



SMIFS
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INITIATING COVERAGE REPORT

February 09, 2021

DFM
FOODS LTD.



VP - Institutional Equities
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Brief Overview

CMP (INR) (As on 08th Feb 2021)	395
Target (INR)	520
Upside(%)	32
Recommendation	Strong Buy

BSE Code	519588
NSE Code	DFMFOODS
Reuters Ticker	DFMF.NS
Bloomberg Ticker	DFMF:IN

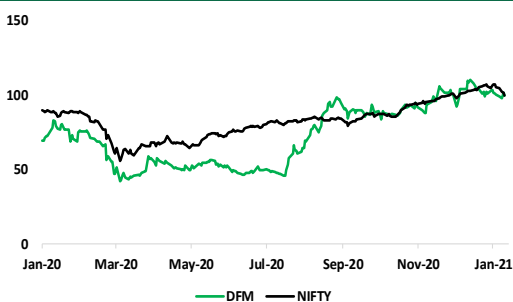
Stock Scan

Market cap (INR Cr.)	1,987
Outstanding Shares (Cr.)	5.03
Face Value (INR)	2.00
Dividend Yield(%)	0
P/E (x)	81.4
P/B (x)	13.7
Debt/Equity (x)	0.6
Beta	0.99
52 Week High/ Low (INR)	444 / 154
Avg. Daily Volume (NSE)/1yr	1,14,591

Shareholding Pattern (%)

	Dec 2020	Sep 2020	Jun 2020
Promoters	73.71	73.71	73.91
Institutions	1.00	0.99	1.14
Non-Institution	25.29	25.30	24.95

Exhibit 1 - DFM vs. Nifty (Relative Returns)



Source: NSE

DFM Foods Ltd.: Pioneers in extruded snack food

DFM Foods Ltd (DFM), one of the pioneers of packaged snack foods in the Indian market is engaged in the business of manufacturing, selling and marketing of packaged foods for over 35 years. **DFM sell its products under the brand name 'CRAX', 'CURLS', 'NATKHAT' and 'FRITTS' and its products profile consists of 18 distinct product variants across namkeen and snacks segment.** Company has two state of the art processing units located at Ghaziabad and Greater Noida with a strong focus on revenue & distribution, innovative marketing and new product development. The key investment thesis which draw attention to DFM's business are:

- **New management team to accelerate growth**—With the new promoter (Advent International) and new management under the leadership of Mr. Lagan Shastri - MD & CEO (appointed w.e.f. January 2020), we believe business growth to accelerate going forward with new product launches and distribution expansion. He carries with him 21+ years' of experience from working with Hindustan Coca-Cola Beverages Pvt Ltd under different roles.
- **High quality cash generating business with negative working capital**—DFM is a high-quality cash generating business as it operates on cash & carry basis. This has resulted in robust net debt free balance sheet with negative working capital days, strong FCF generation and superior return ratios. Company has reported stable gross margins in the range of 39%-40% in the last six-year period which is also better than some of its peers.
- **Operating leverage to drive margins and return ratio's**—Company has been continuously expanding its capacity and the total manufacturing capacity of the company stood at ~48,400 MTPA as on FY20 end from 20,000 MTPA in FY15. With the current capacity company can generate peak sales of ~Rs. 700 cr depending on the product mix. We expect company to reach peak sales by FY23E which should help the company to benefit from scale and operating leverage thus would lead to improvement of margins and return ratios.
- **Rising urbanisation & preference of non-fried food to benefit the company in long run**—Presently consumers demand a range of products that deliver health benefits in convenient formats and thus DFM focuses on developing snacks that contain healthy ingredients, non-fried and thus satisfying cravings of the consumer. Currently DFM's all extruded products (excluding Namkeen) are non-fried such as Rings, Curls, Fritts & Cheese Balls.
- **Innovative marketing**—DFM's CRAX brand has high visibility on television, with a special focus on cartoon channels aimed at children. Gifting toys as far as Crax Rings sales are concerned is an integral part of the offering since FY 2005-2006. DFM spends ~3.5%-4% (average) of its total revenue on advertisements and sales promotion.

We have valued the stock at 40x FY23E EPS to arrive at a Target Price of Rs. 520 offering return potential of ~32% based on the CMP over the next 9-12 months. We initiate this coverage with a "Strong Buy" rating on the stock.

Exhibit 2 - Financial Performance at a glance (Consolidated)

Particulars (In Rs Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,419	4,253	4,836	5,079	5,333	6,000	7,080
Growth %	-12.2%	24.4%	13.7%	5.0%	5.0%	12.5%	18.0%
EBITDA	318	508	649	417	664	749	944
EBITDA Margin (%)	9.3%	12.0%	13.4%	8.2%	12.5%	12.5%	13.3%
Net Profit	185	233	328	244	383	494	654
Net Profit Margin (%)	5.4%	5.5%	6.8%	4.8%	7.2%	8.2%	9.2%
EPS (In Rs)	3.7	4.7	6.5	4.9	7.6	9.8	13.0
P/E (x)	107.0	84.9	60.6	81.4	51.9	40.2	30.4
Market Cap/Sales (x)	5.8	4.7	4.1	3.9	3.7	3.3	2.8
P / BV (x)	23.3	19.3	15.4	13.7	11.5	9.9	8.3
ROE (%)	23.5%	24.9%	28.3%	17.8%	24.1%	26.5%	29.7%
ROCE (%)	21.8%	26.5%	29.3%	17.0%	26.8%	29.8%	35.5%

Source: Company Data, SMIFS Research

Investment Rationales

“Post-acquisition the focus of the new leadership team is to drive the next phase of expansion and sustainable business growth which will be achieved by strengthening distribution, marketing innovation, creating portfolio for the future and investing in improving its talent and process capabilities.”

■ **New management team to accelerate growth**

In FY20 U.S. based private equity firm Advent International (Advent) through its subsidiary AI Global Investments (Cyprus) PCC Ltd signed a definitive Share Purchase Agreements (SPA) with the erstwhile promoters (Mr. Mohit Jain & Family) to acquire a majority interest in the company and as on December 2020 holds 73.71% of the equity of the company.

Post-acquisition by Advent, **Mr. Lagan Shastri has been appointed as MD & CEO w.e.f from January 2020.** He is a visionary leader & a turnaround specialist with multi-country experience. **He carries with him 21+ years’ experience from working with Hindustan Coca-Cola Beverages Pvt. Ltd. under different roles.**

Company has also appointed as **Mr. V.L. Rajesh as Non-Executive Non Independent Director who has handled various assignments with ITC.** He joined ITC in 1990 and has handled various assignments there for over 27 years. His last assignment was as CEO of the Foods Business. He was one of the founding member of the food business which over 16 years has grown to over Rs. 10,000 cr in size and remains a key growth driver for ITC.

As per the Chairman’s speech in Annual Report (FY19-20), **“the focus of the new leadership team is to drive the next phase of expansion and sustainable business growth which will be achieved by strengthening distribution, marketing innovation, creating portfolio for the future and investing in improving its talent and process capabilities.”**

Acquisition of DFM shares by Advent raises confidence of corporate governance in future

On September 9, 2019 the Advent entered into Share Purchase Agreement (SPA) -

- (i) with the Promoters to acquire their 38.14% of the voting share capital;
- (ii) with WestBridge to acquire 24.79% of the voting share capital; and
- (iii) with other individual shareholders to acquire their 4.97% of their voting share capital.

On 26th of Nov 2019, “AI Global Investment” offered to acquire up to 13,070,429 equity shares, fully paid-up equity shares of face value of Rs. 2 each through an open offer, representing 26% of the expanded voting share capital at Rs. 249.50 per equity share.

The open offer closed on Dec 18, 2019 and the acquirer succeeded in acquiring 4.62% stake in the company (out of 26% offered to be acquired).

Investment Rationales

■ High quality cash generating business with negative working capital

DFM is a high-quality cash generating business as it operates on cash & carry basis. This has resulted in robust net debt free balance sheet with negative working capital days, strong FCF generation and superior return ratios. **Company has reported stable gross margins in the range of 39%-40% in the last six-year period which is also better than its peers.**

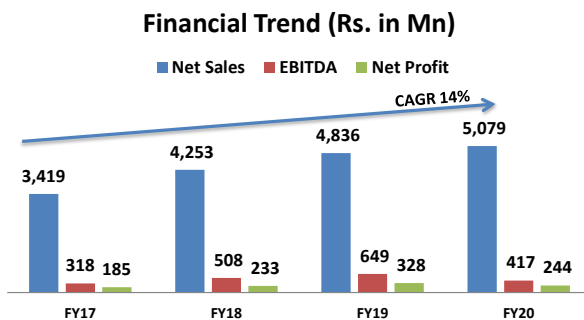
For the period of FY13-20, company's revenue, EBIDTA and PAT grew at a CAGR of 12%, 10% and 21% respectively. In FY20, DFM's revenue stood at Rs. 5,079 mn, an increase by 5% YoY. This was driven by 6.5% and 5% growth in volume and value terms respectively. **Going forward, we are expecting the company to report revenue CAGR of 12% over FY20-23E. Despite COVID-19 related challenges, we expect, DFM to register 5% revenue growth in FY21 (on low base of FY20).**

EBIDTA for FY20 decrease by 36% YoY to Rs. 417 mn on account of transaction cost incurred due to change in ownership, hiring of senior management personnel, expenses incurred to support retirement benefits provided to certain employees, claims for expired products during lockdown due to COVID outbreak and other one-time charges incurred during the year. **Historically, DFM gross margins and operating performance had been stable mainly due to efficient purchases and its prudent strategy.**

DFM's strong execution focus helped it to deliver a resilient performance during 9MFY21, despite pandemic related challenges. Company reported sales of Rs. 3,916 mn down by 1.66% YoY, EBIDTA margin improved by 260 bps YoY to 12.55% on account of better negotiation and cost management strategies under the new management. PBT increased by 30% YoY to Rs. 372 mn and PAT increased by 8% YoY at Rs. 278 mn even after higher tax rate of 25% vs 10% YoY.

Company has nil debtors on its balance sheet as it follows policy of sale against advance payments only. We expect company to post Sales/EBIDTA/PAT CAGR of 12%/31%/39% over FY20-23E & ROCE improvement from 17% in FY20 to 35.5% in FY23E.

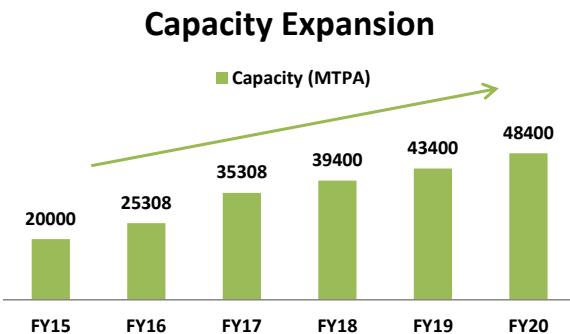
Exhibit 3 - Financial Trend (Rs. in Mn)



Source: Company Data, SMIFS Research

Investment Rationales

Exhibit 4 - Capacity Expansion



Source: Company Data, SMIFS Research

DFM has already acquired a land in Pune for greenfield expansion. As per our expectation the new management would expedite its plans for Pune facility which would help to explore the non-Northern parts of India.

Operating leverage to drive margins and return ratio's

DFM has two state-of-the-art manufacturing facility one at Ghaziabad and other at Greater Noida. **Company has been continuously expanding its capacity and its total capacity stood at 48,400 MTPA as on FY20 from 20,000 MTPA in FY15.** In FY20 company has commissioned additional line having a capacity of 5,000 MTPA in Greater Noida plant translating into an incremental revenue generation potential of ~Rs. 100 cr depending on the product mix with a capex of ~Rs. 20 cr. Company has almost doubled its extruded capacity in a calibrated manner over the last 5 years. **The installed capacity for Snacks segment (Corn rings, Curls, Cheese Balls, Natkhat, Fritts and Pasta Crunch) is ~45,400 MTPA and for Namkeen ~3,000 MTPA.**

In FY20, under line up-gradation, the old line was replaced with a new line which produces 500 kg/hr resulting in an additional production of 200 kg/hr. In order to further optimize usage of packing machines, some machines were reshuffled between two production lines which resulted in additional capacity of 490 MTPA.

As per management's last estimate, on the current capacity **company can generate peak sales of ~Rs. 700 cr** depending on the product mix. We expect company to reach peak sales by FY23E which should help the company to benefit from scale and operating leverage thus leading to improvement of margins and return ratios.

In the snacking business, distribution expenditure forms a big cost component which is ~9% of DFM's FY20 revenue. Currently it has both its manufacturing facilities in Northern India. Thus, in order to cater to Western, Central and Southern zones and have a profitable growth, **it has acquired a land in Pune (for ~Rs. 11 cr in Q3FY17) for greenfield expansion.** We expect the new management would expedite its plans for Pune facility which would help to explore the non-Northern parts of India.

Investment Rationales

Presently consumers demand a range of natural products that deliver health benefits in convenient formats. DFM focuses on developing snacks that contain healthy ingredients, non fried and thus satisfying cravings of the consumers.

COVID-19 has emphasized the need for cleanliness and hygiene like never before. This has enhanced the preference for factory packaged snacks as against the loose snacks weighed and filled by hand at the point of sale. Going ahead with the re-opening up of the schools, railway stations and other institutions would give an uptick in the consumption of packaged snacks.

■ Rising urbanisation & preference of non-fried food to benefit the company in long run

The snacks market is expected to be positively influenced by anticipated growth in the country's retail food market in the coming years. Increasing per capita incomes of people living in urban, semi-urban and rural regions of the country are among the major factors driving consumption of snacks industry. The growing young population in India is also positively impacting the growth of snacks market, as the kids are a major target segment. With growing urbanization, the industry introducing smaller and affordable pack sizes at competitive pricing, have contributed to the growth.

Presently consumers demand a range of natural products that deliver health benefits in convenient formats and thus DFM focuses on developing snacks that contain healthy ingredients, non fried and thus satisfying cravings of the consumers. Currently DFM's all extruded products (excluding Namkeen) are non-fried such as Rings, Curls, Fritts & Cheese Balls. Though Namkeens are fried but it forms a very small part of its business.

■ Organised players to benefit from expected demand uptick for packaged snacks

COVID-19 has emphasized the need for cleanliness and hygiene like never before. This has enhanced the preference for factory packaged snacks as against the loose snacks weighed and filled by hand at the point of sale. Packaged snacks are likely to emerge as one of the bright spots during India's economic recovery and thereafter. People have understood the value of safe and hygienically packaged snacks. **Moreover, going ahead with the re-opening up of the schools, railway stations and other institutions would give an uptick in the consumption of packaged snacks.** Given the right price - value proposition, there is an accelerated shift emerging in the consumption pattern from the unorganized to the organized sector offerings. We believe **DFM with its strong brand "Crax" is well placed to benefit from this demand uptick from packaged snacks by expanding its geographical presence into markets, expanding distribution in existing markets and launching new products.**

Investment Rationales

DFM pioneered the entry of packaged snacks in the Indian market with the introduction of its best selling Corn Rings product under its flagship brand 'CRAX'.



Launched a new variant Noodle Crunch in FY21.

■ **New product launches**

DFM has been constantly focusing on new innovations and expanding its product offerings in order to accelerate its revenue growth trajectory. For more than three decades company has persisted with its product concentration in corn rings but to reduce the concentration on corn rings, DFM extended its product line **by launching CRAX Curls and CRAX Cheese Balls towards the end of FY17 & FY18 respectively** which received unprecedented success in the first year of launch itself. Encouraged by its success DFM further launched CRAX Fritts and CRAX Pasta Crunch in FY19 which does not limit itself as children's product. Apart from new product launches, it continuously extended its existing SKUs with launch of new flavors.

In FY21 it introduced new flavors for Fritts & Rings and launched a new variant Noodle Crunch. **We expect new management team of the company to launch new products and flavors to enhance growth and cover broader markets & age groups.**

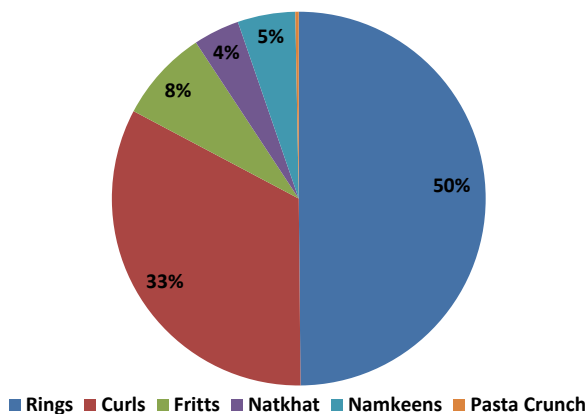
■ **Diversified product range across affordable price points**

DFM pioneered the entry of packaged snacks in the Indian market with the introduction of its best selling Corn Rings product under **its flagship brand 'CRAX' which has become extremely popular brand especially among children. DFM earns ~50% of its revenue from CRAX corn rings.** Till 2017, rings contributed ~85-90% of its total revenue but it has then reduced to ~50% which was led by new products launches as the company wanted to reduce its dependence on Rings. Over the years company extended its product line and presently company sells a variety of products like 'CRAX', 'CURLS', 'NATKHAT' and 'FRITTS'.

The product portfolio comprises of Corn Rings, Corn Puffs, Wheat Puffs, Cheese Balls, Corn & Potato Sticks and traditional Namkeens such as Bhujias, Daals, Mattar, Mixtures & Nut-Mixes. DFM's products profile consists of 18 distinct product variants - 12 in namkeen segment and 6 in snacks segment (with varied flavours). Company's innovative product are sold in several pack sizes of impulsive low ticket (Rs. - 5, 10, 15 & 20) to cater to both casual & impulse consumption as well as consumption at home. **DFM generates ~85-90% of total revenue by selling products in Rs. 5 pack.**

Exhibit 5 - Product-wise Revenue Break-up - FY19 (approx)

Productwise Revenue Break-up (approx)

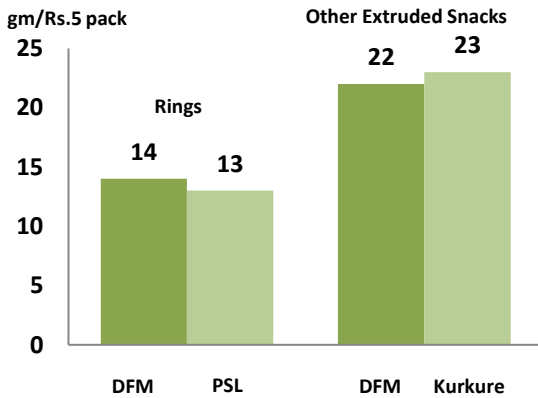


Source: Company Data, SMIFS Research

Investment Rationales

Exhibit 6 - Grammage Analysis

Grammage analysis with Peers










Source: SMIFS Research

Over the span of 3 years with the significant rise in the raw material prices DFM was forced to cut the grammage of its products from 24 gm to 22 gm in curls, 25gm to 22gm in Natkhat and roughly a gram in others but still it offers large filled packs providing value for the money to the consumers. **In its pioneer product, corn rings DFM has only cut a gram last year since 2014 to 14 gm which is still higher when compared to its peer Prataap Snacks Ltd (PSL).** This has helped DFM in increasing its brand loyalty with overall growth.

DFM’s product portfolio consists of:

- ⇒ **CRAX Corn Rings** - The first product of its kind to hit Indian retail shelves. It became one of the most popular snacks which is corn based, non fried snack which has a lower fat content. Its unique combination of irresistible taste, healthy ingredients and unique ring shape is loved by children. It is available in 6 exciting flavours - Chatpata, Tangy Tomato, Masala Mania, Pudina Punch, Thai Sweet Chilli & Mast Cheese, in two pack sizes - priced at Rs. 5 (14 gm), Rs. 10 (35 gm) and Rs. 15 (40 gm - in e-commerce channel).

Exhibit 7 - Diversified Product Portfolio

CRAX Corn Rings	CRAX Curls	CRAX Cheese Balls	CRAX Fritts	Natkhat	CRAX Namkeen	CRAX Pasta Crunch
						
Ring shaped corn based, non fried snack	Curl shaped corn based extruded snack	Corn based extruded snack	Corn & Potato Sticks	Extruded wheat puff	Traditional and popular snacks	Pasta shaped corn based extruded snack
Target Audience - 6-12 year	Target Audience - Children & Young Adults	Target Audience - 6-14 year	Target Audience - All	Target Audience - 6-14 year	Target Audience - All	Target Audience - Children & Young Adults
Price Points - Rs. 5, 14 gms; Rs. 10, 35 gms; Rs. 15, 40 gms	Price Point - Rs. 5, 22 gms; Rs. 15, 47 gms	Price Point - Rs. 5, 20 gms	Price Point - Rs. 5, 20 gms; Rs. 15, 41 gms	Price Point - Rs. 5, 22 gms	Price Point - Rs. 5, Rs. 10, Rs. 20	Price Point - Rs. 5, 20 gms
Flavors - Chatpata, Tangy Tomato, Masala Mania, Pudina Punch, Mast Cheez & Thai Sweet Chilli	Flavors - Chatpata Masala, Tomato Treat & Spicy Delight	Flavors - Rich & creamy taste of Cheese	Flavors - Cream & Onion and Masala Mix	Flavors - Classic, Masala	12 different product variants such as Bhujias, Mixtures, Daals, Mattar & Nut-Mixes	Flavors - Chinese Tadka

Source: SMIFS Research

Investment Rationales



Rs. 15 variants of Rings, Curlys & Fritts in e-commerce channel

Company has diversified its product offerings and has been continuously focusing on new innovative product launches targeting people of all age groups.

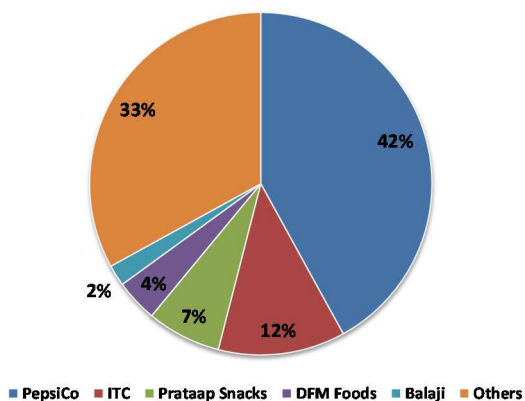
- ⇒ **CRAX Curlys** - Corn based curl shaped snack available in 3 flavours - Chatpata Masala, Tomato Treat & Spicy Delight. It is available in Rs. 5 pack (22 gm) & Rs. 15 (47 gm - in e-commerce channel).
- ⇒ **CRAX Cheese Balls** - Snack filled with the rich & creamy taste of cheese, available in a pack of Rs. 5 (20 gm).
- ⇒ **CRAX Fritts** - Corn & Potato Sticks are offered in two flavours - Cream & Onion and Masala Mix at a price of Rs. 5 pack (20 gm) & Rs. 15 (41 gm - in e-commerce channel).
- ⇒ **Natkhat** - These are wheat puffs with a lower fat content, available in Classic & Masala Flavours. It is available in Rs. 5 pack (22 gm).
- ⇒ **CRAX Namkeen** - A range of ethnic snacks offering wide range of Bhujias, Mixtures, Daals, Mattar & Nut-Mixes. A total of 12 different product variants available in pack sizes of Rs. 5, Rs. 10 & Rs. 20.
- ⇒ **CRAX Pasta Crunch** - Pasta shaped snack available in Chinese Tadka flavor priced at Rs. 5 per pack (20 gm).

■ **Evolved from kids focused to family snacks profile**

Since, DFM's first launch in snack segment it has targeted the children with 6-12 years of age group. Company also included small toys in the pack as a promotional tool as the target audience is children. But **over the years company has diversified its product offerings and has been continuously focusing on new innovative product launches targeting people of all age groups.**

Exhibit 8 - Organized Extruded Snacks Market Share (FY19)

Organised Extruded Snacks Market Share



Source: SMIFS Research

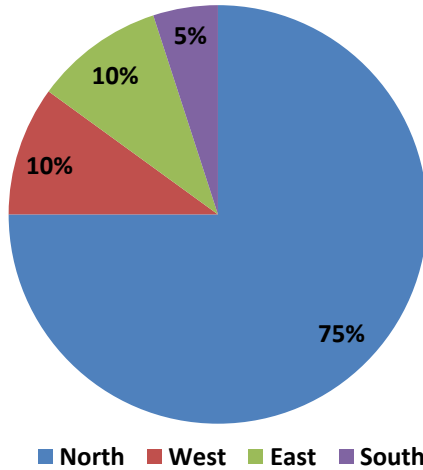
■ **Established market position with a niche brand**

DFM's CRAX brand of corn rings is being positioned in the snacks category as a niche brand with leadership position in the non fried corn snacks. **In organized extruded snacks market in India DFM has ~3-4% market share (~18-20% market share in North India).** Moreover, its major focus over the years caters to the children which have helped it to position differently from other industry players. **It has strong recognition in the snacks category in the country especially in Northern part of India which contributes ~75% of its overall revenues.** Company is expanding its reach to other parts of the country through its distribution expansion and consistent innovation which could further strengthen its market penetration. **Company generates ~85-90% of its revenue by selling products in pack of Rs.5** and that too providing substantial portion of snacks. If we look at the CRAX Curlys (Rs. 5 SKU) consists of ~60-65 pieces which offers a great value for money at that price point.

Investment Rationales

Exhibit 9 - Region-wise Revenue Break-up

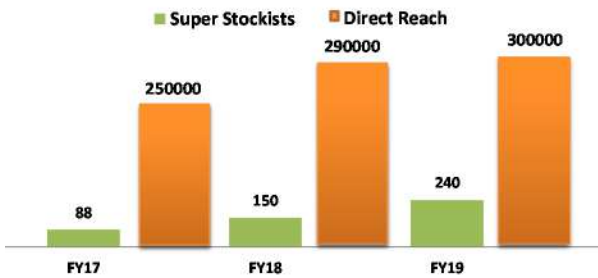
Region-wise Revenue Break-up



Source: SMIFS Research

Exhibit 10 - Expansion of the Distribution Network

Expansion of the Distribution Network



Source: Company Data

Exhibit 11 - Advertisement & Sales Promotion expense (in Rs. Mn)

Brands	FY17	FY18	FY19	FY20
DFM Foods	117	113	173	191
% to Sales	3.4%	2.7%	3.6%	3.8%
Prataap Snacks	365	254	172	150
% to Sales	4.1%	2.5%	1.5%	1.1%
Agro Tech Foods	413	324	144	186
% to Sales	5.1%	4.0%	1.7%	2.2%

Source: Company Data, SMIFS Research

Robust distribution network

DFM has strong foothold in Northern India, primarily in Tier – 1 & 2 cities and is planning to expand its reach to newer markets across the country with a special emphasis on the north zone by entering in Tier – 3 cities where its brand enjoys enormous goodwill. Company entered the Western & Eastern zone in FY12 and then in FY14 it entered the Southern zone. **Currently, it sells its products through a chain of over 1,300 distributors** spanning the states of Delhi, Uttar Pradesh, Punjab, Haryana, Uttarakhand, Himachal, J&K, Rajasthan, Madhya Pradesh, Maharashtra and Gujarat. We believe that **new management will be focusing on increase in market share along with increase in its distribution channel which had ~240 super stockist, direct retail coverage in 3 lakh outlets and distribution reach of ~12 lakh (as per AC Nielsen) as of FY19.**

DFM has increased both its numeric and weighted distribution in existing towns and penetrated deep into smaller/lower pop-strata towns and villages. As per our channel checks we believe company has also developed alternate channels of institutional, modern trade and e-commerce. In our view, there’s still a huge distribution led opportunity for DFM in India.

Innovative marketing

DFM’s CRAX brand has high visibility on television, with a special focus on cartoon channels aimed at children. Company has strong media presence so as to reach new consumers as well as maintain top of mind position among existing consumers. It has continuously used innovative schemes such as gifting a toy inside the pack which was used as a promotional tool to target kids. **Gifting toys as far as Crax Rings sales are concerned is an integral part of the offering since FY 2005-2006. DFM spends ~3.5-4% (average) of its total revenue on advertisements and sales promotion.**

Investment Rationales

■ **Stable gross margin's despite raw material price fluctuations**

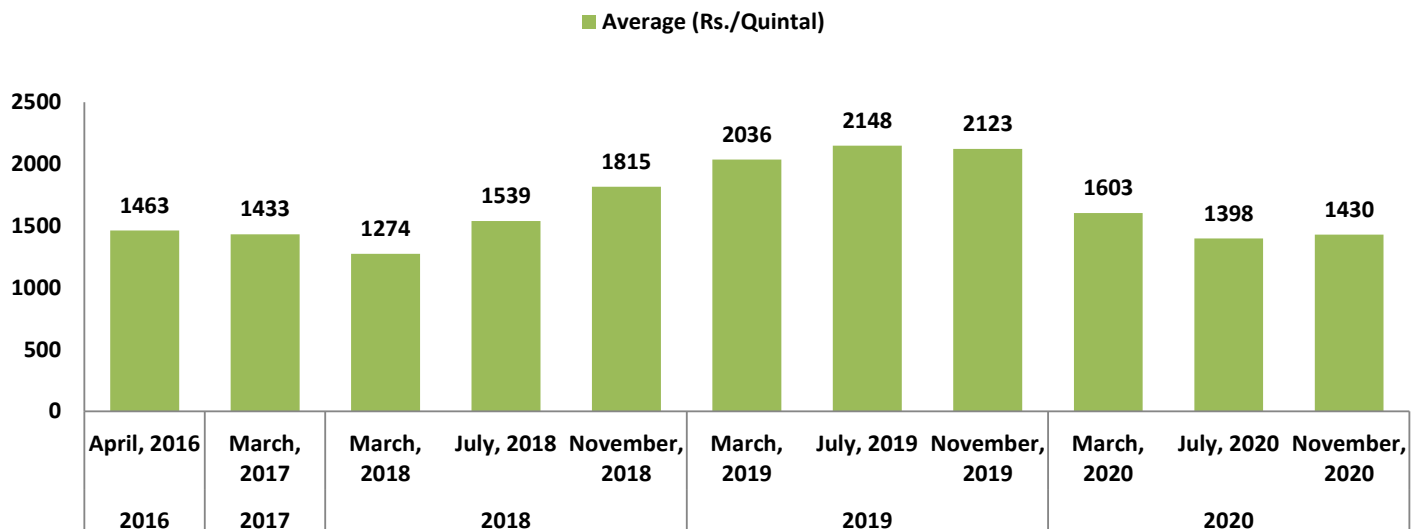
DFM has been consistently able to maintain stable gross margins despite volatility in raw materials through proactive procurement and long term contracts. **Raw material forms ~60% (FY20) of the total revenue which includes corn meal (Maize), palm oil (edible oil), laminate, toy etc.** Maize price has remained in the range of Rs. 13 - Rs. 21 per Kg in last 5 years.

Company buys all its raw material from the domestic market. DFM have long-term agreements with the suppliers for steady supply at pre-agreed prices to avoid any disruption in production. Company keeps buffer stock for key raw material items for more than one month and also source key raw materials and packaging materials from more than one vendor. Previously, company was using the IT systems and infrastructure of The Delhi Flour Mills Co. Ltd. (the erstwhile promoter entity), but now has its own IT systems and infrastructure.

Looking at DFM's major raw material - Maize, it is the third most important cereal crop after rice and wheat in India. Maize also has great importance as an industrial raw material. USA and China contribute ~35% and ~20%, respectively, to the total global production. **India ranks fourth in terms of area covered and sixth in terms of production capacity.**

Exhibit 12 - Maize Price Trend

Commodity Prices - Maize



Source: SMIFS Research

Investment Rationales

Currently, the country produces over 28 million tones of maize annually, of which roughly ~60% is used as feed (poultry and animal feed), ~14% for industrial purposes, ~13% for food, ~7% as processed food and ~6% for other purposes including seed production.

In India, Maize is grown throughout the year. It is predominantly a Kharif crop with 85% of the area under cultivation in the season. It accounts for around 10% of total food grain production in the country. India is one of the top-5 Maize exporters in the world contributing ~14% of the total maize exported to different countries around the world.

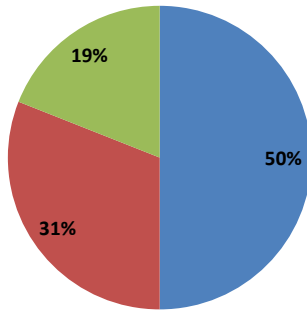
In addition to staple food for human being and quality feed for animals, maize serves as a basic raw material as an ingredient to thousands of industrial products that includes starch, oil, protein, alcoholic beverages, food sweeteners, pharmaceutical, cosmetic, film, textile, gum, package and paper industries etc. **Currently, the country produces over 28 million tones of maize, of which roughly ~60% is used as feed (poultry and animal feed), ~14% for industrial purposes, ~13% for food, ~7% as processed food and ~6% for other purposes including seed production.**

DFM's other major raw material is palm oil (palmolein oil). **India is the largest importer of palm oil in the world and imports ~90% of oil it consumes.** Government has imposed import duty on edible oils which is reviewed from time to time. Import policy of Refined Palm Oil is amended from 'free' to 'restricted' category in January 2020. **In January 2020, the import duty on Crude and Refined Palm Oil was revised to 37.5% and 45% respectively. However, in November 2020, the import duty on crude palm oil has been revised from 37.5% to 27.5% which is positive for companies like DFM.**

Industry Overview

Exhibit 13 - FMCG - Key Sector Contribution

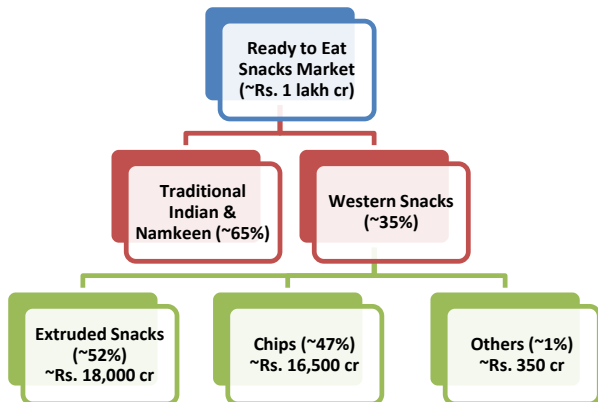
FMCG Sector Key Segments Contribution



■ Household & Personal Care ■ Healthcare ■ Food & Beverages

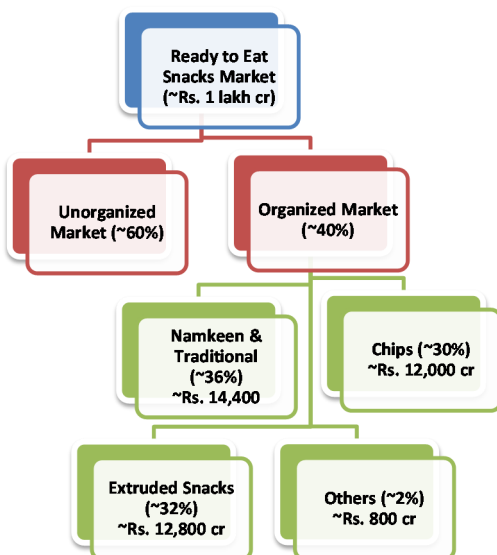
Source: SMIFS Research

Exhibit 14 - Ready to Eat Snacks Market



Source: SMIFS Research

Exhibit 15 - Category-wise Snacks Segment



Source: SMIFS Research

The **Fast-Moving Consumer Goods (FMCG)** industry in India is currently estimated to be Rs. 4.3 tn market and is the fourth-largest sector in the economy, having witnessed a remarkable transformation in the past two decades. Household & personal care and healthcare accounts for ~50% & ~31% of FMCG sales in India respectively. **Food and beverages contributes ~19% to the FMCG sector and India's packaged food industry is growing at a rapid pace**, owing to growing awareness, easier access and changing lifestyles is fuelling changes. India's long-term consumption story seems to be intact as it is expected to be the 5th largest consumer products market in the world by 2025 with a size of USD 262 bn.

The Indian snack food industry is a promising and a growing arm of the FMCG category. Snacking industry has been on the rise for several years, but the last few years have been marked by notable growth owing to factors such as growing middle-class population, demographic shifts, youth entering the workforce, rise in busy lifestyles, increasing nuclearization of households, rising urbanization, local availability of snacks, availability in small package sizes, low price and enhanced offerings covering regional flavours and taste. Millennial & Gen-Zs have adopted snacking attitudes and are making different packaged food choices based on health, convenience, brand and trust. **The Indian Snack segment can be classified into 4 segments - Extruded Snacks, Chips, Namkeen and Others**, with Indian traditional Namkeen having the highest market share compared to other segments. Western snacks are of roasted category and is a high growth segment in India with the inception of low fat products. The industry has seen transition from freshly made snacks to packed, instant and ready-to-cook snacking food items. Consumers want a variety of easy-to-carry, price-effective snacks that do not compromise on taste and quality.

Emerging snack trends in India

The market for ready to eat snacks in India is about Rs. 1 lakh cr. Being a most vibrant sector, it has been witnessing unprecedented growth in the recent past and continues to expand rapidly. Young India's preference for on-the-go dry snacks has gone up several notches in the past decade. Owing to the changing tastes of millennial and the emerging health trends, consumers are receptive to fresher, newer ideas and product innovation. Modern lifestyle trend is also pushing consumers towards having food that makes them feel good. **Consumers are also seeking convenience in the form of better packaged snacks or bite-sized packs. This is reflecting in the volume CAGR of 12% between 2012 and 2019 for savoury snacks in India.** Companies and brands are looking at providing healthier snacking options with an extended shelf life, enabling retailers to avoid product expiry issues.

Industry Overview

Western snacks which includes extruded snacks and chips comprises about 35-40% of market share and the rest belongs to the traditional Indian Namkeen category. Extruded snacks capture ~52% of the Western snacks market category followed by chips at ~47%. The snacks industry has a predominantly unorganized presence. **Organized players captured ~40% of the market** dominated by Pepsico (Kurkure, Lays), Haldiram's, Balaji (wafers & namkeens), ITC (Bingo), Prataap Snacks (Yellow Diamond), Bikanervalva (Bikano), DFM Foods(CRAX), among others. **Extruded snacks captures ~32% of the organized market share after namkeen & traditional snacks.**

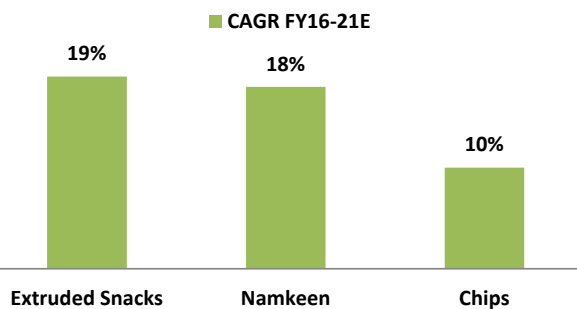
The organized market is expected to grow around 15% p.a., whereas the entire market is expected to grow by 7-8% p.a. It is expected that extruded snacks have captured highest growth of CAGR 19% from FY16-21E followed by namkeen of ~18% and chips of ~10%. Presently, ~1,000 snack items are sold in India spanning various tastes, forms, textures, aromas, bases, sizes, shapes and fillings. Besides, some 300 types of savouries are sold in the country.

Due to COVID-19 outbreak, there was a gradual disruption in supply chain and raw materials sourcing and witnessed a sudden fall in capacity utilization of below 50%. However, as restrictions on lockdown eased, operations gradually resumed and currently estimated to be at par with pre-COVID levels. Even though the pandemic hit the ready-to-eat snacks and namkeen segment significantly reducing production, demand and profits, the long term outlook remains positive. **Further, Indian snacks food industry still has untapped segments and an underpenetrated rural market which ensures growth prospects for the industry.**

The ongoing coronavirus pandemic has led to a shift in consumer behavior even when it comes to their snacking preferences. This resulted in overnight innovation in the snack food market. The need to eat healthy food, environmental concerns, convenience, affordability, and at the same time trying out something unique are the factors that would drive the growth of the snacking industry going ahead.

Exhibit 16 - Expected Growth in Snacks Category

Expected Growth in Snacks Category



Source: SMIFS Research

Indian snacks food industry still has untapped segments and an underpenetrated rural market which ensures growth prospects for the industry.

Industry Overview

Conventional crisp-making methods, such as deep-frying, have been replaced with a baked popped and puffed crisps. Popped and puffed snacks often use 'healthier' ingredients such as corn, seeds, etc.

Following are the few trends which could mark an incredible opportunity for snacking companies:

■ **Healthy food is priority**

COVID-19 has made the urgent need of shifting towards healthier snacking options. People are becoming mindful snackers and are also looking for clean brands. Companies are working on new innovations and targeting health-conscious consumers. Conventional crisp-making methods, such as deep-frying, have been replaced with a baked popped and puffed crisps. Popped and puffed snacks often use 'healthier' ingredients such as corn, seeds, etc. Thus, this healthy food trend is creating new opportunities within snacking and adjacent categories.

■ **Blooming snacks culture**

Portability has become one of the main criteria of consumers, who are either working or leading a busy schedule. Increasing female employment rate is expected to propel the snack food market. A huge section of young population was already switching from the regular three-meals-a-day to many small meals. The snack segment is expected to benefit from this trend.

■ **Rapid urbanization and high disposable income**

Rapid economic development coupled with rising disposable income and changing consumer lifestyle is driving the ready to eat food market. Consumers' busy lifestyle leads to suffer from a time crunch which is increasing the demand for on the go convenience foods, thereby fueling the snack market.

■ **Increasing demand for packaged snacks**

There is considerable shift in the buying patterns of consumers along with significant spike in the demand of packaged food products. Recently COVID-19 led more people to work from home and the definition of basic necessity changed from basic foods to snacking and munching items. Considering the hazards attached to non-packaged products there has been rise in demand of packed food which ensures safety and hygiene in the times of coronavirus. Along with the rise in plant-based diet among consumers recently, snacking sector has also modified their ingredients according to the consumers' growing preferences.

Key Risks

■ **Competition from both organized & un-organized players**

Company faces intense competition from both larger established companies as well as small regional players in the market which could impact its overall growth and earnings trajectory. However, DFM's established brand name and its hold over its target group enables it to have an edge over its competitors.

■ **Geographical concentration**

DFM's major revenue comes from the North India, primarily in Tier-I & Tier-II cities. However, the company is expanding its reach to other parts of the country and also planning to enter in Tier-III cities of North India.

■ **Rise in prices of raw material**

Lower agricultural production and any adverse effects on commodities can cause volatility in the prices of raw materials (Cornmeal, Palm Oil, Laminates etc.) which may result in increased cost of materials for the company.

■ **Limited scope of raising the prices**

DFM sells its products at price points of Rs. 5/10 and thus faces limitations in terms of raising prices and has to reduce the volume offered per pack to raise the prices indirectly. But with continuous reduction in grammage in Rs.5 SKU, we expect industry and consumer to shift to larger SKU's.

SWOT Analysis

Strengths

- Strong brand presence, product mix backed by new launches and expanding customer reach through aggressive marketing.
- Strong corporate governance backed by private equity.
- Company has very strong distribution reach in tier 1 & 2 cities in North India.
- Zero net debt balance sheet and negative working capital days.
- Experienced new management team from reputed FMCG companies.

Weaknesses

- Lower penetration in rural areas.
- Limited pricing power in Rs. 5/10 SKU's.
- High dependence of revenue from North India.

Opportunities

- Company is yet to fully explore and penetrate the non-Northern parts of India and thus significant opportunities exist for the company to expand backed by potential expansion in Pune.
- Rising disposable income and increased rate of urbanization will continue to provide immense potential for the healthy growth of the processed food industry.
- New product developments.

Threats

- Stiff competitions from organized and unorganized players.
- Increased health consciousness among people resulting in change in food habits.
- Increasing price of raw materials, can lead to margin compression.
- Any significant churn in senior management team.

Company Overview



DFM
FOODS LTD.



DFM's corn rings – was one of the earliest readymade snacks that was launched in India

DFM Foods Ltd was established in 1983 and is engaged in the business of manufacturing, selling and marketing of packaged foods. DFM being the fastest growing snack foods company with rich experience of over three decades. Company's corn rings – was one of the earliest readymade snacks that was launched in India and has established itself as strong brand name over the years.

DFM markets its products under the brand names of CRAX, CURLS, NATKHAT and FRITTS. The product portfolio comprises of Corn Rings, Corn Puffs, Wheat Puffs, Cheese Balls, Corn and Potato Sticks and traditional Namkeens, sold through an extensive distribution network. DFM got popularity in with corn rings over the decades and thus to diversify its product line much later it entered in namkeens segment also. It has 18 different types of variants in snacks and namkeen segment with various flavors.

DFM predominantly has strong presence in Northern India with its state of the art manufacturing facilities in Ghaziabad and Greater Noida. Company has traditionally focused on North India but later gradually expanded distribution across markets of West, East & South.

Company was incorporated with the object of engaging in flour milling and manufacturing of snack food products. **Having divested its flour business in 2009, DFM has since then been focusing on its impulsive snack food.** Initially, the company was promoted by Delhi Flour Mills Company Ltd and Jain Family but recently it has been acquired by a subsidiary of US based private equity firm Advent International Corporation (Advent) which currently holds 73.71% stake in the company.

Exhibit 17 - Timeline

Year	Events
1983	<ul style="list-style-type: none"> DFM Foods Ltd was established.
1984	<ul style="list-style-type: none"> The snack food business began as a part of Delhi Flour mills by selling Crax Corn Rings.
2009	<ul style="list-style-type: none"> Divested its flour business and has since then been focusing on its impulsive snack food.
2012	<ul style="list-style-type: none"> Set up a greenfield project in Noida in November 2011 with a capacity of 10,000 MTPA. Expanded into Western & Eastern Markets.
2014	<ul style="list-style-type: none"> Launched CRAX Krunchoids - a wheat based puff in four flavours. Entered in Southern zone.
2015	<ul style="list-style-type: none"> Krunchoids were withdrawn.
2016	<ul style="list-style-type: none"> Expanded manufacturing capacity by 5000 MTPA thereby taking the total capacity available to 25,308 MTPA. CRAX Ring's new flavour was added- Thai Sweet Chilli Flavour in Q4FY16.
2017	<ul style="list-style-type: none"> Commissioning of the 2nd Brownfield expansion of 10,000 MTPA thereby increasing the capacity to 35,308 MTPA. Acquisition of land near Pune for a future greenfield site. Launch of Crax Curls in February 2017.
2018	<ul style="list-style-type: none"> Increased capacity of about 4,000 MTPA thereby taking up the total installed capacity to about 39,400 MTPA. Launched new product - Cheese balls.
2019	<ul style="list-style-type: none"> Increased capacity by ~3,500 MTPA. The old line was replaced with a new line and has resulted in an extra 490 MTPA production capacity. Launched Crax Fritts (Q3) and Pasta Crunch(Q4).
2020	<ul style="list-style-type: none"> Commissioned new extrusion line having capacity of 5000 MTPA and its total capacity stands at 48,400 MTPA. Advent International took majority stake in the company. Launched 2 new flavour variants of Fritts – Red Chilli Chatka and Noodle Masala.
2021	<ul style="list-style-type: none"> Introduced new flavors for Fritts & Rings and launched a new variant Noodle Crunch.

Source: Company Data, SMIFS Research

Promising Promoters

Advent has invested USD 52 bn in over 360 private equity investments across 41 countries, and as of September 30, 2020, managed USD 66 bn of assets globally.

In India apart from DFM Advent has made investments in companies like Crompton Greaves Consumer Electricals Ltd, ASK Investment Managers Pvt Ltd, Bharat Serum and Vaccines etc.

Advent International (Advent), founded in 1984 is one of the largest and most experienced global private equity firms headquartered in US. Since initiating its private equity strategy in 1989, **Advent has invested USD 52 bn in over 360 private equity investments across 41 countries, and as of September 30, 2020, managed USD 66 bn of assets globally.** Advent has 15 offices in 12 countries with presence in four continents – Asia, Europe, Latin America and North America. Company has substantial experience helping businesses raise capital in the public markets and has completed IPOs on 18 exchanges worldwide with 58 companies in its buyout funds.

It has established a globally integrated team of more than 235 investment professionals, focused on buyouts and growth equity investments in five core sectors - Business & Financial Services, Healthcare, Industrial, Retail, Consumer & Leisure and Technology. Advent provides its portfolio companies with capital infusions for international expansion, restructuring, or to fuel growth. It also offers investment advisory, wealth management, due diligence, and evaluation services.

Advent has been investing in the five core sectors for ~30 years and has completed various investments which are as follows:

- ⇒ Business & financial services sector - 75 investments in 24 countries
- ⇒ Healthcare sector - 45 investments in 16 countries
- ⇒ Industrial sector - 80 investments in 26 countries
- ⇒ **Retail, consumer & leisure sector - 75 investments in 22 countries (~USD 11 bn)**
- ⇒ Technology sector - 75 investments in 24 countries

Over the past 12 years, the firm has deployed more than USD 1 bn in nine companies with headquarters or operations in India. In India apart from DFM, Advent has made investments in companies like Crompton Greaves Consumer, ASK Investment Managers, Bharat Serum and Vaccines, Dixcy Textiles, Care Hospital, CAMS, RA Chem Pharma, QuEST Global Services, Manjushree Technopack and Aditya Birla Capital.

Advent India PE Advisors Pvt. Ltd.

Advent International has been active in India since 2000. Advent initially in 2007 built a dedicated India team solely based in London, but since 2009 its fully operational from its Mumbai office. In addition to advising on investments in Indian companies, the team works with Advent professionals worldwide on international investments with Indian expansion opportunities. The team also works with Advent's existing global portfolio companies on growth strategies and acquisitions in the Indian market.

Promising Promoters

Advent India's some of the key managerial persons include - Shweta Jalan (MD), Sahil Dilip Dalal (MD), Vinod Pdikkal (Director) and Pankaj Patwari (Director).

Investment Programs

Advent employs a long-established strategy of operationally intensive, sector-focused investing across North America, Latin America, Europe and Asia. Company invest in well-positioned companies with operational and strategic improvement potential and partner with management teams to create sustainable value through revenue and earnings growth.

Exhibit 18 - Investment Programs











Region(s)	North America / Europe / Global	North America / Europe / Global	Latin America
Current fund	Global Private Equity IX (GPE IX)	Advent Tech	Latin American Private Equity Fund VII (LAPEF VII)
Size	\$17.5 billion/€15.6 billion	\$2.0 billion	\$2.0 billion
Geographic focus	North America, Europe and other selected markets globally	North America, Europe and other selected markets globally	Brazil, Colombia, Mexico, Peru and other selected Latin American markets
Sector focus	Business & financial services	Technology	Business & financial services
	Healthcare	Application software	Healthcare
	Industrial	Data	Industrial & infrastructure
	Retail, consumer & leisure	Tech & communications services	Retail, consumer & leisure
	Technology		Technology
Deal types	Buyouts, growth equity investments, public-to-private transactions, recapitalizations	Control buyouts/corporate carve-outs, minority growth investments, public-to-private transactions	Buyouts, growth equity investments, public-to-private transactions, recapitalizations
Advent equity investment	\$/€100 million–\$/€2 billion	\$50 million–\$2 billion (incl. co-investment with Advent's GPE IX fund)	\$50 million–\$300 million
Company enterprise value	Up to \$/€5 billion and selected larger transactions	\$200 million–\$5 billion and selected larger transactions (incl. co-investment with Advent's GPE IX fund)	\$50 million–\$1 billion and selected larger transactions

Source: Advent

Advent's Investment in India

Since establishing private equity strategy in 1989, DFM have invested in over 360 private equity investments in 41 countries.




Exhibit 19 - Advent's investment in India

Company	Country	Sector	Description	Deal type	Invest. date	Remarks
 RA Chem Pharma Ltd	India	Healthcare	A vertically integrated API player, also engaged in manufacturing of pellets, B2B formulations and clinical studies	Buyout	Oct 2020	Invested
 Aditya Birla Capital	India	Business & Financial Services	Holding company for the financial services businesses of Aditya Birla Group	Expansion capital	Feb 2020	Investment is being made by Jomei Investments Limited (JIL) which is wholly-owned by a fund managed by Advent International Corp. - Acquisition of 4.14% stake.
 Bharat Serums and Vaccines	India	Healthcare	A biopharmaceutical leader in women's healthcare, assisted reproductive treatment, critical care and emergency medicine in India and emerging markets	Buyout	Feb 2020	Invested
 DFM Foods	India	Retail, Consumer & Leisure	A packaged foods company that primarily sells extruded corn based savory snacks across India	Buyout	Jan 2020	Invested through its subsidiary AI Global Investments (Cyprus) PCC Ltd and holds 73.71% equity of the company. (approx. Rs. 1,000 cr).
 Manjushree Technopack Limited	India	Industrial	India's leading manufacturer of rigid plastic packaging	Buyout	Oct 2018	Invested
 Dixcy Textiles Private Limited	India	Retail, Consumer & Leisure	Leading innerwear brand in India	Buyout	Sep 2017	Invested
 ASK Investment Managers Private Limited	India	Business & Financial Services	Leading portfolio management service provider, real estate investment manager and wealth manager in India	Growth equity	Dec 2016	Invested
 Crompton Greaves Consumer Electricals Limited	India	Retail, Consumer & Leisure	India's leading supplier of consumer electrical goods, lighting and lighting automation systems	Carve-out	July 2015	Advent through its two Cyprus-incorporated special purpose vehicles Amalfiaco and Nirsinia, currently holds 17.17% stake
 CARE Hospitals	India	Healthcare	Largest multi-specialty hospital chain in South and Central India	Growth equity	Mar 2012	Exit
 CAMS - Computer Age Management Services	India	Business & Financial Services	India's leading provider of business process outsourcing services to the asset management industry	Growth equity	Oct 2007	Exit

Source: Advent

Advent's Investments in Retail, Consumer & Leisure










Exhibit 20 - Advent's investments in Retail, Consumer & Leisure sector

Company	Country	Sector	Description	Deal type	Invest. date
 Grupo CRM	Brazil	Retail, Consumer & Leisure	The largest direct-to-consumer premium chocolate player in Brazil	Buyout	Oct-20
 Aimbridge Hospitality	US	Retail, Consumer & Leisure	North America's leading third-party hotel operator	Buyout	Feb-19
 Grupo BIG (formerly Walmart Brazil Group)	Brazil	Retail, Consumer & Leisure	The third-largest food retailer in Brazil	Carve-out	Aug-18
 First Watch	US	Retail, Consumer & Leisure	Operator of full-service daytime cafes serving breakfast, brunch and lunch	Buyout	Aug-17
 Sovos Brands	US	Retail, Consumer & Leisure	Company formed to acquire and build a portfolio of food and beverage brands; its first acquisition is Michael Angelo's Gourmet Foods, a producer of premium, authentic frozen Italian entrées	Buyout	Jan-17
 Noosa Yoghurt	US	Retail, Consumer & Leisure	A fast-growing leader in the yoghurt category	Buyout	Nov-14
 The Coffee Bean & Tea Leaf	US	Retail, Consumer & Leisure	Largest privately-held specialty premium coffee and tea retailer in the US	Buyout	Sep-13
 Bojangles'	US	Retail, Consumer & Leisure	A leading quick-service-restaurant operator in the southeastern US, specializing in Cajun-style fried chicken, buttermilk biscuits and iced tea	Buyout	Aug-11
 PPF - Partner in Pet Food	Hungary	Retail, Consumer & Leisure	One of Europe's largest producers of private-label pet food	Carve-out	Jun-11
 Devin	Bulgaria	Retail, Consumer & Leisure	Bulgaria's leading bottler of mineral water and distributor of soft drinks	Public-to-private	Nov-09
Airport Shoppes	Puerto Rico	Retail, Consumer & Leisure	Leading airport restaurant and in-flight catering group in Puerto Rico (merged into Advent portfolio company International Meal Company)	Buyout	Mar-08

Source: Advent

Advent's investments in Retail, Consumer & Leisure

Exhibit 21 - Advent's investments in Retail, Consumer & Leisure sector

Company	Country	Sector	Description	Deal type	Invest. date
 Grupo RA	Brazil	Retail, Consumer & Leisure	Largest operator of restaurants and snack bars in Brazilian airports (merged into Advent portfolio company International Meal Company)	Buyout	Apr-07
 Grupo La Mansión	Mexico	Retail, Consumer & Leisure	A leading operator of casual dining restaurants in Mexico, including the flagship La Mansión steakhouse chain (merged into Advent portfolio company International Meal Company)	Buyout	Nov-06
 International Meal Company	Brazil	Retail, Consumer & Leisure	Leading multi-brand, quick casual restaurant chain in Latin America	Buyout	Nov-06
 BCS	France	Retail, Consumer & Leisure	Manufacturer of pre-baked frozen bread and viennoiserie	Carve-out	Apr-00
 Graffigna	Argentina	Retail, Consumer & Leisure	Producer of premium wine and champagne	Buyout	May-99
GESA - Grupo Embotelladores del Sureste SA	Mexico	Retail, Consumer & Leisure	Bottler and distributor of Pepsi-Cola and other regional soft drinks in southern Mexico	Recapitalization	Dec-98
 Brewery Holdings	Romania	Retail, Consumer & Leisure	Brewer and distributor of beer	Growth equity	Oct 1996, Jul 1998
 Star Foods	Poland	Retail, Consumer & Leisure	Producer and distributor of snack foods	Growth equity	Oct-96
Csabai Konzervgyar	Hungary	Retail, Consumer & Leisure	Producer of pasta, canned vegetables and tetrapak fruit juices	Buyout	Sep-96
Gaymer Group Europe	UK	Retail, Consumer & Leisure	Manufacturer of light alcoholic beverages and soft drinks	Carve-out	Feb-92
 Devro Holdings	UK	Retail, Consumer & Leisure	Worldwide manufacturer of edible collagen sausage casings	Carve-out	Apr-91
 Parmalat	Italy	Retail, Consumer & Leisure	Long-shelf-life milk and other food products	PIPE	Sep-90

Source: Advent

Key Management Team

■ Mr. Hemant M Nerurkar, Chairman and Non-Executive Independent Director

Mr. Nerurkar holds a bachelor's degree in Metallurgical Engineering from the College of Engineering, Pune University. He has vast experience of over 35 years in Tata Steel across various positions. He joined Tata Steel in the year 1972 and rose to the level of Managing Director, as in-charge of India and South East Asia operations. **Currently, he is the Chairman of TRL Krosaki Refractories Ltd (formerly Tata Refractories Ltd - a JV between Tata Steel and Krosaki Harima Corporation, Japan) and NCC Ltd (formerly Nagarjuna Construction Company Ltd) and an Independent Director of several other listed entities.** He has attended several management courses in India and abroad, including from CEDEP in France.

■ Mr. Lagan Shastri, Managing Director & CEO

Mr. Shastri has majored in Marketing & Finance from IIM, Bangalore and is having B.Com(H) in Commerce, Finance & Accounts from Shri Ram College of Commerce. **He is a visionary leader & a turnaround specialist with multiple experiences in, very senior, general management, sales & marketing & operations roles.** He has excelled in business turnarounds & his experience spans across functions from front-line execution in field sales, key accounts & marketing to providing strategic & transformational thought leadership in international, national & region businesses in commercial supply chain, procurement & support functions. **He has multi-country experiences in India, China, Sri Lanka, Nepal & Bangladesh.** He has gained deep insights into the opportunities & challenges of marketing, distribution & sales in a culturally & economically diverse country like India.

He has over 21 years of experience in Hindustan Coca-Cola Beverages Pvt Ltd. He has worked at various positions starting from - Area Sales Manager, Marketing and Key Account & Institutional Sales Manager, Senior Manager, Region Sales & Marketing Manager, Director, Vice President India, Zonal Vice President, Senior Vice President, Chief Commercial Officer and lastly Executive Director.

Following is the snap shot of Mr. Shastri's journey in Hindustan Coca-Cola Beverages Pvt Ltd (HCCB):

⇒ 2018-till January 2020: Put HCCB, India on a sustained & profitable growth path

Key Management Team

- ⇒ 2017-18: Commercial & sales turnaround for HCCB, India
- ⇒ 2016-17: Long Term Strategy for India, Sri Lanka, Bangladesh & Nepal
- ⇒ 2014-16: 100 mn USD savings in India, Sri Lanka, Bangladesh, Nepal + Helped China in Better to Best Initiative.
- ⇒ 2013-14: North India business turnaround in growth & profits.
- ⇒ 2011-13: India-wide initiatives on pack price to get share gains.
- ⇒ 2009-10: Delhi growth turnaround: -10% to +20%.
- ⇒ 2008-09: Business turnaround of Region North in 2009.
- ⇒ 2006-08: Sales & RTM Productivity in North India.
- ⇒ 2005-06: Developed BPPC architecture, RED framework & OBM for India.
- ⇒ 1998-05: Learnt & contributed in sales & marketing in rural & urban India.

■ Mr. Davinder Dogra, CFO

Mr. Dogra is qualified Chartered Accountant with 23+ years of cross functional experience in Financial Planning, Auditing, MIS, Treasury ,Taxation, System Implementation, Accounting & General Administration. He is associated with the company since March 2015. He has multi sector exposure having worked in Manufacturing, FMCG, Telecom and Retail. ***He has good working experience having worked with world leading MNC's (Pepsico, Pernod Ricard) and leading Indian business houses (Airtel, Future Group & DLF).***

■ Mr. V.L. Rajesh, Non-Executive Non Independent Director

Mr. V.L. Rajesh after graduating in Mathematics from Madras University, did his post-graduate diploma from IIM Calcutta in 1990, specializing in Marketing and Finance. ***He joined ITC in 1990 and has handled various assignments there for over 27 years straddling Sales and Marketing, Manufacturing & PD and Business Leadership. His last assignment was as CEO of the Foods Business, ITC's second largest business.*** He was a founding member of the foods business which over 16 years has grown to over Rs. 10,000 cr in size and remains ITC's key growth driver.

Key Management Team

■ Mr. Sahil Dilip Dalal, Non-Executive Non Independent Director

Mr. Sahil has a BBA from the University of Michigan and an MBA from the University of Pennsylvania. He joined Advent in 2009. **Presently he is Managing Director of Advent India PE Advisors Pvt. Ltd.** Mr. Sahil has worked on Advent's investments in ASK Investment Managers Pvt. Ltd, CAMS, Crompton Greaves Consumer Electricals Ltd, DFM Foods, Dixcy Textiles Pvt Ltd and QuEST Global.

■ Mr. Manu Anand, Non-Executive Non Independent Director

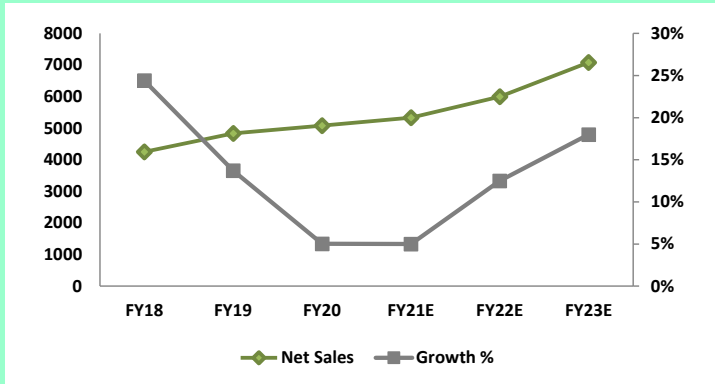
Mr. Manu Anand is a CA and holds a Bachelor's Degree in Science with Honors in Physics. **He is having 36 years of work experience covering a series of diverse assignments with three large multinational organizations- Mondelez, PepsiCo and ICI across India, Asia Pacific and Middle East Africa.** He built a great track record of creating winning strategies, driving growth and profitability, managing multi-billion dollar and multi country/ multi business P&Ls, building brands and distribution systems, leading change and transformation and building diverse teams.

■ Mr Singh Nepal, Head New Product Development

Mr. Singh is a Ph.D (Food Technology) with more than two decades of professional experience from Academia to Industry in Food/ Healthcare, primarily in India and USA. He has handled varied responsibilities in R&D, projects, regulatory affairs and strategic innovations, besides having had international exposures & assignments. He has track record of working across various categories such as RTS/RTE foods, Extruded Snacks, Health foods, Culinary Foods, Cocoa /Malted Milk Drinks, Seasoning & Condiments & Food Ingredients. **He worked for Haldiram Snacks Pvt. Ltd as Vice President R&D & QA for 4 years. Prior to Haldiram he has worked with Perfetti Van Melle Pvt Ltd for 5 years as Controller (Process & RD)** which has brands like Center Fresh, Happydent, Big-Babol, Alpenliebe, Mentos, Chloromint. Perfetti Van Melle Group is an Italian-Dutch company is one of the world's largest manufacturers and distributors of confectionery and chewing gum.

Key Performance Indicators

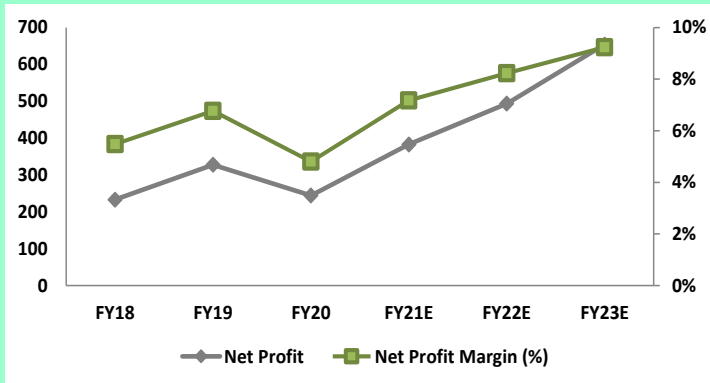
Exhibit 22 - Revenue & Revenue Growth



Source: Company Data, SMIFS Research

We estimate Sales & EBIDTA CAGR of 11.71% & 31.33% over FY20-FY23E respectively.

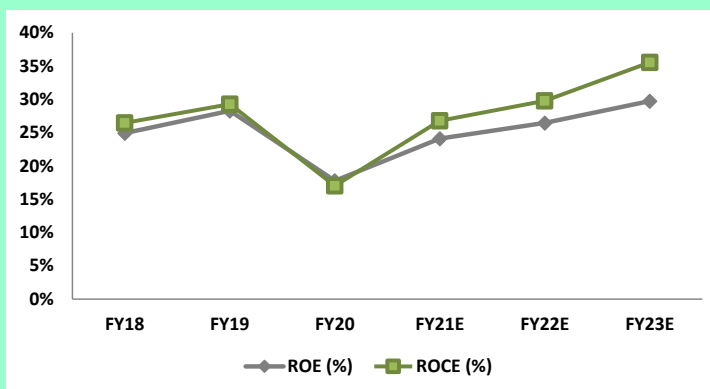
Exhibit 23 - Net Profit & Margin



Source: Company Data, SMIFS Research

We estimate PAT CAGR of 38.85% over FY20-FY23E.

Exhibit 24 - RoE and RoCE



Source: Company Data, SMIFS Research

We estimate RoE improvement from 17.8% in FY20 to 29.7% in FY23E while RoCE improvement from 17% in FY20 to 35.5% in FY23E.

Outlook and Valuation

DFM is an established player with over three decades of experience and a strong brand recall with “CRAX.” It has a wide range of products and continuously works on launching innovative products which has help it to stay ahead of the competition.

It has strong presence in North India and has also started selling its products in Western, Eastern and Southern region. DFM’s expanded capacity, robust marketing and increasing distribution network would help to grow its earnings at a healthy pace going forward. Its strong supply chain will aid in expansion at a steady pace.

DFM’s topline growth has been driven by a renewed focus on customer connect through faster market replenishment, emphasis on popular flavours, more relevant marketing schemes and continued expansion of the distribution network. Company has zero net debt balance sheet and negative working capital days with strong business scalability potential on the back of high fixed asset turnover on greenfield or brownfield capex.

We believe that company has ability to maintain its profitability driven by expansion in scale of operations through new product launches and to diversify its operations to other geographies which should help it to generate operating leverage benefit.

Company is committed to providing products and services that offer best-in-class quality. With a continually growing product portfolio, DFM endeavors to use sustainably sourced ingredients. It has adopted stringent hygiene standards, benchmarked manufacturing practices and robust quality assurance systems for its products and the declared product shelf-life is determined based on applicable regulations.

Going forward, we expect the new promoter (Advent International) and new management would focus on company’s sustainable and profitable growth which is likely to be driven mainly by new product & marketing innovation, strengthening distribution and expanding its geographical reach.

Due to COVID-19, consumer demand continued to face pressure, as outdoor access for children remains restricted in both urban and rural markets but with the passage of time it will change. On the cost front also it faced few challenges due to inflation in edible oil and other raw material prices but company was able to mitigate through supply chain efficiencies and cost optimization measures. We expect that soon company would get back to its growth path through strong consumer focus, innovative marketing and efficiency in operations.

Considering the above points, **we have valued the stock at 40x FY23E EPS of Rs. 13 (implying market cap/sales of 3.9x) to arrive at a Target Price of Rs. 520 implying upside of ~32% based on the CMP over the next 9-12 months.** We thus recommend a “Strong Buy” rating on the stock. **We believe DFM is one of the best plays to ride the high growth packaged snacks category in India as company possess the key elements of growth, efficiency and longevity. We have valued the company higher than its historical P/E multiple given change in management, zero net debt balance sheet, negative working capital, strong expected improvement in return ratio’s.**

Exhibit 25 - Peer Comparison

Peers	Sales (Rs. Mn)		Gross Profit Margin%		EBIDTA (Excl OI) (Rs. Mn)		EBIDTA margin(%)		PAT (Rs. Mn)		PAT Margin (%)		EPS (Rs.)		P/E		Market Cap / Sales	ROE		ROCE	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY20	FY19	FY20	FY19	FY20
DFM Foods Ltd	4836	5079	41.3	39.9	649	417	13.4	8.2	328	244	6.8	4.8	6.5	4.9	60.6	81.4	3.9	28.3	17.8	29.3	17.0
Prataap Snacks Ltd	11706	13938	29.9	28.6	832	937	7.1	6.7	446	469	3.8	3.4	19.0	20.0	35.7	34.0	1.1	8.2	8.0	10.1	6.8
Agro Tech Foods Ltd	8237	8355	31.7	31.6	647	584	7.8	6.9	343	338	4.2	4.1	14.6	14.3	57.5	58.6	2.5	9.0	8.3	13.6	10.3

Source: SMIFS Research, Bloomberg.

Financial Details

Income Statement (Consolidated)							In Rs Mn	
Particulars (Y/E March)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	
Net Revenue	3419	4253	4836	5079	5333	6000	7080	
COGS	2083	2558	2839	3053	3176	3552	4181	
Gross Profit	1336	1696	1997	2026	2157	2448	2899	
SG&A, Power & Fuel	1018	1187	1348	1609	1493	1699	1955	
EBITDA	318	508	649	417	664	749	944	
Depreciation & Amortisation	72	100	105	114	126	125	133	
Other Income	50	43	51	68	77	90	106	
EBIT	296	452	580	371	615	715	917	
Interest Cost	45	100	106	99	101	52	40	
PBT	251	352	474	272	514	663	878	
Tax Expenses	66	119	146	28	131	169	224	
PAT	185	233	328	244	383	494	654	
Cash PAT	257	333	433	358	509	618	787	
EPS	3.69	4.65	6.51	4.85	7.61	9.82	13.00	

Balance Sheet (Consolidated)							In Rs Mn	
Particulars (Y/E March)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	
Share Capital	100	100	100	100	100	100	100	
Reserves & Surplus	746	924	1192	1354	1622	1909	2288	
Networth	846	1024	1293	1455	1722	2009	2388	
Minority Interest	0	0	0	0	0	0	0	
Total Borrowings	841	865	872	830	633	433	333	
Net deferred tax liability	118	159	202	149	149	149	149	
Other non-current liabilities	46	67	68	354	348	356	359	
Trade payables	409	347	430	548	546	638	756	
Other Current Liabilities	333	231	246	337	299	313	343	
Total Equity & Liabilities	2593	2694	3112	3672	3699	3897	4328	
Net Block+CWIP	1589	1591	1715	2304	2328	2453	2670	
Intangible assets	0.7	0.6	0.9	0.8	0.8	0.8	0.8	
Other non-current assets	294	305	228	160	121	125	171	
Inventories	191	236	219	240	290	302	395	
Investments	485	519	551	578	578	728	778	
Trade Receivables	0	0	0	1	0	0	0	
Cash and Bank Balance	18	23	370	339	355	258	278	
Other Current assets	14	19	27	49	27	30	35	
Total Current Assets	708	797	1168	1207	1249	1318	1486	
Total Assets	2593	2694	3112	3672	3699	3897	4328	

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement (Consolidated)							In Rs Mn	
Particulars (Y/E March)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	
PBT	251	352	474	272	514	663	878	
Depreciation & Amortisation	72	100	105	114	126	125	133	
Interest & dividend Income	-3	-7	-11	-29	0	0	0	
Interest expense	45	100	106	99	101	52	40	
Changes in working capital	-105	-115	107	96	-32	92	7	
Taxes Paid	-57	-64	-105	-106	-131	-169	-224	
Others	-18	-24	-45	-21	0	0	0	
Cash Flow from Operating Activities	186	343	631	425	578	763	834	
Capital Expenditure	-581	-134	-230	-241	-150	-250	-350	
Other Investments	44	-8	-253	25	0	-150	-50	
Interest & Dividend Received	10	12	5	78	0	0	0	
Cash Flow from Investing Activities	-527	-130	-478	-138	-150	-400	-400	
Net issuance of equity	0	6	0	0	0	0	0	
Net borrowings	437	-46	-3	-33	-197	-200	-100	
Dividend paid (including tax)	-59	-59	-60	-75	-115	-207	-275	
Interest expense	-53	-87	-82	-94	-101	-52	-40	
Others	-1	-25	15	-9	0	0	0	
Cash Flow from Financing Activities	324	-211	-130	-211	-413	-459	-415	
Net change in cash	-18	2	23	76	15	-97	20	
Opening cash balance	31	13	14	37	113	128	32	
Closing Cash Balance	13	14	37	113	128	32	51	

Source: Company Data, SMIFS Research

Financial Details

Key Ratios (Consolidated)							
Particulars (Y/E March)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)							
Net Revenue	-12%	24%	14%	5%	5%	13%	18%
Gross Profit	-12%	27%	18%	1%	6%	13%	18%
EBITDA	-32%	60%	28%	-36%	59%	13%	26%
PAT	-16%	2%	24%	-29%	49%	15%	12%
Margins (%)							
Gross Margin	39.1%	39.9%	41.3%	39.9%	40.5%	40.8%	41.0%
EBITDA Margin	9.3%	12.0%	13.4%	8.2%	12.5%	12.5%	13.3%
PBT Margin	7.3%	8.3%	9.8%	5.4%	9.6%	11.0%	12.4%
PAT Margin	5.4%	5.5%	6.8%	4.8%	7.2%	8.2%	9.2%
Per Share Data (In Rs)							
EPS	3.7	4.7	6.5	4.9	7.6	9.8	13.0
BVPS	16.9	20.4	25.7	28.9	34.2	39.9	47.5
DPS	1.0	1.0	1.3	0.0	1.9	3.4	4.5
No. of Shares (Mn)	50.0	50.1	50.3	50.3	50.3	50.3	50.3
Profitability Ratios (%)							
RoE	23.5%	24.9%	28.3%	17.8%	24.1%	26.5%	29.7%
RoCE	21.8%	26.5%	29.3%	17.0%	26.8%	29.8%	35.5%
Valuation Ratios (x)							
P/E	107.0	84.9	60.6	81.4	51.9	40.2	30.4
P/BV	23.3	19.3	15.4	13.7	11.5	9.9	8.3
EV/ EBITDA	63.1	39.6	30.5	47.4	29.5	25.8	20.3
Working Capital							
Inventory (days)	34	34	28	29	30	30	30
Debtors (days)	0	0	0	0	0	0	0
Creditors (days)	72	50	55	65	62	60	60
Net Working Capital (days)	-38	-16	-27	-37	-32	-30	-30
Fixed Asset Turnover	2.6	2.7	3.0	3.0	3.0	3.2	3.4

Source: Company Data, SMIFS Research

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