



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Kunal Bhatia 67141442

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Analyst Meet Update @ Dalal & Broacha

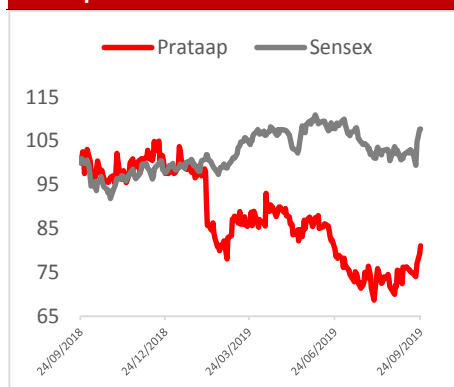
Not Rated

| | |
|---------------|----------|
| Current Price | 848 |
| 52 Week Range | 700/1187 |

Key Share Data

| | |
|-------------------------------|------------|
| Market Cap (Rs.bn) | 19.7 |
| Market Cap (US\$ mn) | 277.46 |
| No of o/s shares (mn) | 23.45 |
| Face Value | 5 |
| Monthly Avg. vol(BSE+NSE) Nos | 3.315 |
| BSE Code | 540724 |
| NSE Code | DIAMONDYD |
| Bloomberg | DIAMOND:IN |

Price performance



% Shareholding

| | Jun-19 | Mar-19 |
|--------------|--------------|--------------|
| Promoters | 71.43 | 71.43 |
| Public | 28.57 | 28.57 |
| Others | 0.00 | 0.00 |
| Total | 100.0 | 100.0 |

- Overall Branded Snacks market to reach Rs. 430bn by 2021, within which extruded category to grow at (fastest pace) 19%. **Extruded snacks (shaped plus random) contributes 47% of company's sales as of FY19.**
 - Has 3 major brands i) Yellow Diamond ii) Avadh Snacks iii) Rich Feast (sweets)
 - Has a total reach of 1.7mn out of which the direct to indirect reach stands at 50% each.
 - Volatility in **rings** (contributes ~40% of revenue) for the past 2-3 quarters has subsided, aided by change in company strategy. The management is confident on bringing back growth in rings to high teens.
 - Margin improvement trigger, reduce lead time and eliminate secondary freight:**
 - Company has 15 manufacturing plants 5 owned: 10 on contract basis. 24% of revenues come from contract manufacturing Q1FY20. The share of Contract manufacturing to own manufacturing stood at 5%:95% in FY15. Company aims to increase this share to 1/3rd of revenues in the near term.
 - Contract manufacturing plants are chosen on basis of closeness to the company's key markets. This leads to a reduction in freight costs as it helps eliminate the super stockiest (**thus eliminating secondary freight**) and the products are directly delivered to the distributor
 - Currently (FY19) as a percentage of sales, freight costs stood at 8%, on a longer term basis, through 3 rd party manufacturing, **the company expects a savings of approximately 10% in Freight (i.e. reduction from 8% to 7.2% as a % of sales).**
 - Avadh Acquisition 80% @ Rs 1.48bn:** with the call option to purchase the balance 20% within the next 5 years. The company as of FY19 clocked in revenues of ~Rs. 1.5bn. The company is the 4 th largest brand in the state of Gujarat with an approximate market share of 6%. 52% of Avadh's revenues come from Namkeens' and balance from Pellets
 - Opportunity Gujarat (largest snack market):** Avadh provides a good opportunity for the company to enter Gujarat where 50% of the salted snack industry is unorganized and thus provides huge opportunity for future growth
 - Avadh's financial details:** Operating and PAT margins for Avadh are similar to Prataap snacks i.e ~7% and 4% respectively. Maximum distance covered to deliver Avadh's product is 200- 250km and an average of 600-650km for yellow diamond products
 - Sweets Category:** Company's second major focus area after Avadh snacks is in sweets category. Company aims the category to contribute 10% to revenues in the near term
 - Company launched cupcakes 3 months back and has received very positive response due to which they are facing capacity constraints with the current 2 lines. They plan to further increase capacity by 50%. Each line can generate a turnover of Rs. 5bn.
 - Long gestation:** On a 4-5 year perspective, the company expects to achieve 9.5-10% EBITDA margin (saving from freight and larger share of sweets) and improve ROE and ROCE to high teens from the current 8% and 9% respectively. Further through 3 rd party logistics, the company expects to improve asset turnover ratios.
- Valuation@848:** as per Bloomberg estimates, the company trades at 40.7x and 31.20x FY20e and FY21e EPS of Rs. 20.8 & Rs. 27.18 respectively. We recommend switching to **Britannia/Nestle** as we are more confident on the profitability outlook of these well established companies. As per our estimates, Britannia at CMP of Rs. 3076, trades at 50.3x and 43.32x FY20e and FY21e EPS of Rs.61 & Rs.71 respectively.

Financials (Consolidated) (Rs. Mn)

| Year | Revenue | % Growth | EBITDA | Margins | PAT | Growth | EPS | P/E | ROE | ROCE |
|--------------|----------|----------|--------|---------|--------|--------|-------|-------|-----|------|
| FY17 | 8981.14 | 18% | 421.81 | 4.7% | 205.98 | -24% | 15.14 | 56.01 | 9% | 7% |
| FY18 | 10377.27 | 16% | 869.33 | 8.4% | 441.77 | 114% | 19.92 | 42.57 | 9% | 12% |
| FY19 | 11706.10 | 13% | 832.21 | 7.1% | 446.41 | 1% | 19.03 | 44.56 | 8% | 9% |
| FY20* | 14204.1 | 21% | 1122 | 7.9% | 483.1 | 8% | 20.8 | 40.77 | 10% | 9% |
| FY21* | 16481.1 | 16% | 1375 | 8.3% | 638.5 | 32% | 27.18 | 31.20 | 11% | 11% |

*- as per Bloomberg Estimates



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