

Target Price ₹ 349
CMP ₹ 260
FY21E PE 18
Index Details

Sensex	35,649
Nifty	10,729
Industry	FMCG

ADF Foods Ltd (ADF) after having seen stagnating revenues for the period FY11-16 has seen the trajectory improve since then. We believe that this is sustainable given the fact that the management foray into frozen foods has met with good success. The recent capex (Rs 12 cr) to enhance frozen food capacity at its Nadiad plant will help bolster revenue growth over the next few years.

Script Details

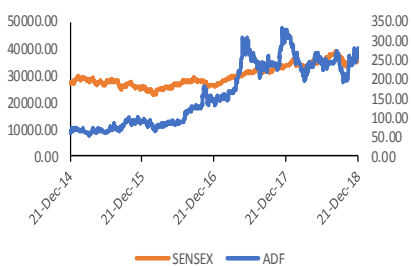
MktCap (`cr)	520
BVPS (₹)	80.7
O/s Shares (Cr)	2.01
AvVol	42,473
52 Week H/L	337/191.0
Div Yield (%)	0
FVPS (₹)	10.0

The manufacturing operations at its US subsidiary, Elena were a drag on the operating performance. Closure of this manufacturing facility and shift to outsourcing has helped ADF arrest the decline in the profitability and improve the performance on all operating matrices.

Shareholding Pattern

Shareholders	%
Promoters	32.3
Public	67.7
Total	100.0

ADF having negligible debt is undertaking buyback in the current fiscal. This follow up buyback (Rs 30 crore) comes close on the heels of a previous buyback (Rs 18 crore) and capex (Rs 10-12 crore) to be completed by March 2019. This implies that management has confidence in the future cash flow generation. We believe that the company operating cash flows should cumulate to Rs 98 crore by FY 21.

ADF Foods vs. Sensex


We initiate coverage with a BUY for a price target of Rs 349 representing an upside of 33% from the CMP of Rs 260 over the next 21 months. We expect the revenues to grow at 16.8% CAGR to INR 333 crores by FY 2021. On the back of robust revenues, we expect the EBITDA and PAT to grow to Rs. 53 crores (21.6% CAGR) and Rs. 39 crores (29% CAGR) respectively over the same period. Operating margins are also set to improve by 180 bps to 15.9%. Return ratios ROE & ROCE are also expected to remain elevated at 16.8% & 19.7% respectively.

Key Financials (Rs in cr)

Y/E Mar	Net Revenue	EBITDA	Adj. PAT	EPS (₹)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV / EBITDA (x)
2017	200.8	21.4	14.6	6.8	104	9.0	9.8	38.5	2.3
2018	208.8	29.4	18.1	8.4	23.9	10.6	13.0	31.1	2.2
2019E	240.0	35.5	25.8	12.8	52.7	14.5	15.6	20.4	1.9
2020E	284.4	43.8	32.1	15.9	24.4	16.3	18.4	16.4	1.6
2021E	332.7	52.9	39.0	19.3	21.6	16.8	19.7	13.5	1.4

Our optimism stems from the following:-

- **Sales are expected to grow at a CAGR of 16.8% to Rs 333 crores driven by a faster growth in frozen food under Ashoka brand. Camel and Aeroplane brands have demonstrated robust growth. The capex of Rs 10-12 crores should help scale up business significantly and improve operating margins.**
- **EBITDA is expected to grow at a CAGR of 21.6% from Rs 29.4 crores in FY18 to Rs 52.9 crores in FY21.**
- **Operating cashflows are expected to grow at CAGR of 16.8% from Rs 24.3 crore in FY18 to Rs 38.7 crore in FY21.**

❖ Company Background

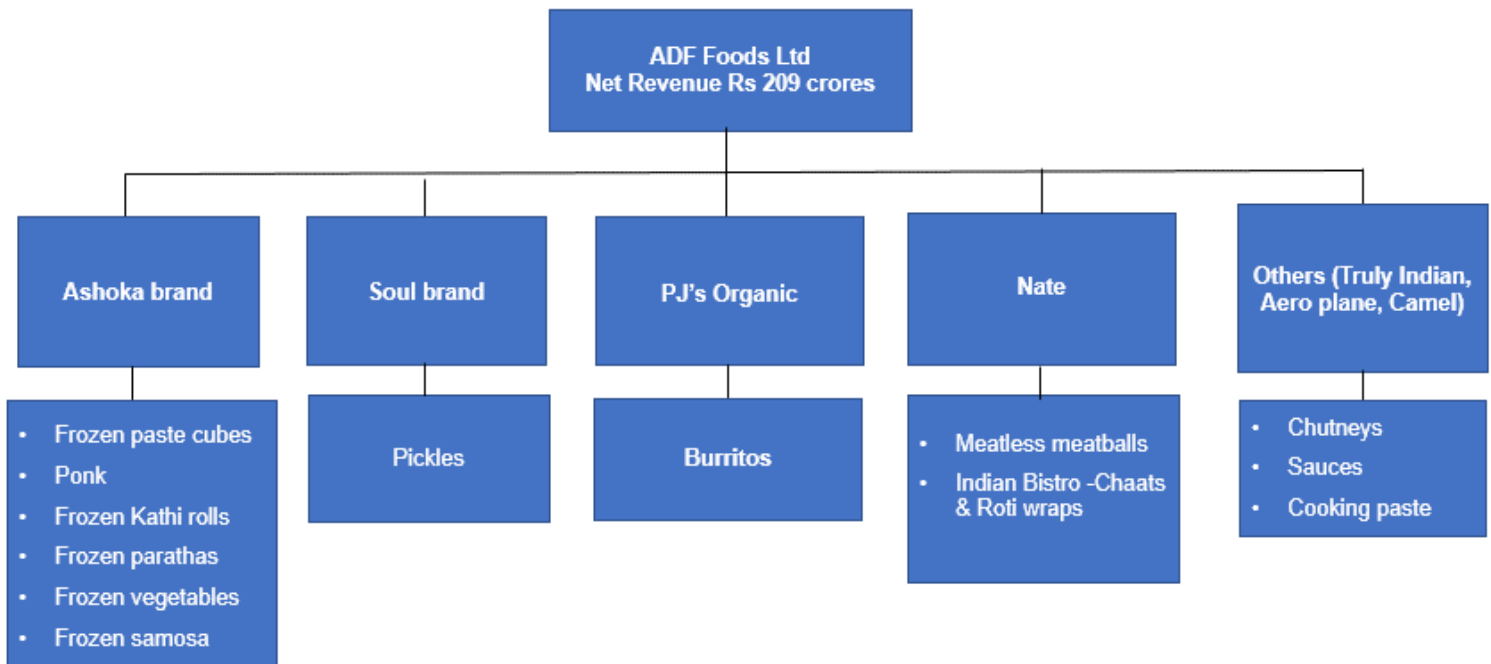
ADF Foods is a food processing company and its products include

- an array of traditional ethnic Indian, spicy Mexican and exotic mediterranean foods.
- frozen foods, salted, sweet & savory pickles and the wide variety of pizza & pasta sauces.

Its brand includes Ashoka, Soul, PJ's, Nates, Camel, Aeroplane and Truly Indian. This have been catering to the native and the international palate from the very beginning.

It has a strong network of over 180 distributors in over 52 countries making it one of the leading ethnic Indian food companies in the world.

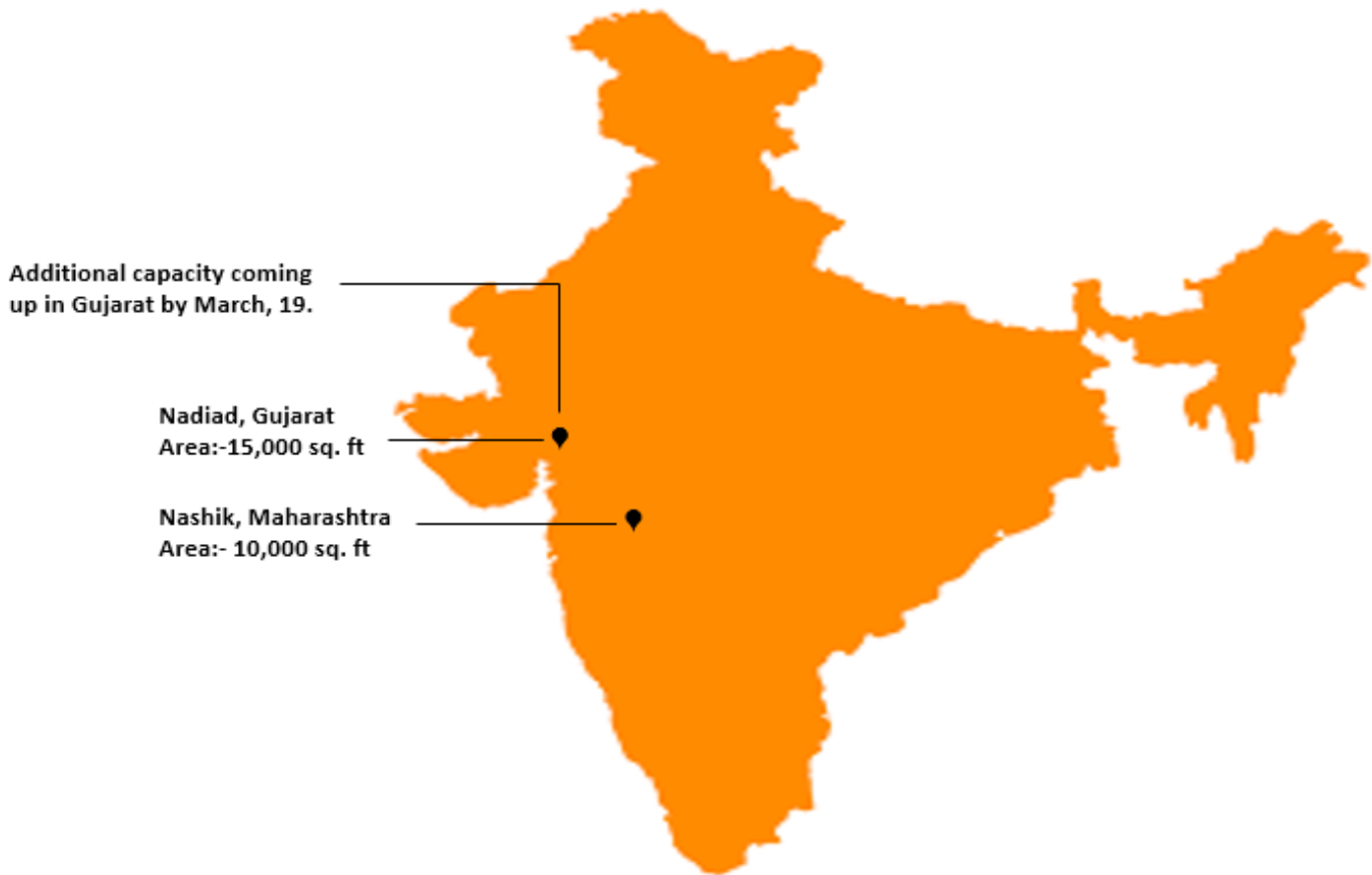
ADF Foods and product portfolio



Source: Company, Ventura Research

ADF Foods has two manufacturing facilities at Nashik, Maharashtra and Nadiad, Gujarat. ADF Foods manufactures sauces and chutneys at the Nashik facility while at the Gujarat facility it manufactures frozen samosa, baked vada pav & frozen vegetables. As both the facilities are working at full capacities, ADF is setting up brownfield additional capacity at Gujarat at a capex of Rs 12 crores.

ADF Domestic facilities



Source: Company, Ventura Research

Key Management personnel

Name	Designation	Prior experience
Bimal Thakkar	Chairman, Managing Director & C.E.O	He is B.Com., Diploma (Export) and has been an Executive Chairman of ADF Foods Limited since June 5, 2018. Mr. Thakkar serves as MD of ADF Holdings (USA) Ltd. He has over 20 years of experience and is spearheading the ADF Group. He has been instrumental in expansion of the business and promoting the ADF Group's products in international markets, development of Brands and creating new markets.
Ravinder Kumar Jain	Independent Non-executive Director	1971-74-MD- Warner Hindustan 1992-99- MD-Shaw Wallace Ltd. 1974-2006- Brand Manager of Mcdowel & Co. 2006-present- Non-executive director at ADF Foods Ltd.
Anjali Seth	Independent Non-executive Director	She served as a Non-Executive & Independent Director at Adlabs Entertainment Limited since April, 2014 to Nov,2018. She is also on board of Endurance Technologies Limited since June, 2016 and Centrum Capital Ltd since November, 2018 .
Viren Merchant	Independent Non-executive Director	Mr. Viren A. Merchant has been an Independent Non Executive Director of ADF Foods Limited since August 10, 2016. Mr. Merchant also serves as a Director of ZYG Pharma Private Limited and Encore group.
Naresh Lakshman Singh Kothari	Independent Non-executive Director	He has been Independent Additional Director at ADF Foods Limited since May 12, 2017. He has also been on board Director of B.L. Kashyap and Sons Limited since December 12, 2014.

❖ **Key Investment Rationale.**

Revenues set for robust growth.

ADF exhibited strong growth over the period FY11-16.

From FY 06-11, ADF's sales grew at a CAGR of 15.3% to Rs 128 crores while EBITDA grew at a rapid 28.3% CAGR. Margin during this period also increased by 679 bps to 16.4%.

Decision to acquire Elena Foods, USA backfires.

ADF acquired Elena Foods in FY11 to foray in the Mexican foods products. However, ADF incurred cumulative loss of ~Rs 35 crores during the period FY11-16 due to operational losses and product recalls.

Over the fiscal period FY 11-16, ADF's performance remained stagnant. Revenue during this period grew at a CAGR of 10.4% to Rs 210 crores. At the same time, EBITDA and net earnings grew at a dismal CAGR of 4.9% and 3.6% to Rs 29.4 crores and Rs 14.6 crores respectively. This resulted in EBITDA and PAT margins decreasing by 230 bps and 240 bps to 14.1% and 8.7% respectively as it struggled with its inefficient operations.

Finally, in Dec FY16 the company decided to shutdown manufacturing at Elena and outsource all manufacturing. This proved to be a succor for its operations as the profitability decline was arrested.

FY17-18 a period of consolidation

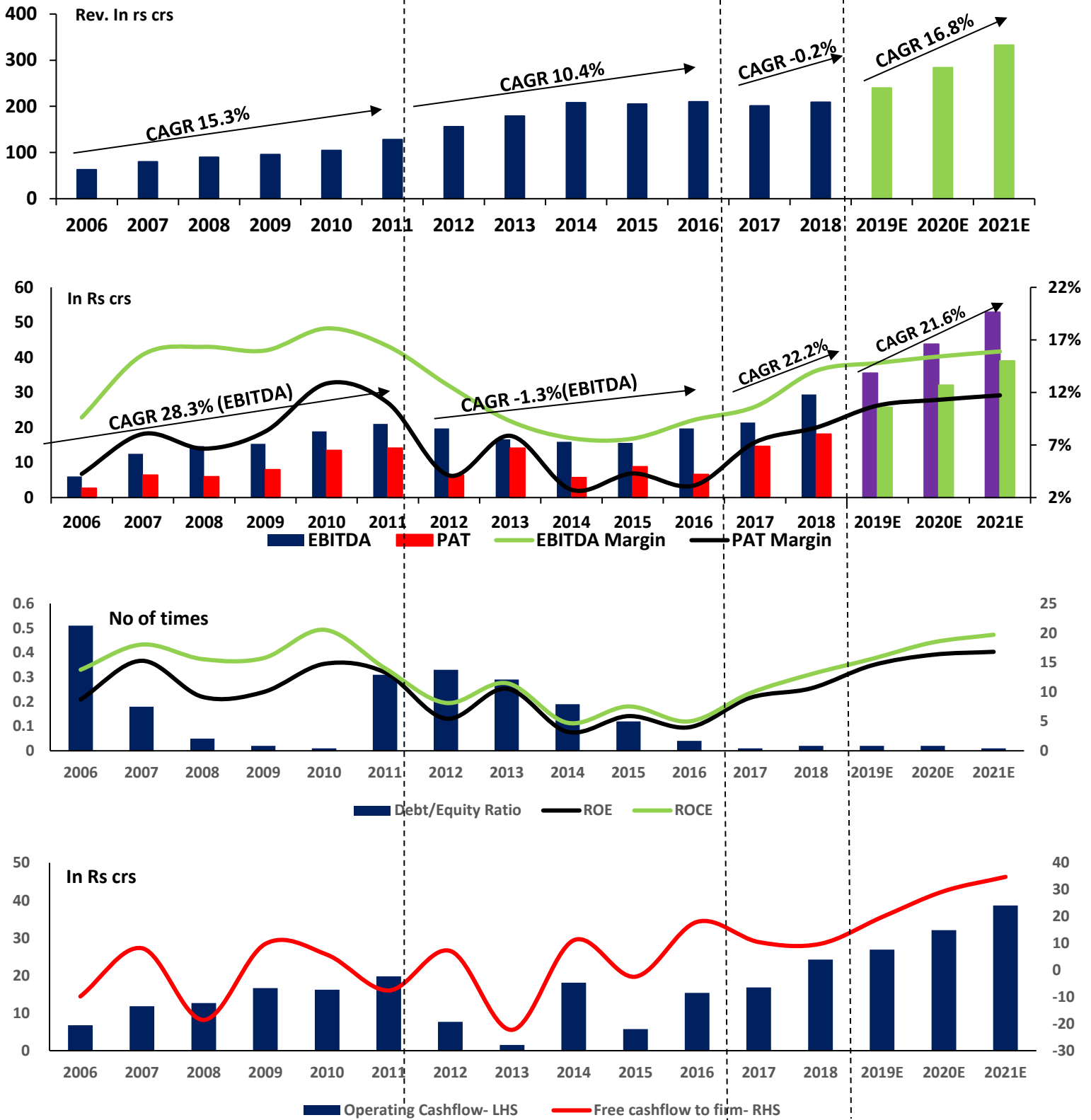
FY17-18 was a period of consolidation, wherein revenue growth was flattish, but EBITDA and PAT margins improved by 469 bps and 552 bps to 14.1% and 8.7% respectively. The change in the sales mix in favor of frozen foods and outsourcing helped script the improvement.

FY19-21 growth expected to accelerate.

Going ahead we expect revenue to grow at a CAGR of 16.8% to Rs 333 crores by FY 21 to be driven by:

1) Volume growth of 12% in overall revenue led by 22% volume growth in high margin frozen food segment.

Key Milestones of ADF foods



- 2) Improved focus by appointing 3-4 country managers, one for each geography.
- 3) Rupee depreciation benefits as 95% of revenue is being exported.

ADF foods scouting for opportunities as business throws up good cash.

ADF Foods is a debt free company and a highly profitable cash machine. This is evident from the fact that it has undertaken a buyback (Rs 18 crores in July 2016) and a capex of Rs 10-12 crores without raising debt. It continues to return cash to shareholders and is undertaking a buyback of Rs 30 crores in the current fiscal.

Also, the management have guided that they are looking for opportunities to grow inorganically through acquisitions. As per our estimate ADF should generate cumulative operating cashflow of Rs 98 crores over the period FY19-21. This we believe would be the currency for acquisitions and launch the company to another level of growth.

Operating cashflows are expected to grow at CAGR of 16.8% from Rs 24.3 crore in FY17 to Rs 38.7 crore in FY21. Cash flow generation outstrips the investment needs.

Brand name	Products			
Ashoka	Ponk, Chutney, Tandoori pastes, baked vada pav & punjabi samosa			
Soul	Pickles, sauces & Paneer Makhani.			
Camel	Ginger paste, Mango Pickles and lemon chilly pickle			
Nate	Meatless meatballs, Indian Bistro-Chaats and Aloo tikki chaat			
Truly Indian	Condiment paste & Cooking sauces			

❖ Industry outlook in in brief.

The food processing sector in India has gained prominence in recent years. A well-developed food processing sector with higher level of processing helps in the reduction of wastage, improves value addition, promotes crop diversification, ensure better return to the farmers, employment as well as increases export earnings. This sector is also capable of addressing critical issues of food security, food inflation and providing wholesome, nutritious food to the masses.

The India's food processing industry is poised for huge growth. It is likely to grow 258 billion USD in the year 2015 to 482 billion USD in the year 2020.

The exports of food items have been rising steadily. During FY11-16, India's exports of processed food and related products grew at 11.7% CAGR, reaching 16.2 billion USD.

The department of Industrial Policy and Promotion (DIPP) has stated that the food processing has been identified as one of the 10 key sectors under make in India as it presents an attractive capital and technology investment opportunity for domestic and foreign investors.

According to the data provided by the department of Industrial and Promotion (DIPP), the food processing sector in India has received around 7.47 billion \$ worth of Foreign Direct Investment (FDI) during the period April 2000- December 2016. The Confederation of Indian Industry (CII) estimates that the food processing sectors have the potential to attract as much as 33 billion \$ of investment over the next 10 years and also the generate employment of 9 million person-days.

❖ Financial Performance

In Q4FY18, ADF Foods reported a healthy 31% growth in topline to Rs 63.1 crores from Rs 48.2 crores reported in the same quarter of the previous year. The EBITDA margin increased 1000 bps to 22.9% from 12.9%, mainly on account of increasing frozen foods revenue in product mix. PAT stood at Rs 10.4 crores increasing 75.2% YoY.

During FY18, company net sales stood at Rs 208.9 crore registering a growth of 4% YOY. EBITDA margin increased by 300 bps YOY to 14%. PAT increased by 2%YOY.

Financial performance (Rs in crores)

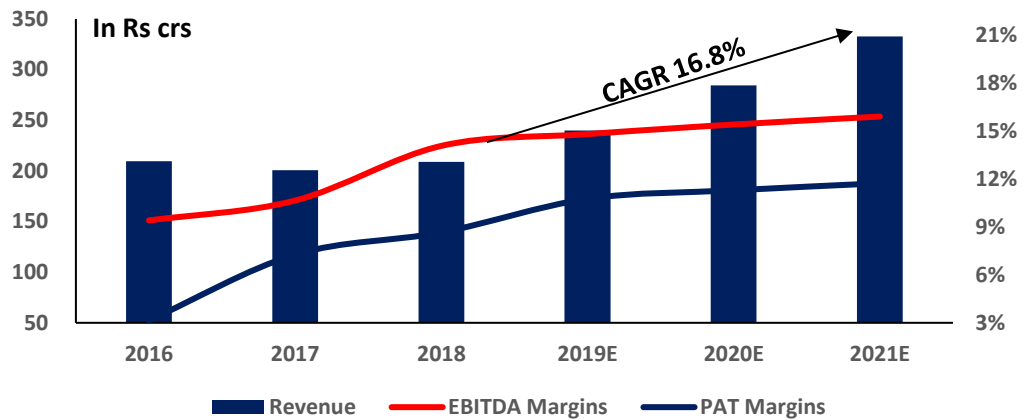
DESCRIPTION	Q2FY19	Q1FY19	YoY	QoQ	Q4FY18	Q3FY18	Q2FY18	Q1FY18	Q4FY17	Q3FY17	Mar-18	Mar-17
Net Sales	63.1	51.4	31.0%	22.7%	58.87	52.71	48.2	49.2	53.11	50.11	208.9	201.2
Other operating income	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Sales & Other Operating Income	63.1	51.4	31.0%	22.7%	58.9	52.7	48.2	49.2	53.1	50.1	208.9	201.2
Growth % (YoY)	31%	4%			11%	5%					4%	
Total Expenditure	48.7	42.87	16.1%	13.6%	49.2	43.34	42.0	45.07	48.26	44.59	179.6	179.3
EBITDA	14.4	8.5	132.6%	68.5%	9.7	9.4	6.2	4.1	4.9	5.5	29.4	21.9
EBITDA Margin	23%	17%			16%	18%	13%	8%	9%	11%	14%	11%
Depreciation	1.1	1.09	-4.5%	-1.8%	3.5	1.12	1.1	1.1	1.1	1.17	6.8	4.6
EBIT (Excl. OI)	13.3	7.5	162.9%	78.8%	6.2	8.3	5.1	3.0	3.8	4.4	22.5	17.3
Other Income	2.1	1.6	-48.5%	28.8%	2.5	0.2	4.0	3.9	1.3	2.5	10.7	6.4
EBIT	15.4	9.1	69.7%	70.0%	8.7	8.5	9.1	6.9	5.0	6.9	33.2	23.7
Interest	0.2	0.1	-25.0%	61.5%	0.2	0.4	0.3	0.2	0.3	0.2	1.1	1.0
Exceptional Items	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	15.2	8.9	72.7%	70.1%	8.6	8.1	8.8	6.7	4.8	6.6	32.1	22.7
PBT Margin%	24%	17%			15%	15%	18%	14%	9%	13%	15%	11%
Tax	4.8	2.9	67.6%	63.6%	1.7	7.7	2.9	1.7	1.3	2.3	14.0	8.2
Profit After Tax	10.4	6.0	75.2%	73.3%	6.9	0.3	5.9	5.0	3.5	4.3	18.1	14.6
Profit Margin	16%	12%			12%	1%	12%	10%	7%	9%	9%	7%
Net Profit (after Extraordinary Items)	10.4	6.0	75.0%	73.1%	6.9	0.3	5.9	5.0	3.5	4.3	18.1	14.6
Minority Interest	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares of Associates	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated Net Profit	10.4	6.0	75.0%	73.0%	6.9	0.3	5.9	5.0	3.5	4.3	18.1	14.6
Other Comprehensive Incomes (Net of tax)	-2.3	0.5	-4.1%	-581.3%	-3.0	0.9	-2.4	2.4	0.8	0.2	0.0	2.2
Minority Interest Comprehensive Income	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Comprehensive Income	8.1	6.5	130.0%	24.4%	3.9	1.3	3.5	7.3	4.3	4.5	18.1	16.8

Source: Ventura Research

❖ **Financial Outlook**

The revenue growth trajectory is expected to continue given the change in product mix in favor of the high growth frozen foods. We expect revenue to grow at a CAGR of 18.5% over the period FY 18-21 to Rs 333 crore from Rs 209 crore reported in FY 18. Further, the EBITDA and PAT margins are expected to go upto 15.9% and 11.7% in FY21 from 14.1% and 8.7% respectively.

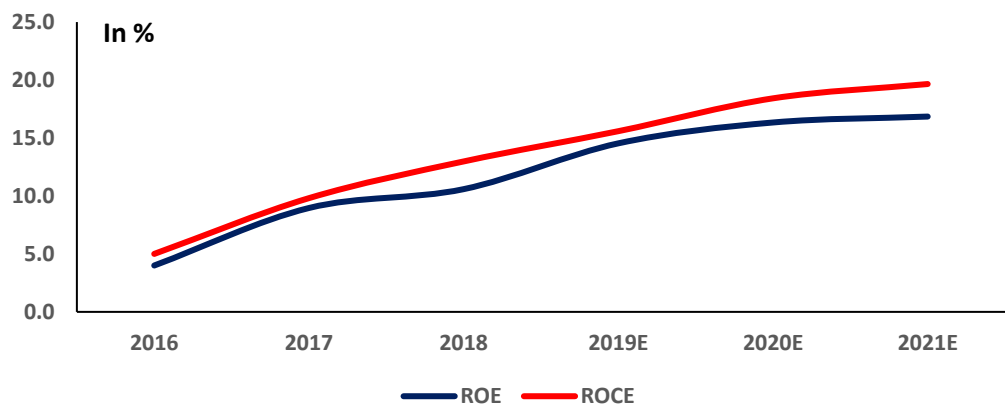
Revenues, EBITDA AND PAT Margins



Source: Company, Ventura Research

Return ratios ROE and ROCE are also expected to get bumped up by 630 bps and 670 bps to 16.8% and 19.7% from 10.6% and 13% respectively by FY21.

ADF Foods to enjoy high ROE and ROCE



Source: Company, Ventura Research

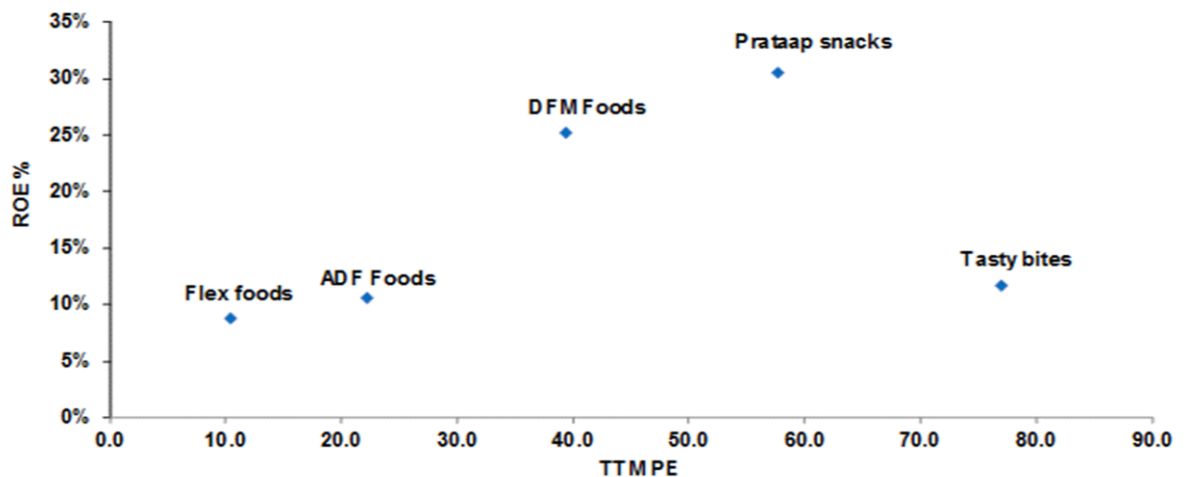
❖ Key risks and threats

- The low promoter holding of 33% shows very low skin in the game. However, this is expected to go up post the buy back.
- Increase in the prices of raw material and packing material due to seasonality.
- Intense Competition from other Organized player in Domestic Market like ITC, Kohinoor, MTR, Gilt's in Ready to eat Segment and from Tasty bites in International Market.
- Exchange rate fluctuations on account of Brexit.
- Change in consumer preferences for fresh food.
- Economic slowdown can affect the demand of the economy. People will spend less money on the discretionary items which will hit the FMCG Industry.

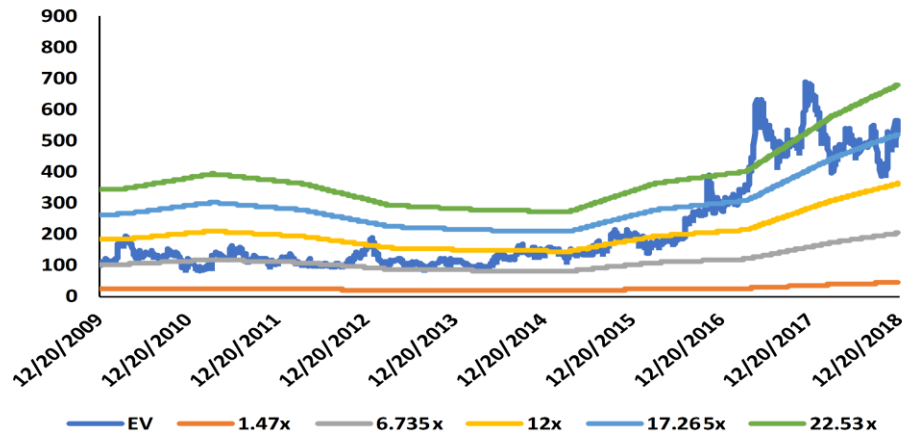
❖ Valuation

We initiate coverage on ADF as a BUY, with a price objective of Rs. 349 (18x FY20 earnings) over the next 21 months representing upside of 33%. We value the stock at a 10% discount to its weighted average PE of 20x.

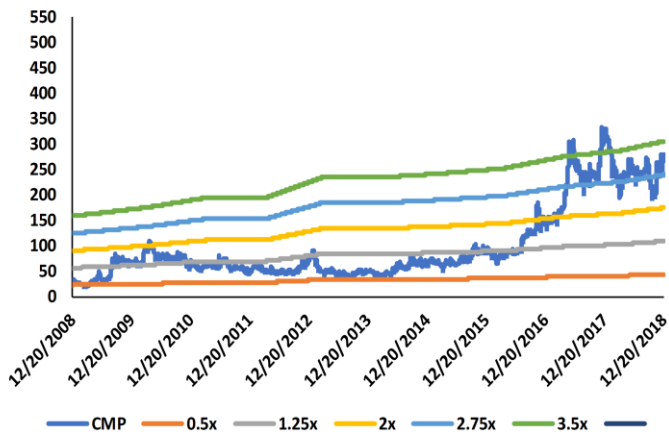
Peer comparison on financial parameters



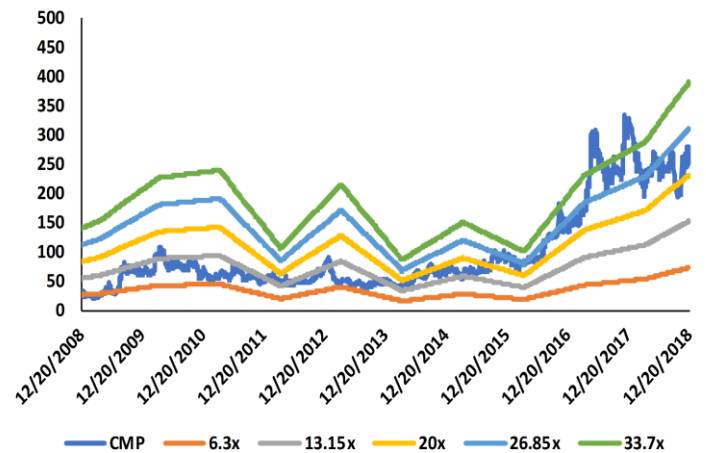
Source: Ventura Research

ADF EV/EBITDA trend


Source: Company, Ventura Research

ADF PB trend


Source: Company, Ventura Research

ADF PE trend


Source: Company, Ventura Research

Financials & Projections

Y/E March, Fig in ` Cr	FY17	FY18	FY19E	FY20E	FY21E	Y/E March, Fig in ` Cr	FY17	FY18	FY19E	FY20E	FY21E
Profit & Loss Statement						Per Share Data (Rs)					
Net Sales	200.8	208.8	240.0	284.4	332.7	Adj. EPS	6.9	8.5	12.8	16.0	19.4
% Chg.	-4.0	4.0	14.9	18.5	17.0	Cash EPS	8.9	11.5	16.6	19.6	23.0
Total Expenditure	179.5	179.4	204.5	240.6	279.8	DPS	1.8	0.0	0.0	1.0	1.0
% Chg.	-5.5	-0.0	14.0	17.7	16.3	Cash Yield in %	2.59	4.90	4.90	7.27	8.69
EBIDTA	21.4	29.4	35.5	43.8	52.9	Book Value	77.3	80.7	89.4	105.1	124.2
<i>EBIDTA Margin %</i>	<i>10.6</i>	<i>14.1</i>	<i>14.8</i>	<i>15.4</i>	<i>15.9</i>	Capital, Liquidity, Returns Ratio					
Other Income	6.9	10.7	10.7	11.6	12.7	Debt / Equity (x)	0.0	0.02	0.02	0.02	0.01
PBDIT	28.2	40.0	46.2	55.4	65.6	Current Ratio (x)	0.2	0.2	0.3	0.2	0.2
Depreciation	4.6	6.8	7.7	7.5	7.4	ROE (%)	9.0	10.6	14.5	16.3	16.8
Interest	1.0	1.1	0.0	0.0	0.0	ROCE (%)	9.8	13.0	15.6	18.4	19.7
Exceptional items	0.0	0.0	0.0	0.0	0.0	Valuation Ratio (x)					
PBT	22.7	32.1	38.5	47.9	58.2	P/E	38.5	31.1	20.4	16.4	13.5
Tax Provisions	8.2	14.0	12.7	15.8	19.2	P/BV	3.4	3.2	2.9	2.5	2.1
Reported PAT	14.6	18.1	25.8	32.1	39.0	EV/Sales	1.5	1.5	1.3	1.1	0.9
Minority Interest	0.0	0.0	0.0	0.0	0.0	EV/EBIDTA	2.3	2.2	1.9	1.6	1.4
Share of Associate	0.0	0.0	0.0	0.0	0.0	Efficiency Ratio (x)					
PAT	14.6	18.1	25.8	32.1	39.0	Inventory (days)	45.2	42.1	40.0	38.0	36.0
<i>PAT Margin (%)</i>	<i>7.3</i>	<i>8.7</i>	<i>10.8</i>	<i>11.3</i>	<i>11.7</i>	Debtors (days)	60.4	76.5	75.0	73.0	71.0
Tax Rate (%)	35.9	43.6	33.0	33.0	33.0	Creditors (days)	44.7	56.5	55.0	53.0	51.0
Balance Sheet						Cash Flow Statement					
Share Capital	21.6	21.6	20.1	20.1	20.1	Profit Before Tax	22.7	32.1	38.5	47.9	58.2
Minority Interest	0.0	0.0	0.0	0.0	0.0	Depreciation	4.6	6.8	7.7	7.5	7.4
Reserves & Surplus	145.4	152.8	160.5	191.2	229.8	Working Capital Changes	-1.6	-4.8	-6.5	-7.5	-7.8
Total Debt	4.4	1.4	1.0	1.0	1.0	Others	25.6	32.4	39.6	47.9	57.9
Deferred Tax Liabilities (Net)	-3.0	-1.9	0.0	0.0	0.0	Operating Cash Flow	16.8	24.3	26.9	32.1	38.7
Other Non Current Liabilities	1.8	2.2	2.4	2.6	2.9	Capital Expenditure	-4.5	-4.9	-12.0	-6.0	-6.0
Total Liabilities	170.3	176.1	184.0	215.0	253.8	Other Investment Activities	-1.0	3.3	0.0	-0.6	-0.6
Gross Block	86.0	90.4	102.4	108.4	114.4	Cash Flow from Investing	-5.5	-1.6	-12.0	-6.6	-6.6
Less: Acc. Depreciation	4.6	10.4	17.2	24.9	32.4	Changes in Share Capital	0.0	0.0	0.0	0.0	0.0
Net Block	81.4	80.0	85.2	83.5	82.0	Changes in Borrowings	-1.1	-3.4	-0.4	0.0	0.0
Capital Work in Progress	0.9	0.2	0.0	0.0	0.0	Dividend & DDT	-3.6	0.0	-7.2	-9.0	-10.9
Other non current Assets	2.9	1.5	1.0	0.0	0.0	Cash Flow from Financing	-11.6	-11.1	3.2	1.1	1.0
Long term Loans & Advances	4.5	5.3	5.7	6.3	6.9	Net Change in Cash	4.3	16.4	18.0	26.6	33.0
Net Current assets	80.6	89.1	92.1	125.1	164.9	Opening Cash Balance	9.2	13.7	31.6	29.7	56.3
Total Assets	170.3	176.1	184.0	215.0	253.8	Closing Cash Balance	13.7	31.6	29.7	56.3	89.3

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Corporate Office: 8th Floor, 'B' Wing, I Think Techno Campus, Pokhran Road no. 02, Off Eastern Express Highway, Thane (West) 400 607.
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