

# DFM Foods Ltd.

**Significant investment in Adv and Go-to-Market initiatives impacted EBIDTA margin**

DFM Foods Ltd (DFM) reported sales growth of 6.8% YoY in Q4FY22 to Rs. 1,416 mn while recovering from the third wave of Covid through sustained sales and marketing whereas the overall extruded market grew only by 3% over the same period. DFM gained over 190 bps YoY of extruded market share gain in focus geographies and over 140 bps in pan India level supported by significant investments in brand building, Go-to-Market initiatives, talent augmentation and technology investments. Despite sustained commodity inflation, company's material margins (excluding portfolio expansion) improved by 100 bps QoQ to 39.1% vs 38.1% in Q3FY22 through a company wide cost management programme and better price realization. Moreover, management's focus on multi-product, multi-channel and multi-geography approach would drive sustainable and profitable growth ahead. Thus, we remain positive on the company's long-term potential and maintain our 'Buy' rating on the stock.

## Earnings Key Highlights

- Gross margin in Q4FY22 was 36.9% vs. 41.1% YoY and 36.4% QoQ. EBIDTA declined to (Rs. 156 mn) compared to Rs. 65 mn in Q4FY21 and (Rs. 27 mn) in Q3FY22 which was largely due to unprecedented commodity inflation and increased branding investments.
- PAT stood at (Rs. 148 mn) vs. Rs. 9 mn & (Rs. 51 mn) in Q4FY21 & Q3FY22 respectively.
- Company's made significant investments of 17.6% of net revenue in advertising (14.1% of sales in Q4FY22 vs. 7.1% in Q4FY21) and go to market initiatives (3.5% of net sales in Q4FY22 vs 1.6% in Q4FY21).
- In FY22 Advertising and Marketing spends increased by 159% YoY to Rs. 500 mn i.e 9% of net sales vs 3.7% YoY.
- DFM incurred capex of Rs. 35 mn in Q4FY22 vs Rs. 26 mn in Q4FY21 for investment in capacity addition and automation. In FY22 DFM's total capex stood at Rs. 261 mn vs Rs. 97 mn in FY21.

## Outlook and Valuation:

DFM being a market leader in extruded snacks segment in the country possess huge headroom to grow which is visible in its focus on strengthening its current product portfolio in existing geographies, expansion into new geographies, investment in brand through increased advertising and visibility and building larger pack portfolio. Re-opening of schools, colleges & other institutions would re-invigorate demand for products of DFM which are primarily out-of-home consumption. **Therefore, we have valued the stock 30x FY24e EPS to arrive at a target price of Rs.294, implying upside of ~43% based on the CMP. We thus maintain "Buy" rating on the stock.**

Y/E Mar (Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Net sales	1,416	1,325	6.8%	1,553	-8.9%
COGS	893	781	14.4%	988	-9.7%
Gross Profit	523	544	-3.9%	565	-7.5%
Gross Profit Margin%	36.9%	41.1%	-414 Bps	36.4%	55 Bps
EBITDA	-156	65		-27	
EBITDA Margin (%)	-11.0%	4.9%		-1.7%	
Depreciation	34	38	-9.8%	33	2.7%
Interest	20.8	25.9	-19.7%	20.8	0.0%
Other income	14	12	10.6%	14	0.7%
PBT	-197	14		-67	
Provision for tax	-49	5		-16	
Effective tax rate (%)	-24.8%	34.3%		-24.1%	
PAT (Reported)	-148	9		-51	
PAT Margin (%)	-10.5%	1.2%		-3.2%	

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	5,079	5.0%	417	8.2%	244	-25.5%	4.9	17.8%	16.7%	42.4	24.6
FY21	5,241	3.2%	556	10.6%	287	17.5%	5.7	17.7%	20.3%	36.1	18.1
FY22	5,545	5.8%	-171	-3.1%	-248	-	-4.9	-15.0%	-9.5%	-	-
FY23e	6,376	15.0%	386	6.0%	183	-	3.6	11.3%	13.2%	56.6	26.6
FY24e	7,651	20.0%	784	10.3%	493	169.2%	9.8	25.8%	27.5%	21.0	12.7

Source: Company, SMIFS Research



Rating: Buy Upside: 43%  
 Current Price: 206 Target Price: 294

### Earlier recommendation

Previous Rating: Buy  
 Previous Target Price: 385

### Market data

Bloomberg: DFMF IN  
 52-week H/L (Rs): 453/199  
 Mcap (Rs bn/USD mn): 10.35/133.20  
 Shares outstanding (mn): 50.3  
 Free float: 26.30%  
 Avg. daily vol. 3mth (in '000): 116.0  
 Face Value (Rs): 2  
 Group: S&P BSE Smallcap  
 Source: Bloomberg, SMIFS Research

### Shareholding pattern (%)

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	73.70	73.70	73.70	73.71
FIIs	0.36	0.32	0.54	0.15
DIIIs	3.40	3.17	3.13	0.96
Public/Others	22.54	22.67	22.53	25.08

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE SmallCap	-10.8%	-3.1%	8.6%	71.3%
DFM Foods	-16.9%	-18.4%	-44.0%	-20.6%

\*as on 27<sup>th</sup> May 2022; Source: AceEquity, SMIFS research

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## Other Key Takeaways

- ✓ **COVID Impact:** Q4FY22 was impacted by the 3rd wave, disrupting markets, affecting employees and channel partners, resulting in lower revenue growth.
- ✓ **Gross Margins:** Despite sustained commodity inflation, company's material margins (excluding portfolio expansion) improved by 100 bps QoQ to 39.1% vs 38.1% on Q3FY22 through a company wide cost management programme and better price realization.
- ✓ **Resilient product portfolio:** Made rapid progress in building Fritts, Curls and Natkhat to diversify and strengthen the core portfolio while driving share gain and growth. Company also increased salience of higher price points.
- ✓ **Brand Building:** Continued investment in brand building through increased advertising and visibility; spend of 14.1% of sales in Q4FY22 vs. 7.1% in Q4FY21.
- ✓ **Go-to-Market:** Increased investment in go to market initiatives: 3.5% of net sales in Q4FY22 vs 1.6% in Q4FY21.
- ✓ **Go-to-Market:** Weighted distribution of Fritts and Natkhat increased between 340 and 600 bps YoY in its core geography.
- ✓ **New segment success:** Successfully scaling up Potato Chips in 3 states (UP, Uttarakhand and Haryana).
- ✓ **Negative working capital continues:** Company continues to operate on a negative working capital cycle at end of March 2022 along with healthy cash position.
- ✓ **Technology:** 98% of sales team and 96% of focus town/rural distributors empowered through automation

## Outlook and Valuation

- ✓ DFM's management has been continuously working towards development of sales infrastructure through investments in various advertisements and marketing strategies which was visible in FY22. Despite headwinds, company's growth outperformed the industry growth in its flagship extruded snacks category. These investments for building organization's capabilities along with the commodity pricing pressures have impacted on the margins but would drive sustainable growth in coming quarters.
- ✓ Company's continuous efforts to diversify its product profile with new launches and reduce concentration on few products would provide growth and help in improving the market share. DFM 's major revenue use to come from Rs. 5 SKU but company has upgraded its presence to higher-value portfolio like Rs. 10, 20, 25 segment which expanded its reach to diverse age groups.
- ✓ Company's extruded snack products are dependent of out of home impulse consumption. Thus, the opening of economy especially physical opening of schools would boost sales of DFM. Moreover, DFM's healthy balance sheet, negative working capital, strong expected improvement in return ratio's, management's strong vision would help in gaining high growth in packaged snacks category in India.
- ✓ Considering the above points, ***we have valued the stock at 30x FY24E EPS of Rs 9.80. to arrive at a target price of Rs 294, implying upside of ~43% based on the CMP over the next 9-12 months.*** We thus recommend a '**Buy**' rating on the stock.

**Key risks:** 1. Competition from organized & unorganized players. 2. Geographical concentration. 3. Volatility in raw material prices.

## Quarterly financials, operating metrics and key performance indicators

**Fig 2: Quarterly Financials**

Y/E March (Rs Mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Sales</b>	<b>1,149</b>	<b>1,413</b>	<b>1,354</b>	<b>1,325</b>	<b>1,105</b>	<b>1,471</b>	<b>1,553</b>	<b>1,416</b>
COGS	699	838	802	781	686	922	988	893
<b>Gross Profit</b>	<b>451</b>	<b>575</b>	<b>552</b>	<b>544</b>	<b>419</b>	<b>549</b>	<b>565</b>	<b>523</b>
Advertisement	2	40	56	94	51	134	115	199
Employee Costs	132	148	126	137	134	142	167	159
Other Expenditure	169	208	205	248	221	274	309	320
<b>EBITDA</b>	<b>148</b>	<b>179</b>	<b>165</b>	<b>65</b>	<b>12</b>	<b>-1</b>	<b>-27</b>	<b>-156</b>
Depreciation	31	31	32	38	39	38	33	34
Interest	30	27	25	26	27	20	21	21
Other Income	19	18	19	12	32	18	14	14
<b>PBT</b>	<b>106</b>	<b>139</b>	<b>128</b>	<b>14</b>	<b>-22</b>	<b>-41</b>	<b>-67</b>	<b>-197</b>
Tax	26	35	33	5	-5	-10	-16	-49
Tax rate (%)	24%	26%	26%	34%	22%	24%	24%	-25%
<b>Reported PAT</b>	<b>80</b>	<b>103</b>	<b>95</b>	<b>9</b>	<b>-17</b>	<b>-31</b>	<b>-51</b>	<b>-148</b>
<b>YoY Growth (%)</b>								
Revenue	-10%	4%	1%	21%	-4%	4%	15%	7%
EBITDA	-8%	10%	126%	209%	-92%	-	-	-
PAT	5%	-30%	192%	0%	-	-	-	-
<b>QoQ Growth (%)</b>								
Revenue	5%	23%	-4%	-2%	-17%	33%	6%	-9%
EBITDA	-	21%	-8%	-61%	-	-	-	-
Adj. PAT	-	29%	-8%	-91%	-	-	-	-
<b>Margin (%)</b>								
Gross margin (%)	39.2%	40.7%	40.8%	41.1%	37.9%	37.3%	36.4%	36.9%
Adv/revenue (%)	0%	3%	4%	7%	5%	9%	7%	14%
Employee cost/revenue (%)	11%	10%	9%	10%	12%	10%	11%	11%
Other expenses/revenue (%)	15%	15%	15%	19%	20%	19%	20%	23%
EBITDA margin (%)	12.9%	12.7%	12.2%	4.9%	1.1%	0.0%	-1.7%	-11.0%
PAT margin (%)	7%	7%	7%	1%	-1%	-2%	-3%	-10%

Source: Company, SMIFS research estimates

## Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Net Sales</b>	<b>5,079</b>	<b>5,241</b>	<b>5,545</b>	<b>6,376</b>	<b>7,651</b>
COGS	3,053	3,119	3,489	3,953	4,629
% of sales	60.1%	59.5%	62.9%	62.0%	60.5%
<b>Gross Profit</b>	<b>2026</b>	<b>2122</b>	<b>2056</b>	<b>2423</b>	<b>3022</b>
Gross Profit Margin (%)	39.9%	40.5%	37.1%	38.0%	39.5%
SG&A Exp	1609	1565	2226	2037	2238
% of sales	31.7%	29.9%	40.2%	32.0%	29.3%
<b>EBITDA</b>	<b>417</b>	<b>556</b>	<b>-171</b>	<b>386</b>	<b>784</b>
<b>EBITDA Margin (%)</b>	<b>8.2%</b>	<b>10.6%</b>	<b>-3.1%</b>	<b>6.1%</b>	<b>10.3%</b>
Other Income	68	69	77	89	107
Depreciation & Amortisation	114	132	144	148	156
<b>EBIT</b>	<b>371</b>	<b>494</b>	<b>-238</b>	<b>327</b>	<b>735</b>
Interest Expenses	99	108	89	81	73
<b>PBT</b>	<b>272</b>	<b>386</b>	<b>-327</b>	<b>246</b>	<b>662</b>
Tax-Total	28	99	-80	63	169
Effective tax rate (%)	10.3%	25.6%	-24.3%	25.5%	25.5%
<b>Reported PAT</b>	<b>244</b>	<b>287</b>	<b>-248</b>	<b>183</b>	<b>493</b>

Source: Company, SMIFS research estimates

Key Ratios					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Growth ratios (%)</b>					
Net sales	5.0%	3.2%	5.8%	15.0%	20.0%
EBITDA	-35.8%	33.4%	-130.7%	-	103.3%
Reported PAT	-25.5%	17.5%	-186.3%	-	169.2%
<b>Margin Ratio (%)</b>					
EBITDA Margin	8.2%	10.6%	-3.1%	6.0%	10.3%
EBIT Margin	7.3%	9.4%	-4.3%	5.1%	9.6%
PBT Margin	5.4%	7.4%	-5.9%	3.9%	8.6%
PAT Margin	4.8%	5.5%	-4.5%	2.9%	6.4%
<b>Return Ratio (%)</b>					
ROE	17.8%	17.7%	-15.0%	11.3%	25.8%
ROCE	16.7%	20.3%	-9.5%	13.2%	27.5%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	2.6	2.6	2.6	2.6	2.8
Inventory Period	29	31	34	31	30
Debtors Period	0	3	4	4	4
Creditors	65	65	82	70	65
Cash Conversion Cycle	-37	-31	-44	-35	-31
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.6	0.4	0.6	0.5	0.3
Net Debt-equity (x)	0.3	-0.1	0.2	0.1	0.1
Liquidity ratio (x)	1.0	1.4	0.7	0.8	1.0
Interest coverage ratio (%)	3.7	4.6	-2.7	4.0	10.0
<b>Per share (Rs)</b>					
Adjusted EPS	4.9	5.7	-4.9	3.6	9.8
CEPS	7.1	8.3	-2.1	6.6	12.9
Book value	28.9	35.4	30.4	34.0	42.0
Dividend per share	0.0	1.0	0.0	0.0	1.5
Dividend Payout (%)	0.0%	17.5%	-	0.0%	15.0%
Dividend Yield (%)	0.0%	0.5%	0.0%	0.0%	0.7%
<b>Valuation</b>					
P/E	42.4	36.1	-	56.6	21.0
P/BV	7.1	5.8	6.8	6.1	4.9
EV/EBITDA	24.6	18.1	-	26.6	12.7
EV/Sales	2.0	1.9	1.9	1.6	1.3

Source: Company, SMIFS research estimates

Balance Sheet					
YE March	FY20	FY21	FY22	FY23e	FY24e
<b>Sources of funds</b>					
Capital	100	101	101	101	101
Reserves & Surplus	1354	1680	1427	1610	2014
<b>Shareholders' Funds</b>	<b>1455</b>	<b>1781</b>	<b>1527</b>	<b>1711</b>	<b>2115</b>
Total Debt	830	796	914	814	714
Trade Payables	548	556	784	758	824
Lease liabilities	302	469	257	257	257
Provisions	87	65	60	62	69
Net deferred tax liabilities	149	144	65	65	65
Other liabilities	301	234	299	338	352
<b>Total Liabilities</b>	<b>3,672</b>	<b>4,043</b>	<b>3,907</b>	<b>4,005</b>	<b>4,397</b>
<b>Application of funds</b>					
Net Block	1,690	1,615	1,617	1,848	2,151
Capital WIP	127	183	338	210	0
Non-current Asset	648	727	558	574	596
<b>Net Fixed Assets</b>	<b>2,465</b>	<b>2,525</b>	<b>2,514</b>	<b>2,632</b>	<b>2,748</b>
Investments	578	202	215	215	615
Inventories	240	265	325	336	380
Sundry Debtors	1	40	65	0	0
Other Current Assets	41	111	102	105	115
Cash & Bank Balances	339	888	675	704	523
Other Financial Assets	8	12	12	13	15
<b>Total Current Assets</b>	<b>1,207</b>	<b>1,518</b>	<b>1,394</b>	<b>1,373</b>	<b>1,649</b>
Short Term Borrowings	47	83	315	215	115
Creditors	548	556	784	758	824
Lease liabilities	24	22	37	37	37
Other financial liabilities	208	124	139	159	176
Short-term provisions	44	31	19	19	23
Current tax liabilities (net)	0	0	0	0	0
Other current liabilities	61	85	145	159	153
<b>Total Current Liabilities</b>	<b>931</b>	<b>900</b>	<b>1,439</b>	<b>1,348</b>	<b>1,329</b>
<b>Net Current Assets</b>	<b>275</b>	<b>618</b>	<b>-45</b>	<b>25</b>	<b>321</b>
<b>Total assets</b>	<b>3,672</b>	<b>4,043</b>	<b>3,907</b>	<b>4,005</b>	<b>4,397</b>

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Operating profit before WC changes</b>	<b>435</b>	<b>596</b>	<b>-132</b>	<b>475</b>	<b>891</b>
Net change in working capital	96	-107	175	48	9
Income Tax Paid	-106	-100	-6	-63	-169
<b>Cash flow from operating activities (a)</b>	<b>425</b>	<b>389</b>	<b>38</b>	<b>461</b>	<b>731</b>
Capital expenditure	-241	-97	-245	-250	-250
Free Cash Flow	184	292	-207	211	481
<b>Cash flow from investing activities (b)</b>	<b>-138</b>	<b>-244</b>	<b>9</b>	<b>-50</b>	<b>-550</b>
<b>Cash flow from financing activities (c)</b>	<b>-211</b>	<b>-224</b>	<b>-43</b>	<b>-181</b>	<b>-262</b>
Net change in cash (a+b+c)	76	-79	3	229	-81
Opening cash balance	37	113	34	38	267
<b>Ending cash balance</b>	<b>113</b>	<b>34</b>	<b>38</b>	<b>267</b>	<b>186</b>

Source: Company, SMIFS research estimates

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Analyst holding in stock: **NO**

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Buy: Return >15%, Accumulate: Return between 5% to 15%, Reduce: Return between -5% to +5%, Sell: Return <-5%

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