

DFM FOODS

VALUEPICKR GOA 2019

BY

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DFM FOODS

- CMP 270 MARKET CAP 1350 CRORES.
- COMPANY MANUFACTURES AND MARKETS SNACKS LIKE CRAX, NATKHAT, AND NEWER PRODUCTS LIKE CURLS LAUNCHED IN BEGINNING OF 2018, AND FRITTS AND PASTA CRUNCH LAUNCHED IN 2019.
- MANUFACTURING FACILITIES ARE AT GHAZIABAD AND NOIDA. ADDITIONAL 5500 METRIC TON FACILITY BEING ADDED AT NOIDA WHICH ADDS TO EXISTING 35000 TON FACILITY.

PROMOTERS

- COMPANY IS A PROMOTER OWNED AND OPERATED COMPANY WITH RP JAIN BEING CHAIRMAN AND HIS SON MOHIT JAIN (FINANCE FROM WHARTON SCHOOL USA) BEING THE MANAGING DIRECTOR.
- PROMOTERS HOLD 38.24 % STAKE, WESTBRIDGE CROSSOVER HOLDS 15% AND JWALAMUKHI HOLDINGS 10%.

GEOGRAPHICAL PRESENCE

- COMPANY IS PRESENT PREDOMINANTLY IN THE NORTH INDIAN MARKET, CLOSE TO ITS MANUFACTURING FACILITIES.
- THEIR STRATEGY IS TO PENETRATE DEEPER INTO SMALLER TOWNS IN NORTH INDIA.
- OF LATE COMPANY HAS STARTED FOCUSSED ON EAST AND WEST INDIA.

PRODUCTS

- CRAX RINGS IS THE FLAGSHIP PRODUCT AND IT IS MARKETED WITH A SMALL GIFT TOY INSIDE. COMPANY TRIES TO DIFFERENTIATE ITSELF BY CHANGING THE TOYS EVERY FEW MONTHS ACCORDING TO FESTIVALS DURING THAT TIME.
- OF LATE THE MANAGEMENT HAS ADOPTED STRATEGY OF INTRODUCING 1-2 NEW PRODUCTS EVERY YEAR AND TRYING TO INCREASE PRODUCT RANGE.

PRODUCTS

- CURLS RANGE LAUNCHED IN EARLY 2018 HAS SEEN GOOD SUCCESS. COMPANY IS HOPEFUL OF REPEATING SUCCESS IN FRITTS AND PASTA CRUNCH LAUNCHED IN 2019. THIS HELPS IN REDUCING THE DEPENDENCE ON CRAX RINGS.
- THE ALL IMPORTANT FACTOR IN SUCCESS IS TASTE OF THE PRODUCTS AND MARKETING STRATEGY BESIDES HAVING DISTRIBUTION REACH.

PRODUCTS

- KEY RAW MATERIALS ARE CORN AND OIL. COMPANY MANAGES THE PRICE RISES BY ADJUSTING THE GRAM PER PACK TO PASS ON COSTS.
- FOCUS REMAINS TO KEEP THE GROSS MARGINS IN THE RANGE OF 40 %
- EARLIER CRAX WHICH USED TO CONTRIBUTE 80-90% SALES HAS NOW COME DOWN TO 50% RANGE DUE TO ADDITION OF NEW PRODUCTS.

GROWTH STRATEGY

- COMPANY AIMS TO IMPROVE GEOGRAPHICAL REACH BY PENETRATING DEEPER INTO EXISTING MARKETS AND ENTER NEWER MARKETS IN WESTERN AND EASTERN INDIA.
- COMPANY INTENDS TO LAUNCH 1-2 NEW PRODUCTS EVERY YEAR AND THUS INCREASE THE BOUQUET OF OFFERINGS.
- FOR SUCCESS OF ITS PRODUCTS, COMPANY KEEPS INTRODUCING INNOVATIVE MARKETING STRATEGIES.

FINANCIALS

YEAR	11	12	13	14	15	16	17	18	19
SALES	120	170	225	263	290	390	341	425	483
NP	8.3	10.4	6.3	7.1	11	25	18.5	23	32.7
ROCE	47	37	27	30	37	45	25	29	40
OPM	13%	12%	9%	9%	10%	12%	9%	12%	13.4%

AS CAN BE SEEN FROM THE NUMBERS ABOVE, WHILE TOPLINE HAS CONSISTENTLY GROWN, MARGINS HAVE BEEN AFFECTED OFF AND ON BECAUSE OF VARIOUS REASONS. COMPANY NOW SEEMS TO BE AT AN INFLECTION POINT IN TERMS OF STABLE MARGINS.

FINANCIALS

- FY 19 EPS IS AT 6.52 PER SHARE AS COMPARED TO 4.64 FOR FY 18.
- COMPANY HAS LONG TERM DEBT OF 83 CRORES AND NEGLIGIBLE SHORT TERM DEBT.
- THE NEW CAPEX TO ADD 5500 TONS CAPACITY WILL ENTAIL CAPEX OF 20-25 CRORES AND CAPACITY SHOULD BE READY BY H2 FY 20.

INVESTMENT THESIS

- COMPANY IS A CONSISTENT GROWER WITH GOOD OPPORTUNITY SIZE.
- PROMOTERS KNOW THEIR BUSINESS AND SEEM TO HAVE HUNGER TO GROW.
- ADDITION OF NEWER PRODUCTS TO PORTFOLIO BASKET SHOULD KEEP GROWTH GOING. TWO LEVERS OF GROWTH ARE NEW PRODUCTS RANGE AND GEOGRAPHICAL EXPANSION.

RISKS

- COMPETITION FROM BRITANNIA AND TOO YUM BRANDS CAN STIFLE COMPANY'S GROWTH
- INCREASED FOCUS OF PRATAAP SNACKS ON NORTH INDIA MAY LEAD TO COMPETITION.
- RAW MATERIAL PRICE VOLATILITY CAN AFFECT PROFIT MARGINS.
- POOR GROWTH MIGHT AFFECT THE VALUATIONS ACCORDED TO THE COMPANY.
- HIGH MARGINS SUSTAINABILITY.

DISCLAIMER

- This is not a buy/sell recommendation.
- Hold small position bought recently.