

# DFM Foods Ltd.

**Weak quarterly performance led by raw material inflation & significant investment in Adv and Go-to-Market initiatives but long term story intact**

*DFM Foods Ltd (DFM) reported sales growth of 32.1% YoY in Q1FY23 to Rs. 1,459 mn while the extruded market grew by ~20% YoY. DFM gained 90 bps YoY market share in the extruded market in its focus geographies and 70 bps on pan India level supported by significant investments in brand building, go-to-market initiatives, talent augmentation and technology investments. Company's material margins in Q1FY23 (excluding portfolio expansion) contained at 36.1% vs 38.8% YoY & 39.1% QoQ, despite sustained commodity inflation, achieved through a company wide cost management programme and higher price realization. Company has completed implementation of an integrated ERP that covers the business end to end, including procurement, production, quality & sales. Management's focus on multi-product, multi-channel and multi-geography approach is expected to 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.*

## Q1FY23 Earnings Key Highlights

- Reported gross margin in Q1FY23 was 34.3% vs. 37.9% YoY & 36.9% QoQ. Gross margins were impacted due to unprecedented commodity inflation across all its key raw materials. In Q1FY23 EBITDA declined to (Rs. 144 mn) compared to Rs. 12 mn YoY and (Rs. 156 mn) in Q4FY22 mainly due to lower gross margins and increased branding investments.
- In Q1FY23 Advertising and Marketing spends increased to 9.2% of sales vs 4.7% YoY & 14.1% QoQ.
- Other expenditure increased YoY primarily due to higher manufacturing and freight cost due to fuel cost inflation.
- Investment in Go to market expansion in Q1FY23 at 3.4% of net sales vs 2.3% YoY & 3.4% QoQ.
- PAT stood at (Rs. 144 mn) vs. (Rs. 17 mn) YoY & (Rs. 148 mn) QoQ.
- Net working capital continued to be negative. Company incurred capex of Rs. 32 mn in Q1FY23 vs Rs. 17 mn YoY.

## 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 (Rs 10 & above) portfolio. Company's product portfolio which are primarily for out-of-home consumption, re-opening of schools, colleges & other institutions would re-invigorate demand for its products. **Therefore, we have valued the stock 30x FY24e EPS to arrive at a target price of Rs.283, implying upside of ~32% based on the CMP. We thus maintain "Buy" rating on the stock.**

Y/E March (Rs Mn)	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ(%)
Net sales	1,459	1,105	32.1%	1,416	3.1%
COGS	959	686	39.9%	893	7.4%
Gross Profit	500	419	19.4%	523	-4.3%
Gross Profit Margin%	34.3%	37.9%	-366 Bps	36.9%	-264 Bps
EBITDA	-144	12		-156	
EBITDA Margin (%)	-9.8%	1.1%		-11.0%	
Depreciation	35	39	-9.0%	34	4.1%
Interest	23	27.1	-15.1%	21	10.6%
Other income	10	32	-68.7%	14	-27.2%
PBT	-192	-22		-197	
Provision for tax	-48	-5		-49	
Effective tax rate (%)	-25.0%	-22.1%		-24.8%	
PAT	-144	-17		-148	
PAT Margin (%)	-9.9%	-1.6%		-10.5%	

Source: Company, SMIFS Research

Y/E March (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%	44.1	25.6
FY21	5,241	3.2%	556	10.6%	287	17.5%	5.7	17.7%	20.3%	37.5	18.8
FY22	5,545	5.8%	-171	-3.1%	-248	-	-4.9	-15.0%	-9.5%	-	-
FY23e	6,376	15.0%	233	3.7%	49	-	1.0	3.2%	6.1%	218.9	46.3
FY24e	7,651	20.0%	784	10.3%	475	865.3%	9.4	26.8%	28.0%	22.7	13.4

Source: Company, SMIFS Research



Rating: Buy Upside: 32%  
Current Price: 214 Target Price: 283

### Earlier recommendation

Previous Rating: Buy  
Previous Target Price: 294

### Market data

Bloomberg: DFMF IN  
52-week H/L (Rs): 391/187  
Mcap (Rs bn/USD mn): 10.75/136.1  
Shares outstanding (mn): 50.3  
Free float: 26.30%  
Avg. daily vol. 3mth (in '000): 56,430  
Face Value (Rs): 2  
Group: S&P BSE Smallcap  
Source: Bloomberg, SMIFS Research

### Shareholding pattern (%)

	Jun-22	Mar-21	Dec-21	Sep-21
Promoter	73.70	73.70	73.70	73.70
FIIs	0.37	0.36	0.32	0.54
DIIIs	3.39	3.40	3.17	3.13
Public/Others	22.54	22.54	22.67	22.53

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE SmallCap	10.3%	-4.4%	2.2%	118%
DFM Foods	5.6%	-13.3%	-46.5%	-17.5%

\*as on 29th July 2022; Source: AceEquity, SMIFS research

### Saurabh Ginodia

Senior Vice President- Institutional Equities

+91 9836140444

[saurabh.ginodia@smifs.com](mailto:saurabh.ginodia@smifs.com)

## Other Key Takeaways

- ✓ **Market share gain:** In Q1FY23 company gained 90 bps market share in focus geographies & 70 bps pan India supported by significant investments in brand building, go-to market initiatives, talent augmentation and technology investment.
- ✓ **Investment in technology:** Company has completed implementation of an integrated ERP that covers the business end to end, including procurement, production, quality and sales.
- ✓ **Resilient product portfolio:** Company 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.
- ✓ **Go-to-Market:** Weighted distribution of Rings, Natkhat and Fritts increased between 200 and 600 bps YoY in its core geography.
- ✓ **Contribution of latest product launch:** In Q1FY23 portfolio mix of latest product launches was at 19% of sales compared to 7% in Q1FY22 and 3% in Q1FY21. Latest product launches include potato chips, higher price points pack of Rs 10 & above, new festive pack (launched at price points of Rs 65, Rs 100 and Rs 200), Bowls and Noodles.
- ✓ **New segment success:** Successfully scaling up Potato Chips in 3 states (UP, Uttarakhand and Haryana).
- ✓ **Gross Margins:** Company's material margins (excluding portfolio expansion) for Q1FY23 contained at 36.1% vs 38.8% YoY & 39.1% QoQ through the ongoing company wide cost management programme and higher price realization.
- ✓ **Brand Investment:** Continued investment in brand building through increased advertising and marketing spends increasing to 9.2% of net sales in Q1FY23 vs. 4.7% in Q1FY22.
- ✓ **Go-to-Market:** Increased investment in go to market expansion at 3.4% of net sales in Q1FY23 vs 2.3% in Q1FY22.
- ✓ **Negative working capital continues:** Company continued to operate on a negative working capital cycle.

## Outlook and Valuation

- ✓ Management has been continuously working towards scaling up of business through investments in various advertisements and marketing strategies which continued in Q1FY23. **Company's growth outperformed the industry growth which led to market share gains in both focus geographies as well as on a pan India level.** Investments towards brand building led by higher advertising & marketing spends are impacting margins of the company in the short term but **we believe these should benefit the company in the medium to long term.** Unprecedented inflation in raw material prices have impacted gross margins which was partially mitigated by on-going copy-wide cost management programme. However, now there has been **reduction in prices of some of the raw materials like palm oil** which should have positive impact on the margins in the upcoming quarters.
- ✓ Company's continuous efforts to diversify its product portfolio with new launches and increase salience of products with price points of Rs 10 & above **should help the company to achieve profitable growth going forward.** DFM's major revenue use to come from Rs. 5 Sku but now company has upgraded its presence to higher-price points like Rs. 10, 20, 25 segment which expanded its reach to diverse age groups.
- ✓ Company's extruded snack products are dependent mainly on out of home impulse consumption. Thus, the opening of economy especially physical opening of schools should drive demand for products of the company. Moreover, DFM's healthy balance sheet, negative working capital, management's strong vision would help in gaining high growth & market share in the packaged snacks category in India.
- ✓ Considering the above points, **we have valued the stock at 30x FY24E EPS of Rs 9.4. to arrive at a target price of Rs 283, implying upside of ~32% 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)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Sales</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>	<b>1,459</b>
COGS	838	802	781	686	922	988	893	959
<b>Gross Profit</b>	<b>575</b>	<b>552</b>	<b>544</b>	<b>419</b>	<b>549</b>	<b>565</b>	<b>523</b>	<b>500</b>
Advertisement	40	56	94	51	134	115	199	134
Employee Costs	148	126	137	134	142	167	159	184
Other Expenditure	168	205	248	221	274	309	320	326
<b>EBITDA</b>	<b>219</b>	<b>165</b>	<b>65</b>	<b>12</b>	<b>-1</b>	<b>-26</b>	<b>-156</b>	<b>-144</b>
Depreciation	31	32	38	39	38	33	34	35
Interest	27	25	26	27	20	21	21	23
Other Income	18	19	12	32	18	14	14	10
<b>PBT</b>	<b>179</b>	<b>128</b>	<b>14</b>	<b>-22</b>	<b>-41</b>	<b>-67</b>	<b>-197</b>	<b>-192</b>
Tax	35	33	5	-5	-10	-16	-49	-48
Tax rate (%)	19.8%	25.8%	34.3%	-22.1%	-23.7%	-24.1%	-24.8%	-25.0%
<b>Reported PAT</b>	<b>144</b>	<b>95</b>	<b>9</b>	<b>-17</b>	<b>-31</b>	<b>-51</b>	<b>-148</b>	<b>-144</b>
<b>YoY Growth (%)</b>								
Revenue	4%	1%	21%	-4%	4%	15%	7%	32%
EBITDA	10%	126%	209%	-92%	-	-	-	-
PAT	-30%	192%	-	-	-	-	-	-
<b>QoQ Growth (%)</b>								
Revenue	23%	-4%	-2%	-17%	33%	6%	-9%	3%
EBITDA	48%	-25%	-61%	-81%	-	-	-	-
Adj. PAT	79%	-34%	-91%	-	-	-	-	-
<b>Margin (%)</b>								
Gross margin (%)	40.7%	40.8%	41.1%	37.9%	37.3%	36.4%	36.9%	34.3%
Adv/revenue (%)	3%	4%	7%	5%	9%	7%	14%	9%
Employee cost/revenue (%)	10%	9%	10%	12%	10%	11%	11%	13%
Other expenses/revenue (%)	15%	15%	19%	20%	19%	20%	23%	22%
EBITDA margin (%)	12.7%	12.2%	4.9%	1.1%	0.0%	-1.7%	-11.0%	-9.8%
PAT margin (%)	7%	7%	1%	-1%	-2%	-3%	-10%	-10%

Source: Company, SMIFS research estimates

## Financial Statements

Income Statement					
Y/E 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	3,985	4,667
% of sales	60.1%	59.5%	62.9%	62.5%	61.0%
<b>Gross Profit</b>	<b>2026</b>	<b>2122</b>	<b>2056</b>	<b>2391</b>	<b>2984</b>
Gross Profit Margin (%)	39.9%	40.5%	37.1%	37.5%	39.0%
SG&A Exp	1609	1565	2226	2158	2200
% of sales	31.7%	29.9%	40.2%	33.9%	28.8%
<b>EBITDA</b>	<b>417</b>	<b>556</b>	<b>-171</b>	<b>233</b>	<b>784</b>
<b>EBITDA Margin (%)</b>	<b>8.2%</b>	<b>10.6%</b>	<b>-3.1%</b>	<b>3.7%</b>	<b>10.3%</b>
Other Income	68	69	77	62	77
Depreciation & Amortisation	114	132	144	148	150
<b>EBIT</b>	<b>371</b>	<b>494</b>	<b>-238</b>	<b>147</b>	<b>710</b>
Interest Expenses	99	108	89	81	73
<b>PBT</b>	<b>272</b>	<b>386</b>	<b>-327</b>	<b>66</b>	<b>637</b>
Tax-Total	28	99	-80	17	162
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>49</b>	<b>475</b>

Source: Company, SMIFS research estimates

Key Ratios					
YE March	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%	-	237.0%
Reported PAT	-25.5%	17.5%	-186.3%	-	865.3%
<b>Margin Ratio (%)</b>					
EBITDA Margin	8.2%	10.6%	-3.1%	3.7%	10.3%
EBIT Margin	7.3%	9.4%	-4.3%	2.3%	9.3%
PBT Margin	5.4%	7.4%	-5.9%	1.0%	8.3%
PAT Margin	4.8%	5.5%	-4.5%	0.8%	6.2%
<b>Return Ratio (%)</b>					
ROE	17.8%	17.7%	-15.0%	3.2%	26.8%
ROCE	16.7%	20.3%	-9.5%	6.1%	28.0%
<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	0	0
Creditors	65	65	82	70	65
Cash Conversion Cycle	-37	-31	-44	-39	-35
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.6	0.4	0.6	0.5	0.4
Net Debt-equity (x)	0.3	-0.1	0.2	0.1	0.2
Liquidity ratio (x)	1.0	1.4	0.7	0.7	0.8
Interest coverage ratio (%)	3.7	4.6	-2.7	1.8	9.7
<b>Per share (Rs)</b>					
Adjusted EPS	4.9	5.7	-4.9	1.0	9.4
CEPS	7.1	8.3	-2.1	3.9	12.4
Book value	28.9	35.4	30.4	31.3	39.1
Dividend per share	0.0	1.0	0.0	0.0	1.4
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	44.1	37.5	-	218.9	22.7
P/BV	7.4	6.0	7.0	6.8	5.5
EV/EBITDA	25.6	18.8	-	46.3	13.4
EV/Sales	2.1	2.0	1.9	1.7	1.4

Source: Company, SMIFS research estimates

Balance Sheet					
Y/E March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Sources of funds</b>					
Equity Share Capital	100	101	101	101	101
Reserves & Surplus	1354	1680	1427	1476	1865
<b>Shareholders' Funds</b>	<b>1455</b>	<b>1781</b>	<b>1527</b>	<b>1577</b>	<b>1966</b>
Total Debt	830	796	914	814	714
Lease liabilities	278	447	220	220	220
Provisions	43	34	29	48	50
Net deferred tax liabilities	149	144	65	65	65
Other liabilities	33	24	29	19	23
<b>Total Liabilities</b>	<b>2,787</b>	<b>3,226</b>	<b>2,784</b>	<b>2,743</b>	<b>3,039</b>
<b>Application of funds</b>					
Net Block	1,690	1,615	1,617	1,848	2,157
Capital WIP	127	183	338	210	0
Non-current Asset	648	727	558	574	596
<b>Total Non-Current Assets</b>	<b>2,465</b>	<b>2,525</b>	<b>2,514</b>	<b>2,632</b>	<b>2,754</b>
Investments	578	202	215	215	615
Inventories	240	265	325	338	384
Trade Receivables	1	40	65	0	0
Other Current Assets	41	111	102	105	115
Cash & Bank Balances	339	888	675	578	376
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>1,250</b>	<b>1,505</b>
Trade Payables	548	556	784	764	831
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>885</b>	<b>817</b>	<b>1,123</b>	<b>1,139</b>	<b>1,220</b>
<b>Net Current Assets</b>	<b>322</b>	<b>701</b>	<b>270</b>	<b>110</b>	<b>285</b>
<b>Total Assets</b>	<b>2,787</b>	<b>3,226</b>	<b>2,784</b>	<b>2,743</b>	<b>3,039</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>295</b>	<b>861</b>
Net change in working capital	96	-107	175	56	8
Income Tax Paid	-106	-100	-6	-17	-162
<b>Cash flow from operating activities (a)</b>	<b>425</b>	<b>389</b>	<b>38</b>	<b>335</b>	<b>707</b>
Capital expenditure	-241	-97	-245	-250	-250
Free Cash Flow	184	292	-207	85	457
<b>Cash flow from investing activities (b)</b>	<b>-138</b>	<b>-244</b>	<b>9</b>	<b>-50</b>	<b>-500</b>
<b>Cash flow from financing activities (c)</b>	<b>-211</b>	<b>-224</b>	<b>-43</b>	<b>-181</b>	<b>-259</b>
Net change in cash (a+b+c)	76	-79	3	103	-52
Opening cash balance	37	113	34	38	141
<b>Ending cash balance</b>	<b>113</b>	<b>34</b>	<b>38</b>	<b>141</b>	<b>89</b>

Source: Company, SMIFS research estimates

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Analyst holding in stock: **NO**

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### Contact us:

**SMIFS Limited.** (<https://www.smifs.com/>)

#### Compliance Officer:

**Sudipto Datta,**

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: [compliance@smifs.com](mailto:compliance@smifs.com)

#### Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: [institutional.equities@smifs.com](mailto:institutional.equities@smifs.com)

#### Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: (D) +91 33 6634 5408, (B) +91 33 40115400

Email Id: [smifs.institutional@smifs.com](mailto:smifs.institutional@smifs.com)

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