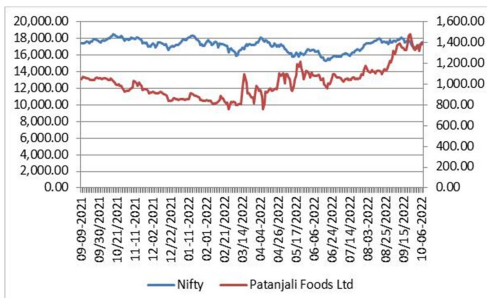


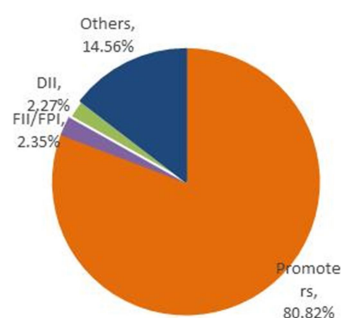
**CMP:** Rs 1401  
**2 Year Target:** Rs 1750

Face Value	2.0
Market Cap (Rs cr)	50,728
52 week high/low	1495/700
Shares O/S (Cr)	36.20
Book Value per Share (Rs)	165
Sensex	58,191
Nifty	17,314.65

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 30th June 2022.



### Investor's Rationale

#### ➤ Food Business to drive overall margins:

Acquired foods business of PAL commands 16% operating margins with high sales contribution of ghee, juices, atta and honey. With consolidation of foods business, overall margins of the company to see an uptick.

The combined distribution network of PAL & PFL has expanded the company's reach to 1 million retail touch points. Further, its products can be promoted & advocated through more than 3000 Patanjali health centres

#### ➤ Backward Integration:

Backward integration in palm plantation is likely to reduce its dependency on imported CPO. Moreover, expansion in palm extraction capacities by the company would help in improving margin in the edible oil business in the next three to five years.

PFL has 3.9 million tonnes (MT) of oilseed crushing & refining capacity with current utilisation of 40%. The company would be able to increase capacity utilisation by leveraging its existing & Patanjali brand to drive volumes

#### ➤ Valuation

We value PFL at 40x FY24 earnings to arrive at a target price of | 1750/share.

	FY21	FY22	FY23E	FY24E
Revenue (Rs.Cr)	24,205.4	29,370.8	32,771.5	36,601.2
EBITDA (Rs. cr)	136.7	154.2	181.4	183.5
Adj. profit (Rs.Cr)	805.9	1,119.4	1,572.5	1,909.0
Adj. EPS (Rs.)	27.3	30.9	43.5	52.7
P/E (x)	51.4	45.3	32.3	26.6
EV/EBITDA (x)	35.2	27.5	22.3	18.4
ROCE (%)	1320.0%	1560.0%	1730.0%	1900.0%
ROE	1310.0%	1130.0%	1420.0%	1530.0%

**Scale Up Edible Oil Business through higher Capacity Utilisation**

- Indian edible oil consumption is 24 MT and accounts for ~| 2.5 crore (our estimate). This included 11 MT of edible oil produced domestically from soybean, rapeseed, mustard, groundnut, sunflower, safflower & nigar seeds. Further, palm oil, coconut, rice bran, cotton seed & tree borne oilseeds are also some of the secondary sources of edible oil production in India.
- However, soybean & mustard remain the largest sources of edible oil production in India. Moreover, ~13 MT of edible oil is imported largely in the form of crude and refined palm oil from Indonesia & Malaysia. Palm oil constituted 60% (8 MT) of India's edible oil import. Given, palm oil is largely used by food processing units and hotels, restaurants & café (HORECA), it constitutes 38% of India's total edible oil consumption followed by soya oil at 20%, rapeseed/mustard oil at 12% and sunflower oil at 9%.

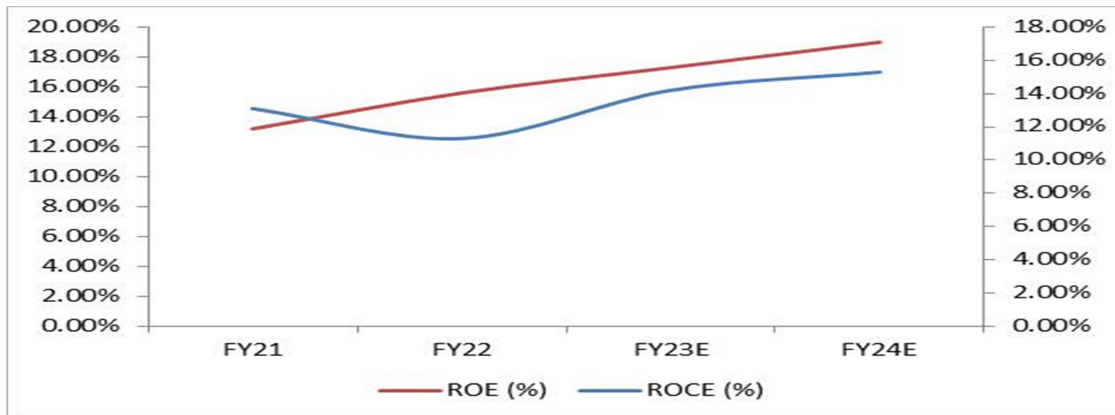
**Acquired Food Business to drive growth in Future**

- PFL is present in multiple foods categories, which either have a large opportunity size or potential to covert unbranded consumption to branded. In its erstwhile form, the company was present in a small category of soya products (FY22 sales of | 506 crore) with a market share of 40%.
- It acquired PAL's biscuit, noodles & breakfast cereal business in May-June 2021 (sales of | 898 crore in FY22) at a slump sales basis for | 60 crore. Moreover, the company merged the remaining foods business of PAL in July 2022 (sales of | 4173 crore in FY22) for a consideration of | 690 crore.
- With the integration of the foods business in one entity, the company is now present in high opportunity size categories like cow ghee, Chyawanprash, juices, honey, atta, biscuits, noodles, breakfast cereals among others.

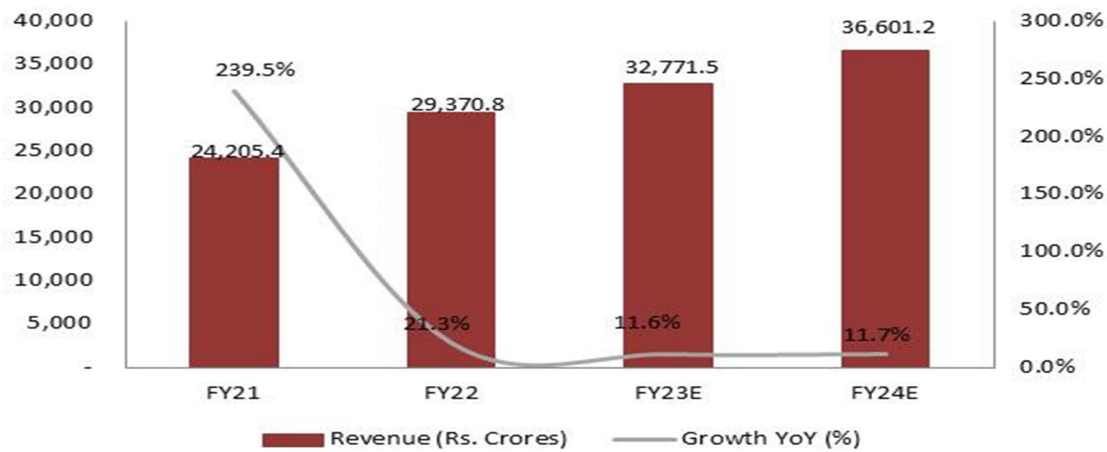
**Leveraging tailwinds of natural, Ayurveda Consumption**

- In the last few years, Ayurveda, naturals & immunity boosting products like Chyawanprash and honey have seen robust growth, specifically in a post-Covid world. Given Patanjali brands are associated with Ayurveda & naturals products, PFL would be able to leverage the tailwinds of healthier consumption. Acquired foods business consists of | 262 crore sales of juices (Aloe Vera, amla juices among others),
  - | 136 crore of Chyawanprash, | 250 crore of honey & | 1197 crore of cow ghee. These products offer a health and wellness proposition. We believe niche juices and honey categories also have high potential to grow to a sizable category in future. PFL is also present in the noodles & breakfast cereal category, which includes products like atta noodles, oats, dalia & muesli largely based on healthier food products category. We believe increasing health awareness is resulting in faster growth in consumption of natural, Ayurveda and healthier products compared to other foods categories. The largest category in food business for PFL is cow ghee (| 1197 crore sales), which is not only based on a health proposition but also commands high margin. Overall operating margin of the acquired food business is 16%.
  - PFL has a strong edible oil distribution network with 4763 distributors and 5 lakh retail touch points. It has 100 sales depots and presence in 31 countries for its soya product & oleo chemical business. On the other hand, the company's products have access to PAL's distribution network through a distribution agreement from June 2021. PAL has 2839 distributors, 1092 Chikitsalaya, 3260 Arogya Kendra, 78,519 pharmacies and 5 lakh customer touch points. In total, PFL has a reach of 10 lakh general trade retail outlets. Further, the company also has 1000 unique touchpoints for its soya products business. Moreover, PFL has a strong presence in modern trade & e-commerce channel as well. We believe the company would be able leverage its edible oil distribution network for foods business & vice versa. PFL would continue to focus on expanding its distribution network, going forward. Patanjali Group also has a strong reach among masses through Yoga.
-

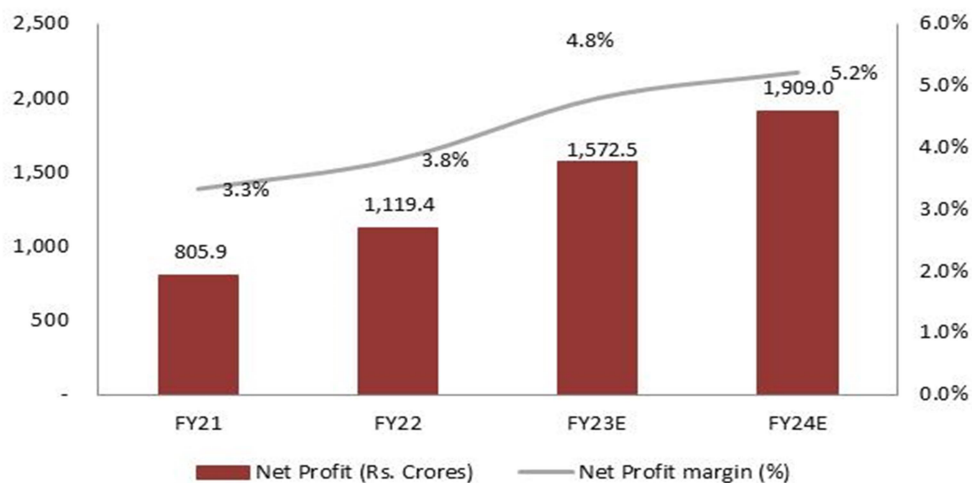
## Return ratios to show strong growth in future



## Revenue will experience Strong growth



## Net profit will experience a growth trajectory





## Outlook and Valuation

At the current price, the stock is trading at 45.3x its FY23E and 32.3x its FY24E earnings. Given the volumes, sales growth prospects and margin expansion possibilities, the stock is trading at relatively attractive valuation multiples compared to other food companies like Nestlé, Tata Consumer, Varun Beverages. It is also trading at 25% discount to another Ayurveda, Natural play like Dabur. We remain positive on the packaged foods space in the FMCG sector given lower penetration levels, high opportunity size and acceleration in unbranded to branded consumption shift. We value the stock at 40x FY24E earnings to arrive at a target price of | 1750/share with a BUY recommendation on the stock

## Patanjali Foods Ltd- Company Overview

Patanjali foods (erstwhile Ruchi Soya) was admitted to the IBC process in 2017-20 anacquired by Patanjali Ayurveda (PAL) through a resolution plan in 2019. Patanjali Foods (PFL) is one of the largest edible oil companies in India with oilseed extraction (mustard, soybean & others) capacity of 3.9 MTPA in 10 plants in Madhya Pradesh (MP), Rajasthan and Maharashtra. Further, seven of these plants have integrated refining capacity to produce edible oil. The company also has seven coastal standalone refineries specifically for processing imported crude palm oil (CPO). Currently, its edible oil capacity utilisation is close to ~40%. Given the government is encouraging farmers in coastal regions to undertake palm plantation to reduce dependency on imported palm oil, PFL has set up two palm fruit processing plants in Andhra Pradesh (AP) with annual capacity of 0.9 MT. Given, 6.0 lakh hectare of palm plantation area allocated to the company, it would ensure swift supply of palm fruit for its palm fruit processing units and refineries.



## Balance sheet (Consolidated)

(Rs crore)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Paid up capital	59	72	72	72
Reserves and Surplus	6112	9866	11004	12371
<b>Net worth</b>	<b>6171</b>	<b>9938</b>	<b>11076</b>	<b>12443</b>
Total Loans	3,695	223	173	123
Provisions				
Other Liabilities	348	369	389	409
<b>Total Liabilities</b>	<b>10,215</b>	<b>10,530</b>	<b>11,638</b>	<b>12,975</b>
<b>Assets</b>				
Net Tangible Assets	4,890	4,935	4,854	4,771
CWIP	28	38	48	58
Goodwill	11	11	11	11
Non Current Investments	29.20	29.20	29.20	29.20
Deferred Tax Assets	39	39	39	39
Net Current Assets	5218	5477	6657	8067
Other Assets				
<b>Total Assets</b>	<b>10,215</b>	<b>10,530</b>	<b>11,638</b>	<b>12,975</b>

## Profit & Loss Account (Consolidated)

(Rs crore)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>24,205</b>	<b>29,371</b>	<b>32,772</b>	<b>36,601</b>
<b>EBITDA</b>	<b>1,487</b>	<b>1,794</b>	<b>2,200</b>	<b>2,646</b>
<b>Depreciation</b>	<b>137</b>	<b>154</b>	<b>181</b>	<b>184</b>
<b>EBIT</b>	<b>1,350</b>	<b>1,640</b>	<b>2,019</b>	<b>2,463</b>
Interest cost	355	230	38	37
Other Income & Extraordinary Items	79	87	122	127
<b>Profit before tax</b>	<b>1,074</b>	<b>1,497</b>	<b>2,102</b>	<b>2,552</b>
Tax	268	377	530	643
<b>Profit after tax</b>	<b>806</b>	<b>1,119</b>	<b>1,573</b>	<b>1,909</b>
Minority Interests				
P/L from Associates				
Other				
<b>Adjusted PAT</b>	<b>806</b>	<b>1,119</b>	<b>1,573</b>	<b>1,909</b>



# Equity Research

## Cash Flow Statement (Consolidated)

Y.E March (Rs crore)	FY22	FY23E	FY24E	FY25E
Profit After Tax	957.6	1119.4	1572.6	1909
<b>Add: Depreciation</b>	<b>136.7</b>	<b>154.2</b>	<b>181.4</b>	<b>183.5</b>
(Inc)/dec in Current Assets	-705.4	-807.8	-851.1	-1071.3
Inc/(dec) in CL and Provisions	335.3	266.5	42.7	83.8
<b>Cash flow from operating activities</b>	<b>724.2</b>	<b>732.2</b>	<b>945.6</b>	<b>1104.9</b>
(Inc)/dec in Fixed Assets	-93.8	-210	-110	-110
Others	-1290.7	15	15	15
<b>Cash flow from investing activities</b>	<b>-1384.5</b>	<b>-195</b>	<b>-95</b>	<b>-95</b>
Issue/(Buy back) of Equity	1297.3	13.2	0	0
Inc/(dec) in loan funds	17.5	-3472	-50	-50
Others	-298.6	2404.9	-472.4	-579.8
<b>Cash flow from financing activities</b>	<b>1016.2</b>	<b>-1053.9</b>	<b>-522.4</b>	<b>-629.8</b>
Net chg in cash	355.9	-516.7	328.2	380
Opening Cash	1660.1	2016.3	1499.6	1827.8
Closing Cash	2016	1500	1828	2208

## Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY22	FY23E	FY24E	FY25E
<b>Per share data (Rs.)</b>				
EPS	27.3	30.9	43.5	52.7
DPS	5.00	10.00	12.00	15.00
<b>Margin (%)</b>				
EBITDA	6.1%	6.1%	6.7%	7.2%
NPM	3.3%	3.8%	4.8%	5.2%
<b>Return Ratios (%)</b>				
ROCE	13.2	15.6	17.3	19
ROE	13.1	11.3	14.2	15.3
<b>Valuation(x)</b>				
P/E	51.4	45.3	32.3	26.6
EV/EBITDA	35.2	27.5	22.3	18.4
<b>Per share data (Rs.)</b>				
EPS	27.3	30.9	43.5	52.7



# Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

**Reg. office:** PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai-400001, Maharashtra, India

**Corp Office:** 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai-400001, Maharashtra India

**Tel:** 91-22-67378001 **Fax:** 91-22-22646410

**Dealing:** 91-22-67378011 **Institutional Dealing:** 91-22-6737833

**Email:** research@mjpgdirect.com **Website:** www.mjpgdirect.com

**Registration Number:** SEBI- INZ000218338

## Disclaimer:

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.