

13<sup>th</sup> August 2020

CMP – ₹672/-

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**Company Background**

Affiliated to ConAgra Foods Inc, one of world's largest food companies, Agro Tech Foods Ltd (ATFL) is engaged in the business of marketing food and food ingredients to retail and institutional customers. The company operates in three segments: Sourcing and Institutional Business, Branded Foods and Others. Sourcing and Institutional Business segment includes oils and agricultural raw materials procurement, crystal and rath bulk packs, the seed buying and processing operations, food service and poultry feed ingredients. The Branded Foods segment includes products sold under the brands of Sundrop, Crystal etc.

**Important Statistics**

<b>M.Cap (₹ mn)</b>	₹16,121
<b>52 Week H/L (₹)</b>	738.1/350.0
<b>NSE Code</b>	ATFL
<b>BSE Code</b>	500215

**Investment Thesis**

➤ **Edible oil though defocused will be continued** – ATFL, largely an edible oil company, plans to become a profitable “Total Food Company” and has diversified its revenue from edible oil. Given low double-digit gross margin in the edible oil segment, the company envisaged pressure from rising competition and its inability to justify the premium pricing for its edible oil offering. So, it has gradually been reducing its focus on edible oil (~69% of revenue now); consequently, its performance has been muted in the last few years.

➤ **Strategic focus on driving non-edible oil segments to aid margin expansion** – In its quest to become a Total Food Company, ATFL has expanded its non-edible oil coverage and aims to expand its presence in strategic segments such as peanut butter, ready to eat snacks (bagged snacks; growing healthy), ready to cook snacks (mainly popcorn), breakfast cereal (forayed in FY19) and chocolate (entered into peanut-based chocolate in FY20). Led by steady expansion in the non-edible oil segment, EBITDA margins expanded from 2% in FY10 to ~8% in FY19. In the last 10 years, its non-edible oil portfolio grew at a CAGR of ~15%, below the management's expectation of 20-25%; but on an expanded portfolio, the management is confident of acceleration in growth. Management aims to push this food business to over 50% of its total revenue which will help margin expansion as it has high margin products.

➤ **Strong growth in Popcorn combined with roll out of Sweet Corn provides a platform for robust category growth for ATFL** – Company's ready to cook category “Act 11” has already evolved as a brand with offerings like Nachos, Bakes, and Diet Popcorn that range from the sunrise to new-age snacking categories.

The Act II Popcorn ‘Tub With The Trailer’, in association with Zee Studio and Dharma Productions has also been launched in 2020, is synonymous with enhancing people's movie-watching experience at their homes. We believe these offerings will further strengthen company's core product offering. RTC (high margin business) coupled with Peanut butter segment recorded strong volume growth in Q1FY21 which led to 16% YoY growth in foods business.

➤ **Scaling up packaging capacities coupled with launch of new and innovative categories to help improve performance** – In FY20, company entered Extruded cereals and Granola categories with launch of Sundrop Popz and Sundrop Nutrify and countline segment of chocolate Confectionary with launch of Sundrop Duo. Management stated it has been

**Financials**

(₹ mn)

Particular	FY20	FY19
Total Revenue	8355	8237
EBITDA	584	647
PAT	338	343
EPS	14.35	14.63
P/E	46.8	45.9
EV/ EBITDA (x)	27.6	24.8
RoE (%)	8.3%	9.1%
ROCE(%)	9.5%	12.6%
Net Debt/Equity	0.0	0.0

Shareholding pattern (%)	June'20
Promoters	51.8
FII	8.5
DII	3.0
Public & Others	36.8

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received well by consumers and company is planning to scale up packaging facility for these categories, which we feel will help improve financials. Also the RTE category which was hit due to packaging issues in H1FY20, due to packaging issues to be sorted with restart of Unnao plant.

- **Diversified product basket + expansion of distribution base to improve return ratios** – As of FY20, company's distributor reach stood at 1200 with retail outlets at 500,000 however management is focused and targeting 1mn outlets going ahead. Company launched products across categories and price points in last few quarters which would increase its distribution reach. High margin products such as sweet corn, Coca nut spread, Coconut Duo will expand its MT presence while low priced products will expand its GT reach. We believe, its diversified product basket with new launches receiving good response coupled with increased distributor reach will improve return ratios.
- **Q1FY21 numbers better than expectation** – Company reported topline of ₹2034mn up 2.8% YoY driven by 16% YoY volume and value growth in foods business contributing to the extent of 31% to the total revenue. The Company's food business growth was driven on the back of increased in-home consumption in Ready to cook snacks and Spreads business while cereals & confectionary (new Portfolio) also contributed to the food business in 1QFY21.

Company's edible oil business which comprises of Sundrop edible oil degrew by 10% YoY in volumes while value declined by 3% YoY.

EBITDA margin of the company expanded by 293 bps to 10.4% YoY led by reduction in Ad & P expense and other expense which were degrew by 17% and 15% YoY in the quarter. PAT grew by 78.5% YoY to ₹125mn while PAT margin stood at 6.2% in the quarter.

In confectionary business, company is in process of maximising its learning wrt category performance, supply chain and other factors and will take some time to understand the category.

- **Key Risks** – Sharp rise in cost of its raw materials, intense competition in its key categories, 2<sup>nd</sup> or 3<sup>rd</sup> wave of Covid-19.

#### View

ATFL posted strong EBITDA and PAT growth of ~48% YoY and ~78% YoY due to decline in other expenses, A & P spends. Going forward Ready to Cook, Spreads, chocolate spreads, Cereals and Confectionary are expected to post good numbers led by increased in home consumption. We expect the company will continue A & P spends but at a reduced level while savings in other expense and lower fixed costs will ensure EBITDA expansion. We believe company will achieve higher growth on the back of its focus on high margin Ready to cook and peanuts category, increased distribution reach and new launches in niche categories. **At CMP of 672, company is trading at ~46x P/E FY20 which is at discount compared to listed peers and thus recommend the stock as "Accumulate On Dips".**

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## Financials

(₹ mn)

Particulars	Q1FY21	Q4FY20	Q1FY20	YoY	QoQ
<b>Net Sales</b>	<b>2,034</b>	<b>2,048</b>	<b>1,977</b>	<b>2.9%</b>	<b>-0.7%</b>
COGS	1,369	1,437	1,329	3.0%	-4.7%
Employee Cost	145	143	129	11.9%	-1.6%
Other Expenses	309	363	372	-16.8%	-14.7%
Total Expenditure	1,823	1,942	1,830	-0.4%	-6.1%
<b>EBITDA</b>	<b>211</b>	<b>106</b>	<b>147</b>	<b>43.5%</b>	<b>99.7%</b>
<b>EBITDA Margin</b>	<b>10.4%</b>	<b>5.2%</b>	<b>7.4%</b>	<b>293bps</b>	<b>521bps</b>
Depreciation	43.2	49.9	46.8	-7.7%	-13.4%
<b>EBIT</b>	<b>168</b>	<b>56</b>	<b>100</b>	<b>67.5%</b>	<b>201%</b>
<b>EBIT Margin</b>	<b>8.2%</b>	<b>2.7%</b>	<b>5.1%</b>	<b>318bps</b>	<b>552bps</b>
Other Income	3.9	4.5	11	-64.5%	-13.3%
Interest	4.2	4.3	4.5	-6.7%	-2.3%
PBT	167	56	107	57.0%	199.6%
Tax	41.9	16.6	36.3	15.4%	152.4%
<b>PAT</b>	<b>125</b>	<b>39</b>	<b>70</b>	<b>78.5%</b>	<b>219.6%</b>
<b>PAT Margin</b>	<b>6.2%</b>	<b>1.9%</b>	<b>3.6%</b>	<b>261 bps</b>	<b>425 bps</b>
EPS (₹)	5.30	1.66	2.98	77.9%	219.3%

Source: Company Data, Way2Wealth Inst Equity

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**Disclosure of Interest Statement Agro Tech Foods Ltd (ATFL) as on August 13<sup>th</sup>, 2020**

Name of the Security	Agro Tech Foods Ltd (ATFL)
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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