern trade and smart trade is expected to contribute 30%-40% to total revenues in few years
- ▶ Concentrating on **packaged foods and frozen foods market in India in the next five years**

Scouting for opportunities

Company has done a turnover of ₹100 crores in 2010 which has increased to ₹208 crores in FY 18, is not substantially improved in past few years. However, through these years company has managed to pare down debt substantially and has come from ₹ 42 crores to ₹1 crores in FY 18, **enables company to improve its return profile going forward**

Looking ahead, company expects revenue to grow at a CAGR of 15% to ₹ 400 crores by FY 21 driven by volume growth of 10-12% in overall revenue led by volume growth in high margin frozen food segment. Also, recent capex of ₹ 12 crore to enhance frozen food capacity at its Nadiad plant will help bolster revenue growth over the next few years.

In addition, company has taken **buyback of ₹ 30 crore in the current fiscal** comes close on the heels of a previous buyback of ₹ 18 crore. As on 19th September 2018, company bought back an aggregate of 11,78,742 equity shares, utilizing total of 29,99,12,542/- which represents 99.97% of maximum buyback size. Equity shares were bought back at an average price of ₹ 254.43 per equity share. Company has adjusted an amount of ₹1,17,87,420/- against equity share capital and ₹ 28,84,25,043/- against security premium, implies **that management has confidence in the future cash flow generation. Moreover, management have guided that they are looking for opportunities to grow inorganically through acquisitions, would launch the company to another level of growth.**

Acquires US based Elena Food for \$5m - Business getting back on track

ADF Foods acquired Elena's Foods in FY 11, an US company manufacturing and distributing organic Mexican foods across the mainstream market in the US. This acquisition brought in popular international brands like **PJ's organic and Nate** to its basket. However, ADF incurred cumulative loss of ₹ 35 crores during the period FY11-16 due to operational losses and product. Finally, in December FY 16, company decided to shutdown manufacturing at Elena and transitioned from self manufacturing to third party contract manufacturing **which will help it to make considerable savings, improve gross margin and reduce the break-even period. This proved to be a savior for its operations as the profitability decline was arrested and would be turnaround the US operations from FY18 onwards. With the contract manufacturing model, company has been able to expand its margins and brought them back to pre USA adventure levels to 15-16%.**

RESULTS CORNER

Company has recorded revenue from operations (net) of ₹208.92 crore as against ₹200.84 crore in the previous year. The net profit (after tax and extra ordinary items) for the financial year was ₹18.07 crore, as against ₹14.58 crore during the previous year recording an increase over 20%. The improvement in the profitability could be achieved on account of improvement in US operations through effective cost control measures.

Tabular presentation

Quarterly & Yearly Results
Analysis

Particulars	Results Snapshot						₹ in crores	
	Quarter Ended			% change	% change	Year Ended		% change
	201809	201806	201709	Q-0-Q	Y-0-Y	2018	2017	Y-0-Y
Revenue	63.10	51.41	48.16	22.74%	31.02%	208.80	200.84	3.96%
EBITDA	16.44	10.11	10.10	62.61%	62.77%	40.01	28.22	41.78%
EBITDA %	26.05%	19.67%	20.97%	-	-	19.16%	14.05%	-
PBT	15.17	8.92	8.78	70.07%	72.78%	32.06	22.73	41.05%
PBT%	24.04%	17.35%	18.23%	-	-	15.35%	11.32%	35.67%
PAT	10.36	6.77	5.92	53.03%	75.00%	18.07	14.59	23.85%
PAT %	16.42%	13.17%	12.29%	-	-	8.65%	7.26%	19.13%
EPS	5.18	3.2	2.79	61.88%	85.66%	8.52	6.88	23.84%

STRENGTHS, RISKS & CONCERNS

Strengths & Opportunities

- Wide Product Portfolio that offers healthy and tasty products at affordable prices
- Strong overseas distribution network that allows wide reach and coverage in target markets.
- Company has several tie-ups in UK, US, Middle East, Australia, Canada and Asia, to ensure extensive distribution of products.
- One of the top 3 companies in the world in the Ethnic Indian Foods Segment.
- Untapped market with strong growth potential
- Convenience needs of dual income families

Threats, Risks and Concerns

Procurement risk

Adequate availability of key raw materials at the right prices is crucial for the Company. The major raw material being agro based, availability of same depends on the vagaries of nature. Therefore, any disruption in the supply due to a natural or other calamity or violent changes in the cost structure could adversely affect the Company's ability to reach its consumers with the right value proposition. However, the Company is adopting best possible measures to ensure constant supply at right prices.

Intense competition from unorganized sector

One of the characteristics of this industry is the presence of unorganized sector offering products in loose unbranded form which intensifies competition. However, the branded goods are getting more popular and accepted with the consumers. Company has invested significantly in building strong brands which helps differentiate its products.

Exchange Rate Fluctuation

Company being engaged in exports, derives approximately 98% of its revenue from export sales. An appreciation of the Indian Rupee can adversely impact the Company's exports. The Company manages this financial risk through booking of forward contracts in the range of approximately 50% of projected sales

COMPANY OVERVIEW

ADF Foods Ltd engages in manufacturing Ethnic Indian pickles, chutneys, canned foods frozen foods and spices under various Brand Names. The company started as a small retail store selling Dry Fruits & Nuts. ADF's international brands include Ashoka, Camel, Aeroplane and Truly Indian. Incorporated in 1990, the company has two facilities based in Nadiad and Nasik. Continuing with its passion to discover potential areas for penetration, the Company is tapping new markets and constantly innovating and renovating the products in its portfolio to meet changing trends and preferences of the Global consumers. The Company has well established brands and strong distribution networks in Europe, USA, Middle East Countries, Australia, Canada and Asia.

INDUSTRY SCENARIO

Food processing industry in India has been slated for accelerated growth. It is projected to be a futuristic industry and it is anticipated that, over the years, it will emerge as a leading player in the global markets. Availability of raw materials, changing lifestyles and relaxation in Government policies have given a considerable push to the industry's growth.

The Indian food processing industry accounts for 32 % of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 % of Gross Value Added (GVA) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment. The Indian gourmet food market is currently valued at US\$ 1.3 billion and is growing at a Compound Annual Growth Rate (CAGR) of 20 %. India's organic food market is expected to increase by three times by 2020. The Confederation of Indian Industry (CII) estimates that the food processing sectors have the potential to attract as much as US\$ 33 billion of investment over the next 10 years and also to generate employment of nine million person-days.

Online food ordering business in India is in its nascent stage, but witnessing exponential growth. The organized food business in India is worth US\$ 48 billion, of which food delivery is valued at US\$ 15 billion. With online food delivery players like Food Panda, Zomato, TinyOwl and Swiggy building scale through partnerships, the organized food business has a huge potential and a promising future.

The Government of India has been instrumental in the growth and development of the food processing industry. The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business. It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses and 100 % export oriented units.

Valuation Conclusion

ADF is gaining shelf space in some dominant Mexican grocery stores in US and even in Indian grocery stores. Moreover, company has proven track record of developing domestic brands and re-entered under its umbrella brand **SOUL** which now **accessible on ecommerce sites like FlipKart, Grofers and will be soon available on Amazon**. In terms of contribution, 95 % of revenue comes from international business includes US Subsidiary and 5 % comes from domestic business. Although, company is confident of ramping up the domestic business in market with its innovative and healthy range of products & expect **business to contribute 25 % of sales by FY20**.

Closure of manufacturing at Elena and transitioned from self manufacturing to third party contract manufacturing helps to make **considerable savings, improve gross margin and reduce the break-even period and would improve the performance on all operating metrics from FY 18 onwards. With the contract manufacturing model, company has been able to expand its margins and brought them back to pre USA adventure levels to 15-16%**.

Looking forward, **company expect revenue to grow at a CAGR of 15% to ₹ 400 crores by FY 21 driven by volume growth of 10-12% in overall revenue led by volume growth in high margin frozen food segment**. Also, recent capex of **₹ 12 crore to enhance frozen food capacity at its Nadiad plant will help bolster revenue growth over the next few years**.

ADF Food's revenue growth are expected to be in the teens in upcoming years, indicating a solid future ahead. Unless expenses grow at the same level, top-line growth should lead to robust cash flows. Therefore, we recommend to Accumulate the stock at current levels to achieve long term gains.

Quarterly Results (₹ in cr except per share)							
Particulars	LTM	201809	201806	201803	201712		
Net Sales	226.10	63.11	51.41	58.87	52.70		
EBITDA	48.40	16.45	10.14	12.22	9.59		
Depreciation	6.80	1.07	1.08	3.50	1.12		
Op Income	41.60	15.38	9.06	8.72	8.47		
Misc.Inc (Exp.)	6.40	2.06	1.60	2.54	0.23		
Interest Exp	0.90	0.21	0.13	0.17	0.43		
EBT	40.70	15.17	8.93	8.55	8.04		
Taxes	16.30	4.81	2.15	1.66	7.71		
Net Inc(Reg)	24.40	10.36	6.78	6.88	0.33		
Extraord. Items	-	-	-	-	-		
Rep Net Inc	24.40	10.36	6.78	6.88	0.33		
EPS	11.80	5.17	3.20	3.25	0.16		
Adj. EPS	12.20	5.20	3.40	3.40	0.20		
Income Statement and Estimates (₹ in Cr except per share)							
Particulars	201503	201603	201703	201803	2019E	2020E	2021E
Sales	194.97	203.11	200.84	208.81	235.51	283.98	365.63
Other operating Income	8.83	6.94	-	-	-	-	-
Total Inc. from oper.	203.80	210.05	200.84	208.81	235.51	283.98	365.63
Operating EBITA	4.26	7.76	17.33	22.53	28.35	38.10	52.51
Profit & Loss							
Total Inc. from operations	203.80	210.05	200.84	208.81	235.51	283.98	365.63
TOTAL EXPENDITURE	188.18	190.33	178.95	179.44	199.95	238.12	304.57
EBITDA	15.62	19.72	21.89	29.37	35.56	45.86	61.06
Depreciation	(11.36)	(11.96)	(4.56)	(6.84)	(7.21)	(7.76)	(8.55)
Rep. profit before othinc., fin.cost,tax & excp. Item	4.26	7.76	17.33	22.53	28.35	38.10	52.51
Goodwill amortization	-	-	-	-	-	-	-
Rep. profit before othinc., fin.cost,tax & excp. Item	4.26	7.76	17.33	22.53	28.35	38.10	52.51
OTHER INCOME	8.81	4.45	6.36	10.66	11.39	12.68	13.48
Profit from ord. act.							
Before Fin.Cost,TAX & Exp.Items	13.07	12.21	23.69	33.19	39.73	50.78	65.99
Net financials							
Interest income	-	-	-	-	-	-	-
Interest expenses	(1.39)	(1.37)	(0.95)	(1.13)	(0.88)	(0.99)	(1.19)
Net Financial Items	(1.39)	(1.37)	(0.95)	(1.13)	(0.88)	(0.99)	(1.19)
Rep. Pre-tax profit	11.68	10.84	22.74	32.06	38.85	49.79	64.81
Reported Tax charge	(2.84)	(4.23)	(8.15)	(13.99)	(11.66)	(14.94)	(19.44)
Reported Net profit	8.84	6.61	14.59	18.07	27.20	34.85	45.36
Minorities	-	-	-	-	-	-	-
P/L OF ASSOCIATE CO.	-	-	-	-	-	-	-
Rep. NP after min. int.	8.84	6.61	14.59	18.07	27.20	34.85	45.36
Extra Ordinary income	1.75	-	-	-	-	-	-
Reported Net Income after extra ord. items	7.09	6.61	14.59	18.07	27.20	34.85	45.36
EPS and Dividend							
Dividend Paid	(3.36)	-	(5.30)	-	-	-	-
Retained earnings	3.73	6.61	9.29	18.07	27.20	34.85	45.36
Reported EPS	3.17	2.95	6.88	8.52	13.58	17.41	22.66
Adjusted Basic EPS	3.34	3.12	6.88	8.52	12.83	16.44	21.40
DPS - originally declared	1.50	-	2.50	-	-	-	-
Number Of Shares							
Opening Balance	22.38	22.38	22.38	21.20	21.20	20.02	20.02
Bought Back	-	-	1.18	-	1.18	-	-
Closing Balance	22.38	22.38	21.20	21.20	20.02	20.02	20.02
FV	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Wtd. Avg. no. of shares	2.24	2.24	2.12	2.12	2.00	2.00	2.00

Note:- The figures shown in the brackets means **NEGATIVE**.

BALANCE SHEET							
Particulars	201503	201603	201703	201803	2019E	2020E	2021E
Equity & Liabilities							
Shareholders' Fund							
Share Capital	22.38	22.38	21.20	21.20	20.02	20.02	20.02
Reserves and Surplus	130.59	136.36	145.81	153.23	180.03	214.88	260.24
Minority Interests	-	-	-	-	-	-	-
Total Shareholders' Fund	152.97	158.74	167.01	174.43	200.05	234.90	280.26
Non-Current Liabilities							
Long-term Borrowings	2.07	0.26	0.10	0.03	0.03	0.04	0.04
Other Long term Liab.	-	-	-	-	-	-	-
Deferred Tax Liability	7.38	7.89	11.63	7.82	8.80	9.90	11.13
Long term Provisions	1.12	1.36	1.84	2.18	2.62	3.14	3.77
Total Non-Current Liab.	10.57	9.51	13.57	10.03	11.45	13.07	14.94
Current Liabilities							
Short term Borrowings	6.85	5.38	4.44	1.30	1.43	1.57	1.73
Trade Payables	10.33	10.64	10.46	13.82	18.84	23.06	31.08
Other current liability	16.68	8.03	7.13	13.37	15.07	18.17	23.40
Short term Provisions	4.47	0.88	0.16	0.21	0.23	0.25	0.28
Total current Liab.	38.33	24.93	22.19	28.70	35.57	43.06	56.49
Total Equity & Liab.	201.87	193.18	202.77	213.16	247.07	291.06	351.72
Assets							
Non-Current Assets							
Fixed Assets							
Tangible fixed Assets	94.84	83.14	82.32	80.24	84.80	91.24	99.14
G/W On Consolidation	-	-	-	-	-	-	-
Non-current Investment	-	-	-	-	-	-	-
Long term L&A	2.72	3.86	1.60	1.60	1.79	2.01	2.25
Other Non current Ass.	0.00	0.15	5.86	5.11	5.37	5.63	5.92
Deferred tax receivable	10.42	14.37	14.63	9.71	18.70	24.60	44.60
Total Non-Current Ass.	107.98	101.52	104.41	96.66	110.66	123.48	151.90
Current Assets							
Current Investments	8.00	8.00	8.49	-	-	-	-
Inventories	27.71	24.86	24.98	23.62	24.73	31.24	36.56
Trade Receivables	32.56	36.45	33.95	42.95	49.46	61.06	69.47
Cash & cash Equivalents	10.87	9.16	13.67	31.63	39.63	48.16	56.89
Short Term L&A	14.75	13.18	0.22	0.21	2.20	2.60	5.30
Other current Assets	0.00	0.00	17.01	18.05	20.35	24.54	31.59
Total current Assets	93.89	91.65	98.32	116.46	136.36	167.58	199.81
Total Assets	201.87	193.18	202.77	213.16	247.07	291.06	351.72

Cash & cash equivalents	10.87	9.16	13.67	31.63	39.63	48.16	56.89
Other int. bearing assets	8.00	8.00	8.49	-	-	-	-
Interest-bearing debt	25.60	13.67	11.67	14.70	16.54	19.79	25.17
Net interest-bearing debt	6.73	(3.49)	(10.49)	(16.93)	(23.09)	(28.37)	(31.71)
Net gearing (%)	4.40%	-	-	-	-	-	-

Investments							
Tangible assets							
Gross capex	(12.84)	(1.71)	(4.52)	(4.88)	(11.78)	(14.20)	(16.45)
Sale of fixed assets	0.30	1.98	1.23	-	-	-	-
Net capex	(12.54)	0.27	(3.29)	(4.88)	(11.78)	(14.20)	(16.45)
Depreciation tangibles	(11.36)	(11.96)	(4.56)	(6.84)	(7.21)	(7.76)	(8.55)

Note:- The figures shown in the brackets means **NEGATIVE**.

CASH FLOW ANALYSIS						
Particulars	201603	201703	201803	2019E	2020E	2021E
EBIT	12.21	23.69	33.19	39.73	50.78	65.99
Depreciation	11.96	4.56	6.84	7.21	7.76	8.55
Depreciation (ex goodwill)	11.96	4.56	6.84	7.21	7.76	8.55
Movement in Inventories	2.85	(1.97)	1.35	(1.11)	(6.51)	(5.33)
Movement in Debtors	(3.89)	1.71	(8.51)	(6.51)	(11.60)	(8.41)
Movement in Creditors	(0.31)	(0.18)	3.34	(5.02)	4.22	8.02
Other W.C Increase/Decrease	(3.20)	(2.84)	2.05	-	-	-
Change in Working capital	(4.55)	(3.28)	(1.77)	(12.64)	(13.89)	(5.72)
Tax paid	(4.23)	(8.15)	(13.99)	(11.66)	(14.94)	(19.44)
Operating Cash Flow	15.39	16.82	24.27	22.66	29.72	49.38
Net interest	(1.37)	(0.95)	(1.13)	(0.88)	(0.99)	(1.19)
Cash Earnings	14.02	15.87	23.14	21.77	28.73	48.19
Gross CapEx	(1.71)	(4.52)	(4.88)	(11.78)	(14.20)	(16.45)
Sale of fixed assets	1.98	1.23	-	-	-	-
Net CapEx	0.27	(3.29)	(4.88)	(11.78)	(14.20)	(16.45)
Free Cash Flow pre dividend	14.29	12.58	18.26	10.00	14.53	31.74
Dividend	-	(5.30)	-	0.00	-	-
Free Cash Flow post Dividend	14.29	7.28	18.26	10.00	14.53	31.74
Net acquisition/disposals	-	-	-	-	-	-
Net cash flow	14.29	7.28	18.26	10.00	14.53	31.74

Note: 2015 details has not been updated because of insufficient data

RATIO ANALYSIS						
Particulars	201603	201703	201803	2019E	2020E	2021E
Return on assets	3.35%	7.37%	8.69%	11.82%	12.95%	14.12%
Return on equity	4.24%	8.96%	10.58%	14.53%	16.03%	17.61%
ROCE	4.41%	9.32%	11.59%	13.58%	15.74%	18.39%
EBIT Margin	5.81%	11.80%	15.89%	16.87%	17.88%	18.05%
Pre tax margin	5.16%	11.32%	15.35%	16.50%	17.53%	17.72%
Net Profit Margin	3.15%	7.26%	8.65%	11.55%	12.27%	12.41%
Total asset turnover	1.06	1.01	1.00	1.02	1.06	1.14
Fixed asset turnover	2.36	2.43	2.57	2.85	3.23	3.84
Equity turnover	1.35	1.23	1.22	1.26	1.31	1.42
Current Ratio	3.68	4.43	4.06	3.83	3.89	3.54
Quick Ratio	2.68	3.31	3.23	3.14	3.17	2.89
Cash Ratio	0.37	0.62	1.10	1.11	1.12	1.01
Receivable Days	59.96	63.97	67.21	71.61	71.02	65.15
Inventory Days	50.41	50.83	49.43	44.13	42.89	40.63
Payable Days	20.41	21.50	24.88	29.65	31.26	31.88
Conversion Cycle (Days)	89.95	93.30	91.76	86.09	82.66	73.89
Financial Leverage Effect	2.98	1.50	1.63	1.31	1.32	1.35
Debt to Capital	0.08	0.07	0.08	0.08	0.08	0.08
Debt to Equity	0.09	0.07	0.08	0.08	0.08	0.09

Note:- The figures shown in the brackets means **NEGATIVE**.

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