

Company Report

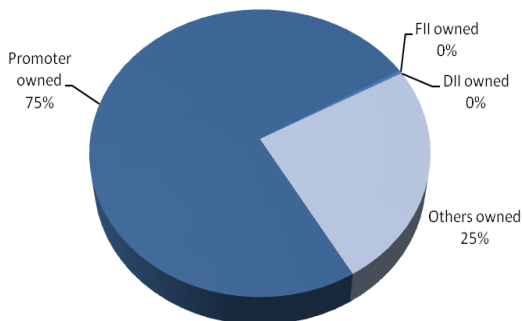
Kwality Ltd.

24th June, 2014**BUY**
CMP **Rs.45.00**
Target Price **Rs.75.00**

BSE Code	531882
NSE Code	KWALITY
Market Cap (Rs Cr.)	914.40
52 Week High/Low	52.25/18.00
Industry	FMCG
Face Value	Rs.1.00
Shares O/S	20.32 Cr.

EPS	7.13
Book Value	21.09
P/E	6.31
P/B	2.13

Shareholding Pattern



Research Analyst: Vineeta Mahnot
 research@hemonline.com

- Kwality Limited, formerly Kwality Dairy (India) Limited, is an Indian-based dairy products company. The Company is primarily engaged in the business of manufacturing, purchase and sale of ghee, skimmed milk powder, curd, whole milk powder, dairy lactose and milk.
- The company has registered robust results for the quarter ending March 2014. The revenues from operations grew by ~29% to Rs.1317.38 crores vs. Rs.1021.20 cr. in the corresponding quarter last year. Operating profit climbed sharply by ~69% at about Rs.77.60 crores as against Rs.45.88 crores in the previous year quarter. The adjusted net profit almost doubled at Rs.36.31 crore for the quarter as compared to Rs.15.02 crore. EPS for the quarter stood at Rs.1.79. On the margins front, operating margin climbed about 150 bps at 5.89% as against 4.49% while net profit margin expanded 129 bps at 2.76% from 1.47% y-o-y.
- The company has recently increased its milk prices by Rs.2 per litre across all variants in the Delhi-NCR region. The company has taken this step as cost of procurement of milk has gone up in last few months. After the proposed increase, the Kwality full cream milk will cost Rs 48 per litre, toned milk will be priced at Rs 38 a litre and double toned would be available for Rs 34 a litre.
- The company plans to maintain the growth momentum with the focus on increasing share of branded and value-added products and emerge as a leading dairy products company.

Valuation

With strong brand equity; increasing market presence and customer reach; increasing product portfolio; expansion plans and strong financial performance; Kwality Ltd. growth prospects and profitability looks positive. We believe the company is trading at an attractive valuation at 4.49x and 3.29x of FY15EPS of Rs.10.02 and FY16EPS of Rs.13.68. We initiate a 'BUY' on the stock with a target price of Rs.75 (appreciation of about 67%) with the medium to long term investment horizon.

Business Details

Kwality Dairy (India) (KDIL) India's premier dairy foods company, focuses on building leadership positions in branded and added value markets across the dairy sector. KDIL specializes in the storage of milk and related products. The company is instrumental in providing dairy products at par with international standards at a very low input cost. The company is ISO 22000:2005 Certified Company and the skimmed milk powder is certified with ISI by Bureau of Indian Standards. Also Pure Ghee is certified by Agmark by Directorate of Marketing and Inspection, Ministry of Agriculture, Government of India.

Product range of the company includes:

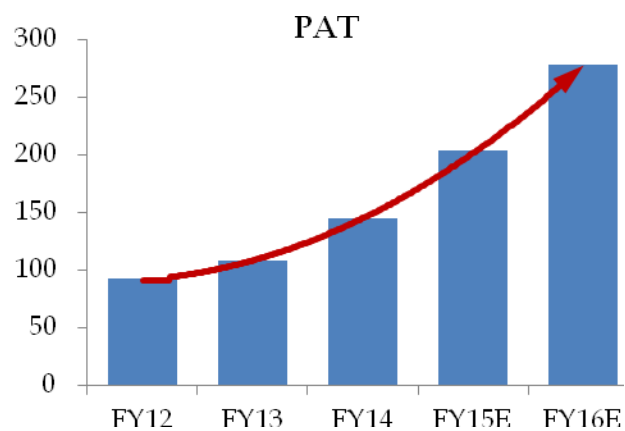
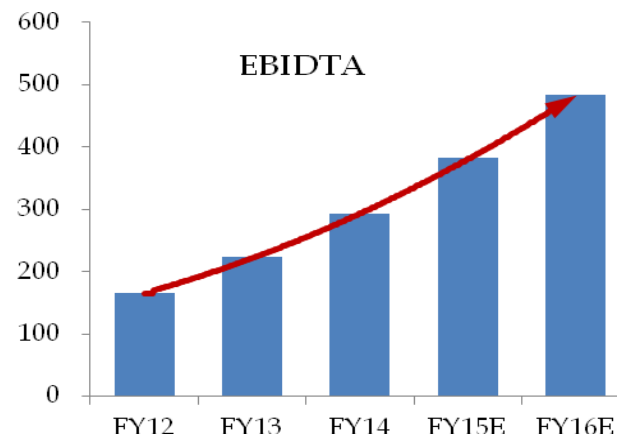
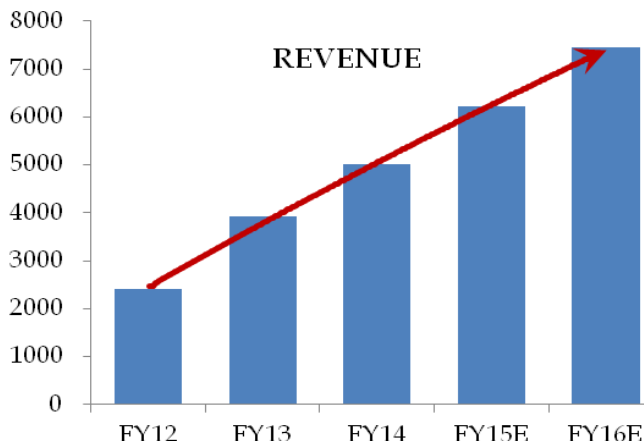
- Milk: Dairy Best Nutrified Milk is available in 3 variants: Dairy Best Full Cream Milk, Dairy Best Toned Milk, Dairy Best Double Toned Milk
- UHT Milk: It is available in 4 Variants:- Standard Milk; Toned Milk; Double Toned Milk; Skimmed Milk
- Skimmed Milk Powder: Available in: 500 gm and 1 kg laminated pack.
- Wake-up Instant Dairy Creamer: Available in: 5 gm - specially designed for railways, flight catering, and hotels etc.; 25 and 50 gm - pouch pack; 200 gm and 500 gm - poly jar; 1kg - laminated pouch
- Pure Ghee: Available in: RT in - 194ml, 485ml, 970ml; Poly pack in - 480 ml and 970 ml; 480 ml, 970 ml, 1.940 ltr, and 4.850 ltr; Tin containers - 15 kg; Jars - 194 ml, 480 ml, 970 ml, 1.940 ltr, and 4.850 ltr
- 100% Pure Cow Ghee: Available in: RT - 194ml, 485ml and 970ml; Poly pack - 480 ml and 970 ml; Tin containers - 480 ml, 970 ml, 1.940 ltr, and 4.850 ltr and 15 kg; Jars - 194 ml, 480 ml, 970 ml, 1.940 ltr, and 4.850 ltr
- Low Choestrol Ghee: Available in: 970 ml pack
- Curd: Available in: 200gm, 400 gm, & 500gm.
- Paneer: Available in: 200 gm packs and Masala Paneer variation
- Pasteurized Table Butter in two variants White Salted Variant and Traditional Yellow Butter available in 100 gm and 500 gm packs.
- Yoghurt : Available in: 100 gm and 200 gm
- Sweet and Flavoured milk: Available in: Chocolate, Cold coffee, Vanilla, Strawberry, Kesar Pista, Elaichi

It has built a truly ultra modern milk processing plant located on the commercially strategic National Highway in Faridabad in Haryana. The outstanding features of the plant are its state-of-the-art equipment, which incorporates the latest in milk processing technology. The plant is also ISO 22000:2005 Certified for its Quality Management Systems. To ensure the best quality KDIL has procured dairy design and key equipment from Alfa Laval India Ltd (Tetra Pack Group) with design back up from APV Anhydro Pasilac AS Denmark.

KDIL specializes in the storage of milk and related products. The company also exports its products to various countries. Their business philosophy is simple: Serve the needs of the customer by providing them Kwality products.

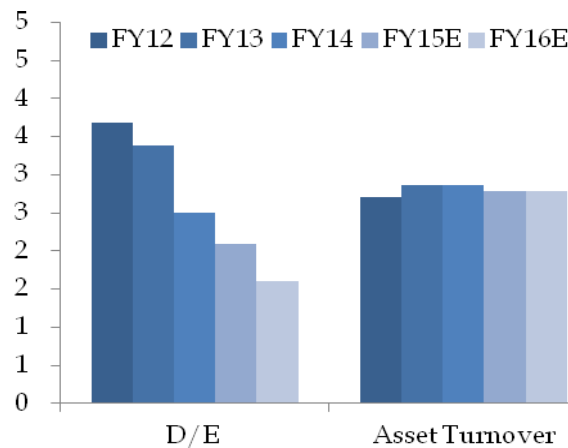
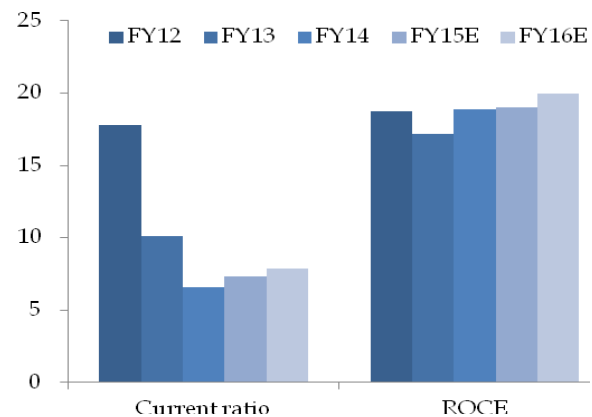
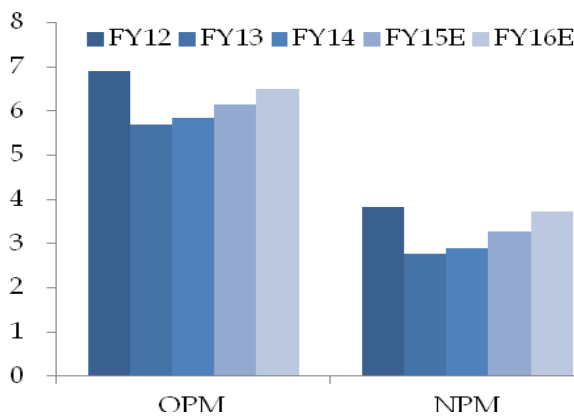
Robust financial performance

Kwality Ltd. has registered with strong financials for the year ended March 2014. Net sales surged by about 28% at Rs. 5010.95 crores from Rs.3929.68 crores in FY13. Operating profit surmounted by about 32% at Rs. 293.35 crores from Rs.223.19 crores a year ago. Net profit zoomed at about Rs.145 crores as compared to Rs. 108.61 crores; witnessing a growth of ~34%. EPS stood at Rs.7.13. Despite inflationary pressures the company has been able to report a strong set of numbers with positive cash flow from operations in India on account of contribution from fresh dairy products and passing on the rising input costs. Operating profit margins expanded by 17bps at 5.85% from 5.68% in FY13. Net profit margin remained more or less same as last year. The company's impetus and investment in branded dairy products has started bringing in results. It is confident of maintaining the growth momentum with the focus on increasing share of branded and value-added products and emerge as a leading dairy products company.



Expansion on the cards

Kwality Ltd is planning to invest about Rs 300 crore in the next fiscal to expand its milk procurement operations and launch more value-added products to its portfolio. The national capital based company has six plants in Haryana, Uttar Pradesh and Rajasthan with processing capacity of 30 lakh litres a day. The company has been procuring about 28 lakh litres of milk per day, of which 5 lakh litres is purchased directly through its 22 milk chilling centres. The company wants to strengthen its milk procurement capacity. The company plans to increase the number of milk chilling centres from 22 to 90 over the next 2-3 years. Kwality has also decided to expand product basket through launch of value-added dairy products like flavoured milk, yoghurt, cheese and UHT milk. It is currently selling ghee and skimmed milk powder (SMP). The company is looking at a 20-25 percent growth in the topline in the coming fiscal year. The launch of value-added products would boost the company's profit margins. Looking at the growth potential of the retail segment, the company has increased its focus on this segment significantly and expects to increase its market share in this segment over the next three years backed by its continued investments in supply chain and distribution networks.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales	2416.23	3929.68	5010.95	6213.58	7456.30
Growth		62.64%	27.52%	24.00%	20.00%
Expenditure	2249.70	3706.49	4717.60	5831.45	6971.64
EBITDA	166.54	223.19	293.35	382.14	484.66
Growth		34.02%	31.44%	30.26%	26.83%
EBITDA margin	6.89%	5.68%	5.85%	6.15%	6.50%
Other income	0.09	0.73	4.03	5.59	6.71
Depreciation & Amortisation	7.50	10.30	12.99	15.98	18.14
EBIT	159.13	213.63	284.39	371.75	473.23
EBIT margin	6.59%	5.44%	5.68%	5.98%	6.35%
Interest	65.09	93.07	115.58	132.20	146.20
PBT	94.03	120.56	168.81	239.55	327.03
Tax	1.69	11.95	23.88	35.93	49.05
PAT	92.35	108.61	144.93	203.61	277.98
Minority interest	0.00	0.00	0.00	0.00	0.00
Share of profits in Associates	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	92.35	108.61	144.93	203.61	277.98
Growth		17.61	33.44	40.49	36.52
Net Profit margins	3.82	2.76	2.89	3.28	3.73
Exceptional item	0.00	3.00	0.00	0.00	0.00
Reported PAT	92.35	105.61	144.93	203.61	277.98
Equity Capital	20.32	20.32	20.32	20.32	20.32
Equity Shares	20.32	20.32	20.32	20.32	20.32
Adjusted EPS	4.54	5.35	7.13	10.02	13.68

Ratios

Particulars	FY12	FY13	FY14	FY15E	FY16E
Return on Equity	51.02	38.17	33.83	32.32	30.68
Return on Capital employed	18.76	17.15	18.89	19.04	19.98
Debt/Equity	3.69	3.38	2.51	2.10	1.61
Asset turnover	2.70	2.86	2.86	2.78	2.78
Current Ratio	17.78	10.10	6.56	7.30	7.90
Book value per share	8.91	14.00	21.09	31.01	44.59
Interest coverage	2.44	2.30	2.46	2.81	3.24

Balance Sheet

Rs. Crore

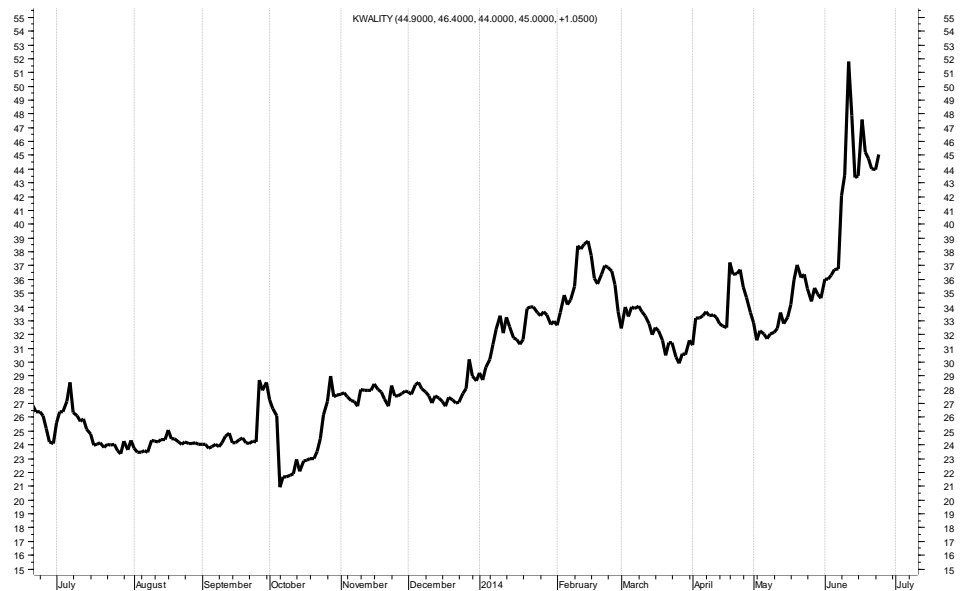
Particulars	FY12	FY13	FY14(U)	FY15E	FY16E
Share Capital	20.32	20.32	20.32	20.32	20.32
Reserves & Surplus	160.67	264.21	408.10	609.68	885.63
Shareholders funds	180.98	284.53	428.42	630.00	905.95
Preference shares	0.00	0.00	0.00	0.00	0.00
Borrowings	667.05	961.00	1077.26	1322.04	1462.02
Deferred tax liability	0.47	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.00	0.00
Sources of funds	848.51	1245.53	1505.69	1952.04	2367.97
Gross block	89.16	108.49	159.75	177.53	201.52
Accumulated Depreciation	25.13	35.39	53.98	69.96	88.10
Net block	64.02	73.10	105.77	107.57	113.42
Capital work in progress	0.09	8.61	22.00	54.16	71.20
Investments	0.00	0.00	0.00	0.00	0.00
Deffered tax assets	0.00	1.16	0.79	0.79	0.79
Goodwill on consolidation	0.00	0.00	0.00	0.00	0.00
Inventories	100.06	103.29	187.39	267.49	344.84
Sundry debtors	660.21	1,009.10	1,331.15	1,658.85	1,949.12
Cash and bank balance	13.10	88.10	31.47	41.47	74.97
Other current assets	0.15	0.30	2.74	2.07	5.00
Loans and advances	57.63	89.62	72.21	103.68	124.94
Total current assets	831.15	1,290.40	1,624.96	2,073.56	2,498.87
Current liabilities and provisions	46.75	127.75	247.84	284.05	316.31
Net current assets	784.40	1,162.66	1,377.12	1,789.51	2,182.56
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	848.51	1,245.53	1,505.69	1,952.04	2,367.97

Quarterly Financial Highlights

Rs. Crore

Particulars	Q4FY14	Q4FY13	Q3FY14	YoY%	QoQ%
Revenues	1317.38	1021.20	1142.45	29.00	15.31
Expenditures	1239.78	975.32	1072.77	27.12	15.57
Operating Profit	77.60	45.88	69.68	69.14	11.37
Adjusted Net Profit	36.31	15.02	32.13	141.74	13.01
OPM%	5.89	4.49	6.10	149bps	(21bps)
NPM %	2.76	1.47	2.81	129bps	(5bps)
Adjusted EPS	1.79	0.74	1.58	141.89	13.29

Past Price movement of the stock



www.hemonline.com

research@hemonline.com

HEM SECURITIES LIMITED

MEMBER-BSE,CDSL, SEBI REGISTERED CATEGORY I MERCHANT BANKER

MUMBAI OFFICE: 14/15, KHATAU BLDG., IST FLOOR, 40, BANK STREET, FORT, MUMBAI-400001

PHONE- 0091 22 2267 1000

FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001

PHONE- 0091 141 405 1000

FAX- 0091 141 510 1757

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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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