



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Parag Milk Foods Q2FY25 consolidated revenues came in at ₹871 Cr, up 15% QoQ and 9.2% YoY.
- PBIDT (Ex-OI) for Q2FY25 stood at ₹69.2 Cr, up 24% QoQ and 31% YoY.
- PBIDTM (Ex-OI) for Q2FY25 came at 7.9%, +57.9 bps QoQ and +133 bps YoY.
- PAT for Q2FY25 stood at ₹22 Cr, up 1.4% QoQ and 24.5% YoY.
- Revenue Mix for H1FY25:
Milk: 10%, Core Categories: 57%, New Age Business: 6%, SMP: 17%, Others: 10%
- For Q2FY25, the company witnessed a volume growth of 11% with underlying value growth of 9%.

2. MANAGEMENT COMMENTARY:

- Gross Profit Margin (GPM) expanded by 260 basis points YoY during H1FY25 to 24.8% as against 22.2% in H1FY24, led by benign milk prices and improved value - added product mix
- Normalized tax rates will come to fruition until the end of next year as they still have accumulated losses, after which taxes will be ~25%.
- Core categories of Ghee and Cheese have seen continuous traction throughout and have posted a volume growth of 1% for Q2FY25 and 18% H1FY25.
- Gross Profit Margin (GPM) expanded by 260 basis points YoY during H1FY25 to 24.8% as against 22.2% in H1FY24, led by benign milk prices and improved value - added product mix
- Plan to reach 13-15 lakh retail touch points from current 4.6 lakh by 2027E

3. CONCALL SUMMARY

- The average milk prices during Q2FY25 were at INR 33/litre; down 8% YoY, and H1FY25 milk prices were at INR 32/litre; down 13% YoY while the company handled ~15 lac liters of milk per day.
- The Company has forward integrated into traditional sweet segment under the brand 'Gowardhan'. Currently it has seven delectable sweets range.
- The company plans to incorporate a foreign wholly owned subsidiary (WOS) in Dubai, UAE. This will help the company to expand its reach and build a seamless supply chain operations worldwide to cater the international market.

4. OTHER UPDATES:

- The company has plans to scale up the 'Pride of Cows' by setting up more farms going forward. To start with, it is currently setting up a green field dairy farm spread across 500 acres of land parcel situated 40 kms from Nashik at Bota.
- It aims to build a world class dairy farm that will house around 15,000 cows, almost 5x than the current levels, and the facility at its peak is expected to churn out around 140,000 litres of milk daily. The project has already started and would be completed by 2027.

5. VALUATION AND OUTLOOK:

Parag Foods' earnings grew at a CAGR ~16% over FY19-23. Going forward, we are positive on the future growth prospects of the company which is mainly on the back of its robust distribution network, strong brand equity and constant endeavour to enrich their product portfolio by expanding into newer categories. It aims to further enhance its product mix with higher focus on margin accretive value-added products and new age businesses with constant scale-up of new launches.

With a strong growth outlook, we initiate a "BUY" rating on the stock and value the stock at **19.2x FY26 EPS to arrive at the target of 255**.

RECOMMENDATION - BUY

CMP – 212

TARGET –255 (+20.5%)

Industry	Consumer Food
NSE CODE	PARAGMILK
BSE CODE	539889
Market Cap (₹ Cr)	2551
Shares Outstanding (in Cr)	11.9
52 wk High/Low (₹)	290/150
P/E	25.4
P/BV	2.62
Face Value (₹)	10.00
Book Value (₹)	80.6
EPS (FY24) (₹)	7.6
Dividend Yield (%)	0.0
Debt / Equity	0.7
Interest Coverage	2.39

SHAREHOLDING PATTERN

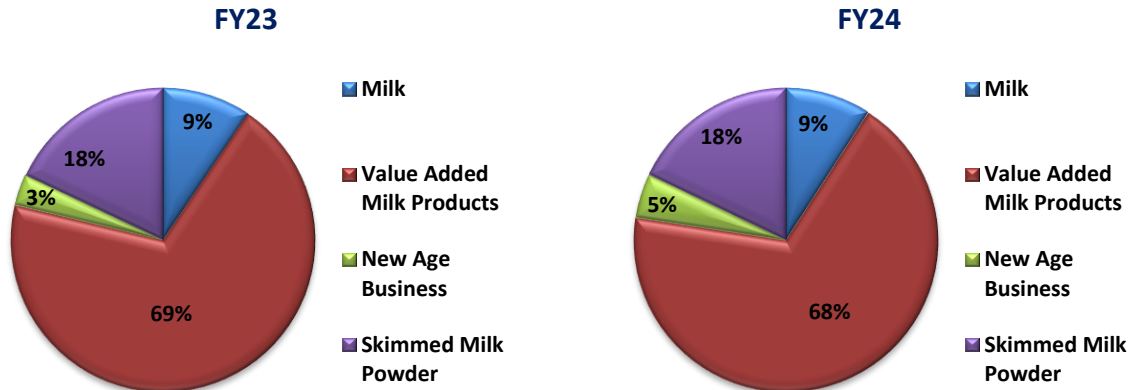
	Sep 24	Jun 24	Mar 24
Promoters	42.61	41.63	42.61
MF/ DII	0.03	0.03	0.07
FII/FPI	10.08	8.83	8.95
Retail & Others	40.44	40.49	40.03
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2024	2025E	2026E
Crete			
Sales	3139	3610	4259
Sales Gr. (%)	8.5	15	15
EBITDA	197	271	319
EBITDA %	6.3	7.5	7.5
PAT	90.6	122	159
EPS (₹)	7.6	10.6	13.3
EPS Gr. (%)	67	39.7	30.0
Valuation			
P/E (x)	21	23	19.2

Historical & Industrial Val Ratios

Historical P/E	21.5
Industry P/E	33.8
Historical P/B	2.9
Industry P/B	3.48


Product Mix:

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23		FY24			FY25			FY24	FY25E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
Net sales	801.0	749.6	798.2	800.8	790.1	757.9	871.3	902	3139	3610
YoY change (%)	42.4	8.5	20.1	8.8	-1.4	1.1	9.2	12.6	8.5	15
Total Expenditures	764	709	745	738	754	702	802	827	2942	3339
EBITDA	37.3	40.4	52.8	62.8	36.5	55.8	69.2	74.9	197	271
YoY growth (%)	-106.4	321.4	39.2	87.4	-2.2	32.0	31.0	19.2	66.6	37.3
Margins (%)	4.7	5.4	6.6	7.8	4.6	7.4	7.9	8.3	6	7.5
Depreciation	17.7	14.8	15.5	15.4	14.6	15.6	18.1	15.5	60.3	66
Interest	12.2	16.6	18.5	20.5	16	18.9	22.6	20	76	73
Other income	9.1	6.1	5.6	5.8	7.6	5.5	7.1	6.5	25	31
PBT	16.5	15.2	24.4	32.8	13.5	26.8	35.6	45.9	86	162.7
Rate (%)	-36	-41	-3	-4	27.4	-1.8	17.8	25	-6	25
Tax	-5.9	-6.2	-0.8	-1.4	3.7	-0.5	6.4	11.5	-5	40.7
Adjusted PAT	22.4	21.4	25.2	34.2	9.58	27.3	29.2	34.4	91	122
EPS in Rs	1.90	1.82	2.15	2.91	0.82	2.29	2.45	2.89	7.59	10.6

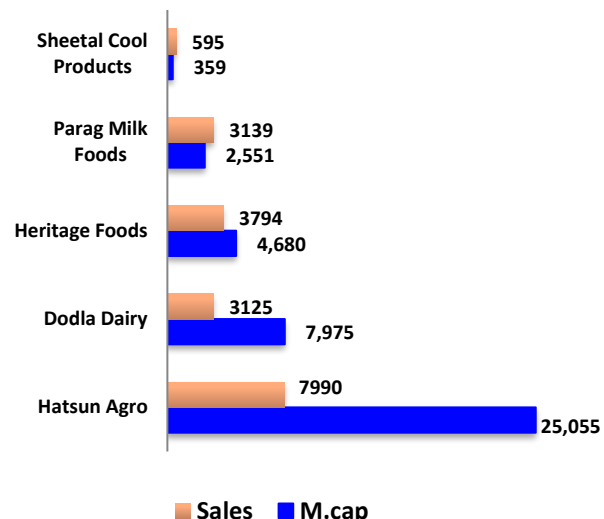
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- India ranks as the top producer and consumer of dairy products globally, contributing to over 25% of the total global dairy production. Indian households allocate nearly 45% of their food budget to dairy and packaged foods and this trend has been steadily increasing. The growing population, changing lifestyle patterns, increasing disposable incomes, and rising health consciousness are the primary factors driving the growth of dairy consumption in India. Even though India is the largest consumer of dairy products, its per capita consumption is still low when compared to global standards, implying enormous potential for further growth.
- The Indian dairy sector offers an opportunity to tap into the rising discretionary consumption in the country. Private dairy companies are well-positioned for substantial growth, supported by key demand drivers and the ongoing shift towards a more organized industry. As consumer preferences evolve towards value-added dairy products, private players should gain. In the medium term, the anticipated decrease in inflationary pressures should drive earnings growth.
- The Indian dairy sector has experienced various obstacles in the last three years. At first, there were demand disruptions due to the pandemic, then milk shortages led to a notable increase in prices. This affected the profitability of dairy companies negatively. Fortunately, there has been some respite lately with a consistent supply of raw milk causing a drop in prices, leading to better operating margins. As a result, a mix of lower inflation and healthy demand will boost earnings for the dairy industry, with private companies reaping the most benefits.

KEY PLAYERS in Dairy Sector



PEER PERFORMANCE

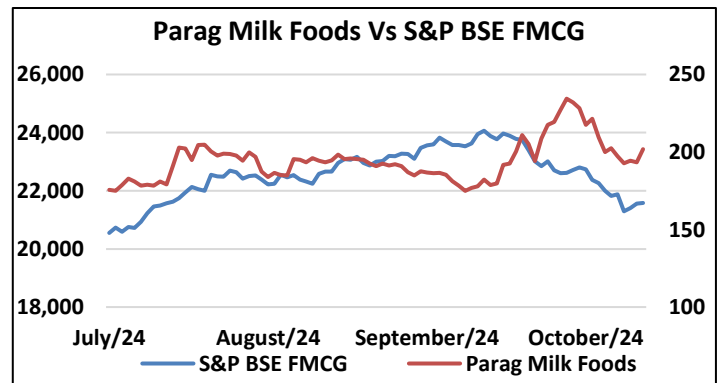
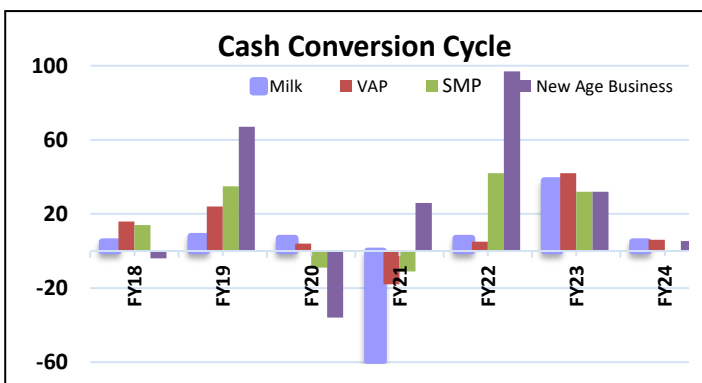
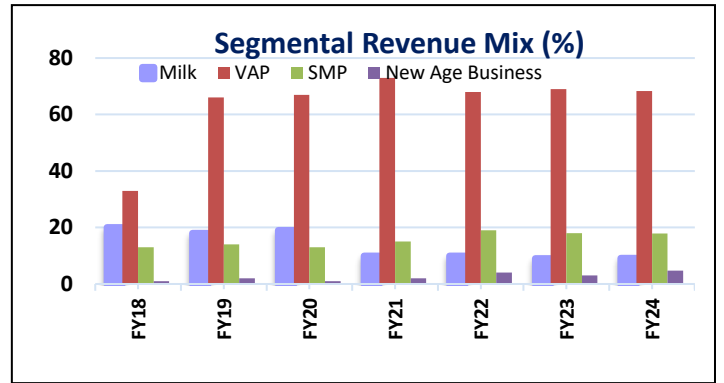
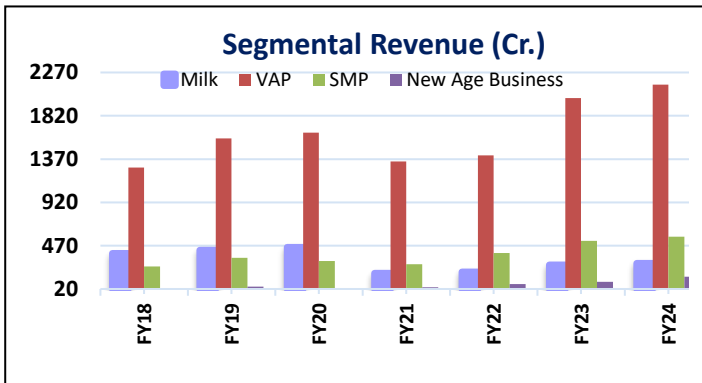
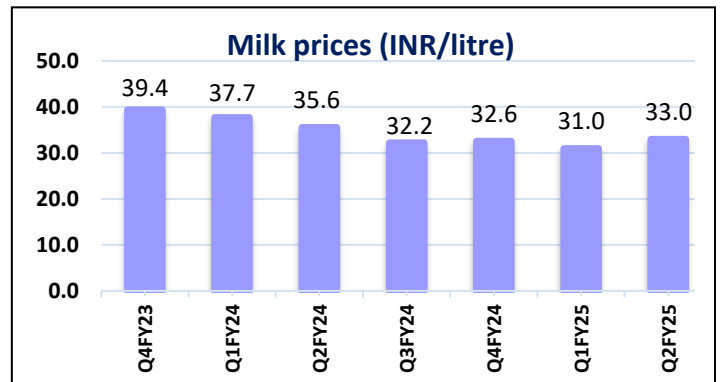
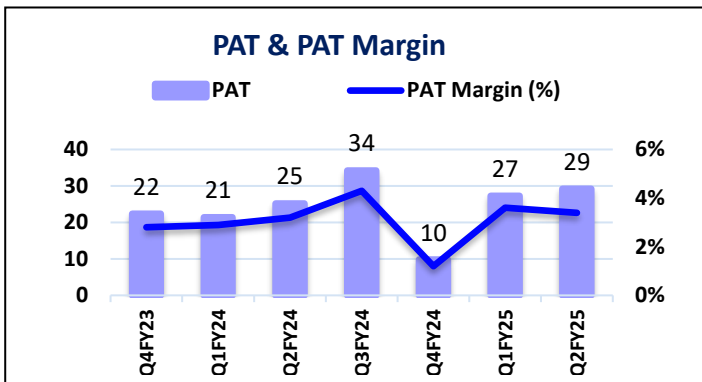
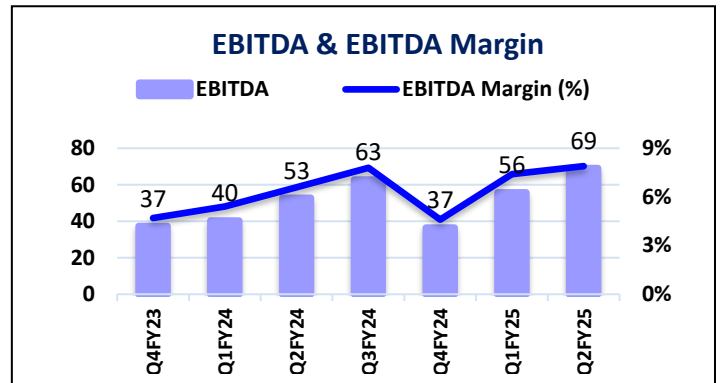
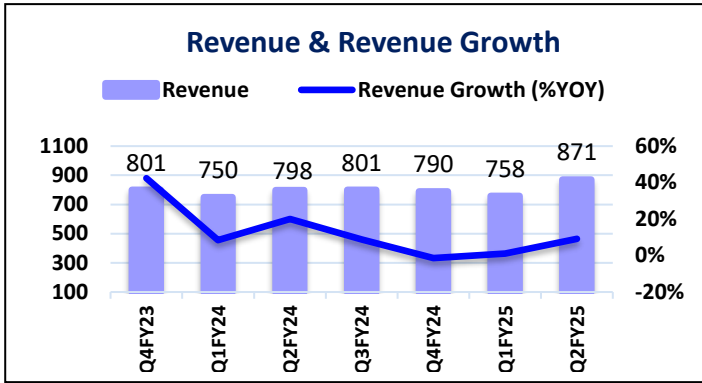
(₹ Cr)

Particulars	Parag Milk Foods Ltd.	Dodla Dairy Ltd.	Hatsun Agro Ltd.	Heritage Foods Ltd.	Sheetal Cool Products Ltd.
Market Cap	2551	7975	25,055	4680	359
Net Sales	3139	3125	7990	3794	353
EBITDA	197	290	899	203	43
PAT	91	167	267	107	21
EBITDA MARGIN %	6.3	9	11	5	12
PAT MARGIN %	2.9	5.3	3.3	2.8	5.9
ROCE %	10.9	22.1	13.2	16.2	18.4
ROE %	10.5	15.5	17.0	13.3	20.8
P/E TTM	25.4	36.8	82.3	26.9	18.4
P/B TTM	2.7	6.2	15.4	5.2	2.9
Dividend Yield %	0.2	0.2	0.5	0.5	0.0
M.Cap/Sales	0.8	2.3	3.0	1.2	1.1

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Avvatar is making strides +62% YoY on a high base of last year and is the only whey protein brand manufactured in India, in a market with significant stickiness.
- Milk prices have seen significant softening over the past 3 qtrs.
- In FY24 they have processed 17LLPD vs 14 last year.
- GM expansion over the past year can be attributed to softening milk prices and improving product mix.
- Continuous expenditure on brand building and marketing is underway.
- They recently entered Vadodara with pride of cows.
- Milk have stabilized after Diwali, but have not decreased further, stabilizing at INR 32-33 per liter.
- Revenue growth guided over the next 4-5 years is to become an INR 100000 mn company, with 25-30% growth in key categories.
- They aim to reach 1.5mn outlets by 2027 vs the current 5 lakhs with a blend of organic and inorganic growth. An INR 5000-6000mn investment capex will be done through internal accruals.
- WC will be maintained at the same level but the no. days will come down to 45. They are targeting a mid-teen margin in the next 4-5 years.
- Normalized tax rates will come to fruition until the end of next year as they still have accumulated losses, after which taxes will be ~25%.
- Inventory levels are now lower than pre covid. The next flush season this upcoming summer is expected to be promising.

RISK / NEGATIVE FACTORS:

- Inadequate supply or lack of availability of milk may lead to delay in production and impact brand equity.
- With changing times the market trends rapidly evolve which necessitate the company to keep in pace with changing consumer needs and accordingly innovate flavors and new products/ categories.

COMPANY RECAP

- Parag Milk Foods Ltd, founded in 1992 is involved in the development and promotion of 100% fresh cow's milk and milk products under international brand names with adverse portfolio in over 10 product categories. They operate under the brands: Gowardhan, Go, Pride of Cows, and Avvatar. Today, it is one of India's leading private dairies. As of FY23, the company has a 20% market share in ghee, and a 35% market share in cheese which are their core categories. Additionally, they have a premium presence in health supplements with the brand Avvatar, and in premium dairy with the brand Pride of Cows, both of which have grown multifold since their introduction, and are an important pillar of growth.
- It also has one of the largest VAP dairy portfolios (that constitutes ~70%of revenues) amongst dairies in India and is the first to launch a B2C made-in-India whey protein. It is also pioneered the concept of farm-to-home premium dairy with Pride of Cows. They boast one of the largest and advanced cow farms in India backed by state-of-the-art infrastructure. With end to-end integration that has scale to boot. It has 3 State of the art manufacturing facilities, 3.4 Mn Litres/day milk processing Capacity, 10 lakh Litres/day whey processing capacity, 110 MT/ day each of Ghee & Cheese & 20 MT / day of paneer capacity.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

Y/E March	2021	2022	2023	2024	2025E	2026E	(₹ Cr)
Revenue from operations	1841.8	2071.8	2892.6	3138.7	3610	4259	
Growth YoY (%)	-24.5	12.5	39.6	8.5	15.0	18.0	
Total Expenditure	1719.2	2510.1	2774.3	2941.6	3339	3939	
(%) of sales	93.3	121.2	95.9	93.7	92.5	92.5	
EBITDA	122.5	-438.4	118.3	197.1	271	319	
EBITDA Growth (%)	-37.8	-406.8	139.2	66.6	37.3	18.0	
EBITDA Margin (%)	7.4	-19.2	5.5	6.3	7.5	7.5	
Depreciation	48.6	53.7	57.3	60.3	66.0	66.0	
EBIT	87.4	-471.1	106.2	136.9	205	253	
EBIT Growth (%)	-47.0	-639.0	122.5	28.9	49.6	24.0	
Net Interest Expenses	46.7	51.0	55.2	76.2	73.0	73.0	
Other Income	13.5	21.0	45.2	25.2	31.0	31.0	
Earnings before Taxes	40.7	-522.1	51.1	85.9	162.7	211	
EBT Margin (%)	2.2	-24.0	1.7	2.7	4.5	4.9	
Tax-Total	20.0	10.4	-2.2	-4.7	40.7	52.9	
Rate of tax (%)	49.2	-2.0	-4.3	-5.5	25.0	25.0	
Net Profit	20.7	-532.5	53.3	90.6	122.0	159	
PAT Growth (%)	-77.9	-2671.8	110.0	70.1	34.7	30.0	
PAT Margin (%)	1.1	-24.5	1.8	2.9	3.4	3.7	
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted PAT	20.7	-532.5	53.3	90.6	122.0	159	
EPS	2.5	-55.9	4.5	7.6	10.60	13.3	
EPS Growth (%)	-77.9	-2367.6	108.1	67.0	39.7	30.0	

Balance Sheet

Y/E March	2021	2022	2023	2024
Share Capital	84	95	117	119
Reserves	844	456	686	793
Net Worth	928	551	803	912
Borrowings	384	523	596	645
Other Liabilities	371	321	268	334
Total Liabilities & Equity	1,683	1,395	1,668	1,891
Fixed Assets	473	459	436	466
CWIP	3	10	45	69
Investments	1	0	5	5
Other Assets	1,205	926	1,182	1,352
Total Assets	1,683	1,395	1,668	1,891

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2021	2022	2023	2024
Profitability and return ratios				
Net profit margin (%)	1.1	-24.5	1.8	2.9
EBITDA margin (%)	7.4	-19.2	5.5	6.3
EBIT margin (%)	4.7	-21.7	3.6	4.4
ROE (%)	2.3	-72.0	7.9	10.53
ROCE (%)	6.7	-39.6	8.6	9.9
Working Capital & liquidity ratios				
Payables (Days)	89	43	26	33
Inventory (Days)	204	91	98	94
Receivables (Days)	32	22	21	28
Current Ratio (x)	1.7	1.6	1.9	1.9
Valuations Ratios				
EV/sales (x)	0.7	0.7	0.5	0.8
EV/EBITDA (x)	9.2	-3.2	8.7	9.0
P/E (x)	42.8	0.0	16.0	24
P/BV (x)	1.0	1.7	1.1	2.4
Dividend Yield (%)	0.5	0.0	0.0	0.0
Return on Assets (%)	1.2	-34.6	3.5	5.1
Leverage Ratio				
Debt/Equity (x)	0.4	0.9	0.7	0.7

Cash Flow Statement				
Y/E March	2021	2022	2023	2024
CF from Operating activities (A)	100	-149	56	99
CF from Investing Activities (B)	-47	-20	-90	-53
CF from Financing Activities (C)	-69	241	439	-49
Net Cash Flow	-15	73	405	-3
Add: Opening Bal.	22	7	80	485
Closing Balance	7	80	485	483

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
13/6/24	BUY	214(++17.6%)
12/12/24	BUY	255(++20.5%)

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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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