

COMMON STOCK AND UNCOMMON PROFITS

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DFM FOODS LTD.

Pioneer of packaged snack foods in India looking to expand to the next level of growth.



INDUSTRY : FMCG

With a growth rate of 14.7 percent, the FMCG sector has been projected to grow to a market size of almost US\$ 220 billion by 2025. With the growth in Indian GDP, the consumption of packaged food products will also rise.

DFM Foods Ltd. (DFM), one of the pioneers of packaged snack foods is an India-based company incorporated in 1993. It is engaged in the business of manufacturing, selling and marketing of packaged foods and 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. Its flagship brand 'Crax' commands a strong brand patronage in Northern India. It aims to create niche for itself in a highly competitive snacking industry by its unique innovative product offerings catering mainly the impulsive low ticket (Rs5/packet contributes 90% of overall revenue) segment.

On the **distribution** side it has adopted a well-balanced strategy whereby it aims to further penetrate deeper in **northern Indian markets** and at the same time it is in a continuous expansion phase in the rest of India. In order to augment its presence in Western, Central & Southern markets it has already acquired a land in Pune which is likely to be used for future greenfield expansion. Going forward, with the new promoter (Advent International) and new management under the leadership of Mr. Lagan Shastri- MD & CEO, we expect DFM to clearly focus on sustainable and profitable growth which is likely to be driven mainly by multi-product, multichannel and multi-geography approach.






Why we like DFM foods





The key investment thesis which draw attention to DFM's business are: **Recent acquisition by Advent international and new management team to accelerate growth.**

Advent International (Advent), founded in 1984 is one of the largest and most experienced global private equity firms headquartered in US. 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.

"DFM is a leader and innovator in a large, fast-growing segment of the Indian food and beverage industry. The company has strong brand awareness and distribution and numerous opportunities for continued growth," said Shweta Jalan, managing director and head of India at Advent.

Advent investment in India

Company	Country	Sector	Description	Deal type	Invest. date
 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
 Aditya Birla Capital	India	Business & Financial Services	Holding company for the financial services businesses of Aditya Birla Group	Expansion capital	Feb 2020
 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
 DFM Foods	India	Retail, Consumer & Leisure	A packaged foods company that primarily sells extruded corn based savory snacks across India	Buyout	Jan 2020
 Manjushree Technopack Limited	India	Industrial	India's leading manufacturer of rigid plastic packaging	Buyout	Oct 2018

	<p>Dixcy Textiles Private Limited</p>	<p>India</p>	<p>Retail, Consumer & Leisure</p>	<p>Leading innerwear brand in India</p>	<p>Buyout</p>	<p>Sep 2017</p>
	<p>ASK Investment Managers Private Limited</p>	<p>India</p>	<p>Business & Financial Services</p>	<p>Leading portfolio management service provider, real estate investment manager and wealth manager in India</p>	<p>Growth equity</p>	<p>Dec 2016</p>
<p>Crompton</p>	<p>Crompton Greaves Consumer Electricals Limited</p>	<p>India</p>	<p>Retail, Consumer & Leisure</p>	<p>India's leading supplier of consumer electrical goods, lighting and lighting automation systems</p>	<p>Carve-out</p>	<p>Jul 2015</p>
	<p>CARE Hospitals</p>	<p>India</p>	<p>Healthcare</p>	<p>Largest multi-specialty hospital chain in South and Central India</p>	<p>Growth equity</p>	<p>Mar 2012</p>
	<p>CAMS - Computer Age Management Services</p>	<p>India</p>	<p>Business & Financial Services</p>	<p>India's leading provider of business process outsourcing services to the asset management industry</p>	<p>Growth equity</p>	<p>Oct 2007</p>

PROMISING MANAGEMENT

Advent has acquired a majority interest in the company and 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 **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. The focus of the new leadership team is to drive the next phase of expansion and business growth. This will be achieved by strengthening distribution, marketing, innovation and creating a strong product portfolio.

Product Portfolio

The product portfolio comprises of corn rings, corn puffs, wheat puffs, cheese balls, corn and potato sticks, and traditional namkeens in 13 distinct variants.



CRAX KE SANG NON-STOP FUN

A unique corn based, non-fried snack, it's a hit among the kids. Its ring shape is loved by the kids and it comes in 7 flavours – Chatpata, Tangy Tomato, Masala Mania, Pudina Punch, Thai Sweet Chilli, Mast Cheese & Masala Chaska. Crax Corn Rings are available in ₹5 & ₹10 pack.



SOFT MELT-IN-MOUTH DELICIOUS CORN CURLS

With the goodness of Corn, Crax CURLS has 3 lip smacking flavours – Chatpata Masala, Tomato Treat & Spicy Delight which are liked by everyone. It is available in ₹5 pack.



DIMAG MAT KHA. FRITTS KHA.

Light and crispy sticks made from a mouth-watering combination of yummy potatoes and crunchy corn. Fritts is a non-fried, delicious any-time snack that comes in 2 flavours – Masala Mix and Cream & Onion and is available in ₹5 and ₹10 pack.



YE KHULEGA TOH MOOH CHALEGA

This light-weight, crunchy wheat puff is available in Classic & Masala flavours with a low fat percentage. Priced at ₹5, it extends our franchise to a wider market.



GRAB YOUR BITE OF YUMMY CHEESY DELIGHT

A mouth-watering snack filled with the rich taste of cheese. These light & crispy cheese balls are an all-time favourite. A pack of Crax Cheese Balls is priced at ₹5.

Corn Rings and Wheat Puffs are marketed under the CRAX and NATKHAT brand names respectively. Both these products have become extremely popular snacks, especially among children. In the namkeens category, the company offers a complete range of products consisting of 13 distinct product variants that include Bhujiyas, Daals, Mixtures, and Nut-Mixes.



BAS KHAO AUR BORING KO BHAGAO

Pasta Crunch is a mouth-watering snack that has a pasta shape and a crunchy taste. It brings the best of Chinese and Indian spices in its Chinese Tadka flavour priced at ₹5 per pack.



NAZAKAT KE SAATH ZAIKA KUCH KHAAS

A range of ethnic snacks made from the finest ingredients, Crax Namkeen offers a wide range of Bhujias, Mixtures & Nuts. These delicacies are available at ₹5, ₹10 & ₹20 price points.



CRUNCHY TASTE SE BHARE MUNCHY BOWLS

Bowls is a bowl of flavourful fun made with the goodness of corn. It comes in Papdi Chaat and Tikka Masala flavours. It's a trans fat free, 100% baked munchy bowl. So, dive into the great chatpata taste.



AB KHAO JI BHARKE

Making every bite of potato a bit more exciting with Crax Potato Chips. It has the goodness of fresh handpicked potatoes that blend into different delicious flavours such as Tomato Twist, Simply Salted & Creamy Onion and add the crunch of awesomeness to your taste.

SWOT Analysis

Strengths:

- Wide range of products catering to varied tastes and preferences
- Strong brand presence, backed by new launches and expanding customer reach through aggressive marketing using traditional and digital platforms.
- Experienced management team across all functions with average of 20 years' + experience.
- Strong distribution network that allows wide reach and coverage in target markets

Weaknesses:

- The Company holds highest standards on quality which comes at a price.
- The Company has higher dependence on lower pack sizes.
- Lower penetration in rural areas.
- Dependency on Kids.

Opportunities:

- The Company is yet to explore and penetrate the western and southern parts of India, as currently it focuses on northern and eastern region of India.
- The Salty Snacks Market presents openings as it shifts from unorganized to organized and sees higher per capita consumption.
- Potential to grow in the Potato Chips segment where the Company has recently launched a new product.
- The revenue contribution from large pack sizes can be increased to drive growth.

Threats:

- Stiff competitions from unorganized and regional players in the FMCG market.
- Increased health consciousness among people resulting in change in food habits.
- Increasing prices of raw materials, can lead to margin compression.

Growth Drivers of the Industry

- **Innovation and new offerings:** Innovation will continue to drive growth in this industry by delivering products which address unmet consumer needs. New products and flavours inspired by the diversified food culture of India will drive higher consumption.
- **Urbanization:** India's population is rising accompanied with a rise in urbanisation, which in turn has given a huge boost to the food industry. Now consumers want to purchase products that are nutritious, tasty, and convenient to procure.
- **Evolving customer habits:** Rising disposable incomes, mall culture and metropolitan lifestyles are boosting higher-customer spending. Packaged products are becoming highly popular among the younger generations. Customers are also looking for more hygienic snacking options post the pandemic
- **Untapped rural and semi-urban market:** Huge untapped rural and semi-urban market

Innovative marketing

Catchy advertisement for attracting target customers. Kids aged 6-14 years enjoy watching advertisement and then buy products. **Strategy of free toy in each pack**



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.

Financial statements

BALANCE SHEET AS AT 31st MARCH, 2021

(₹ in lakhs)

Particulars	Note No.	As at	As at
		31 st March, 2021	31 st March, 2020
I. ASSETS			
1. Non-current assets			
(a) Property, plant and equipment	2.1	16,152	16,898
(b) Right-of-use assets	2.2	6,256	4,872
(c) Capital work-in-progress	2.1	1,833	1,273
(d) Other intangible assets	2.3	16	8
(e) Financial assets - Others	3	614	1,141
(f) Asset for current taxes (net)	4	218	270
(g) Other non-current assets	5	161	186
Total non-current assets		25,250	24,648
2. Current assets			
(a) Inventories	6	2,645	2,396
(b) Financial assets			
(i) Investments	7.1	2,022	5,782
(ii) Trade receivables	7.2	404	11
(iii) Cash and cash equivalents	7.3	343	1,129
(iv) Bank balances other than (iii) above	7.4	8,538	2,265
(v) Other financial assets	7.5	121	77
(c) Other current assets	8	1,109	408
Total current assets		15,182	12,068
Total assets		40,432	36,716

II. EQUITY AND LIABILITIES

1. Equity			
(a) Equity share capital	9	1,005	1,002
(b) Other equity	10	16,802	13,543
Total equity		17,807	14,545
2. Non-current liabilities			
(a) Financial liabilities			
(i) Borrowings	11.1	7,129	7,829
(ii) Lease liabilities	11.2	4,471	2,778
(iii) Other financial liabilities	11.3	87	118
(b) Provisions	12	251	314
(c) Deferred tax liabilities (net)	13	1,441	1,493
(d) Other non current liabilities	14	244	325
Total non-current liabilities		13,623	12,857
3. Current liabilities			
(a) Financial liabilities			
(i) Borrowings	15.1	-	468
(ii) Trade payables	15.2		
(A) Total outstanding dues of micro enterprises and small enterprises;		557	1,231
(B) Total outstanding dues of creditors other than micro enterprises and small enterprises		5,003	4,244
(iii) Lease liabilities	15.3	215	243
(iv) Other financial liabilities	15.4	2,068	2,081
(b) Provisions	16	307	439
(c) Other current liabilities	17	852	608
Total current liabilities		9,002	9,314
Total equity and liabilities		40,432	36,716

Balance sheet analysis

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.

Return on Equity	
10 Years:	25%
5 Years:	22%
3 Years:	21%
Last Year:	18%

Company has been maintaining **healthy ROE** over the past years.

The company has a high promoter holding of 73.70%.

Company has been maintaining **healthy ROCE of 21.31%** over the past 3 years.

Cash Flow Statement

Cash Flows

Figures in Rs. Crores

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Cash from Operating Activity +	16	14	17	22	20	26	59	19	34	63	42	39
Cash from Investing Activity +	-12	-14	-52	-13	9	-18	-54	-53	-13	-48	-14	-24
Cash from Financing Activity +	4	-7	33	-8	-27	-10	-2	32	-21	-13	-21	-22
Net Cash Flow	8	-7	-2	0	1	-1	3	-2	0	2	8	-8

The company has an efficient Cash Conversion Cycle of - 24.06 days.

The company has a good cash flow management; CFO/PAT stands at 1.55.

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2021

(₹ in lakhs)

Particulars	Note No.	Year ended	Year ended
		31 st March, 2021	31 st March, 2020
1. Revenue from operations	18	52,406	50,794
2. Other income	19	692	678
3. Total revenue (1+2)		53,098	51,472
4. Expenses			
(a) Cost of materials consumed	20	31,281	30,831
(b) Changes in inventories of finished goods	21	(93)	(298)
(c) Employee benefit expenses	22	5,429	5,492
(d) Finance costs	23	1,080	992
(e) Depreciation and amortisation expense	24	1,318	1,135
(f) Other expenses	25	10,225	10,599
Total expenses		49,240	48,751
5. Profit before exceptional items and tax (3 - 4)		3,858	2,721

6. Tax expense			
(a) Current tax	27	1,054	797
(b) Deferred tax	27	(66)	(518)
Total tax expense		988	279
7. Profit for the year (5 - 6)		2,870	2,442
8. Other Comprehensive Income/(Loss)			
(i) Items that will not be reclassified to profit or loss			
(a) Remeasurements of net defined benefit liability	31	54	(281)
(ii) Income tax effect relating to item that will not be reclassified to profit or loss	27	(14)	71
Total Other comprehensive loss for the year (net of tax)		40	(210)
9. Total comprehensive income for the year (7+8)		2,910	2,232
10. Earning per equity share (face value Rs. 2/- each)			
(a) Basic	26	5.72	4.87
(b) Diluted	26	5.72	4.86

Profit & Loss analysis

Compounded Profit Growth

10 Years:	13%
5 Years:	3%
3 Years:	7%
TTM:	-73%

Compounded Sales Growth

10 Years:	16%
5 Years:	6%
3 Years:	7%
TTM:	5%

The company has shown a **poor profit growth** over the Past years.

Raw material inflation impacted profits.

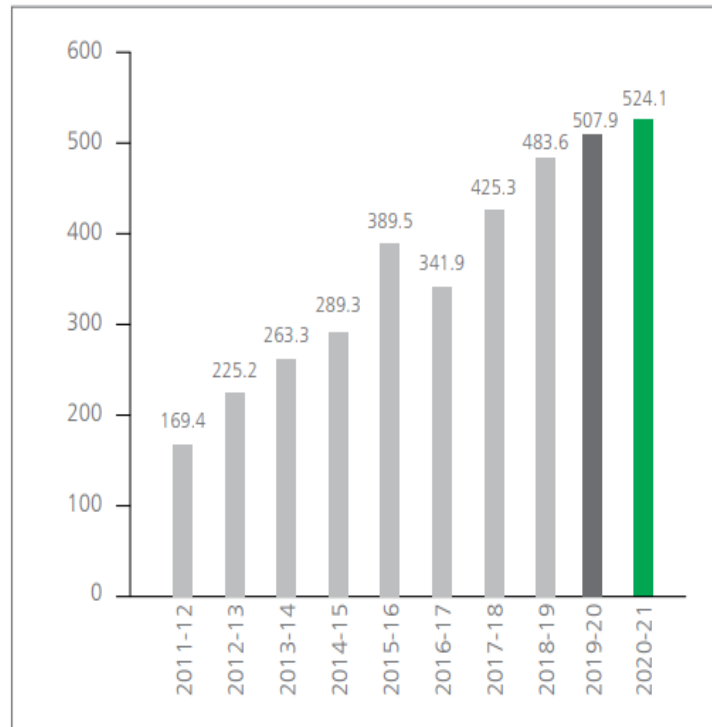
TTM poor profit growth is mainly due to impact of Wave 2 of Covid-19 and the resultant lockdown across the country.

However, the Company continues to invest in advertising and Go to Market (incremental spend 6% of net sales) to capture larger market share.

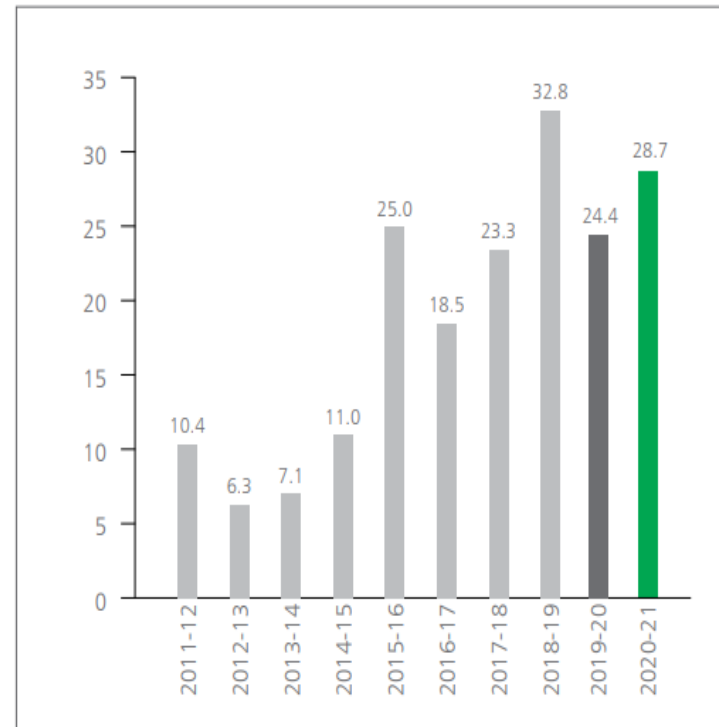
Operating income during the year rose 3.17% on a year-on-year (YoY) basis

The company has shown a **poor sales growth** for the past years, but is able to consistently grow market. Pandemic related disruptions have impacted the sale of salty snacks but the industry is expected to bounce back.

Turnover (₹ in crore)

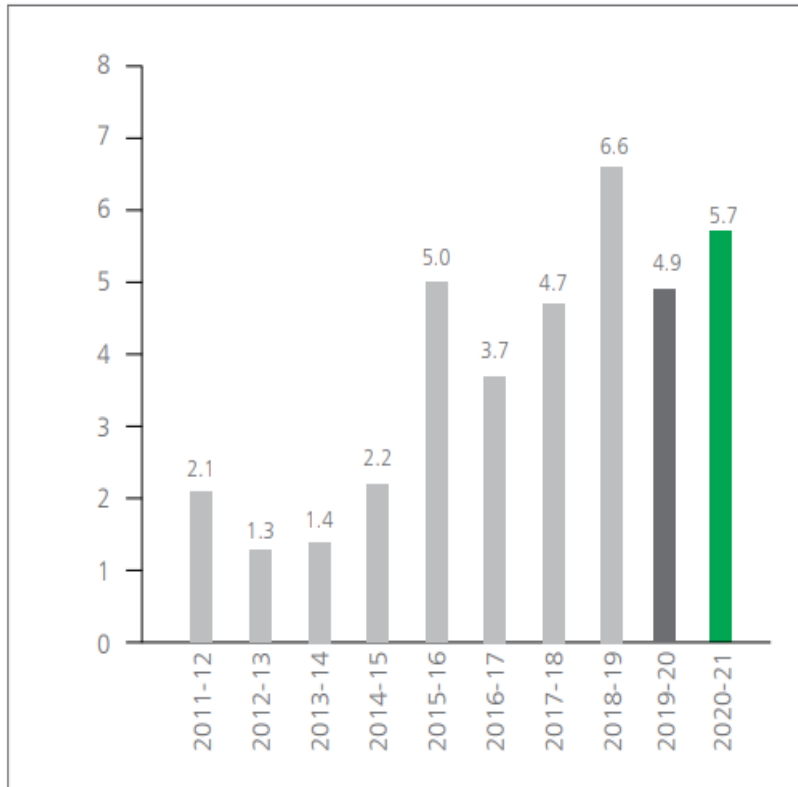


Net Profit for the year (₹ in crore)

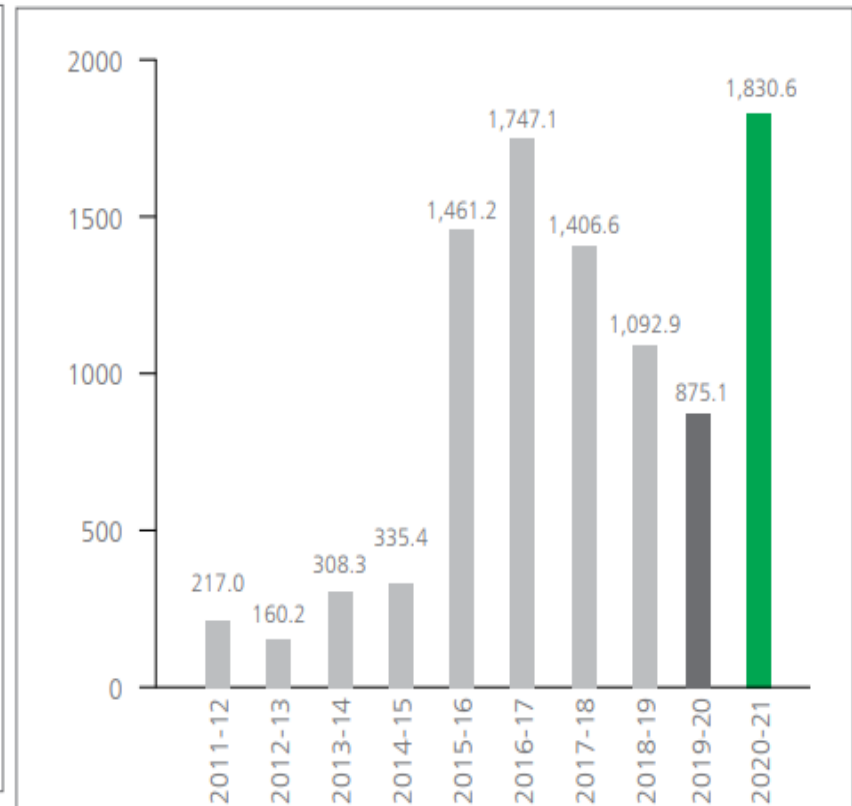


The graph of turnover is upward sloping. We expect DFM Foods' sales to grow consistently on the back of new capacity addition and entry in new geographies. Mainly due to impact of Covid-19 in Q1 FY21 the company faced logistics challenges in Q1 FY21, and due to unavailability of branded products, consumers tended to choose un-branded products.

Earnings per Share (₹)



Market Capitalisation (₹ in crore)



On the back of its resilient product portfolio, and investments in advertising and Go to Market initiatives, DFM has grown its market share.

Key Ratios

	2020-21	2019-20	Change
Return on Capital Employed (%)	25.9%	20.7%	Higher profit margin in FY '21 on account of improvement in material margin and cost optimization measure taken during the year resulting in higher operating profits
Return on Net Worth (%)	17.7%	17.8%	No change
Debt Equity Ratio	0.40	0.54	Due to debt repayment and no additional debt having been taken
Current Ratio	1.73	1.33	Due to better working capital management

	2020-21	2019-20	Change
Basic EPS (Rs./ Share)	5.72	4.87	Due to increase in Net Income without increase in the number of shares
Inventory Turnover (Days)	29	27	Slight improvement
Interest Coverage Ratio	3.93	3.06	Due to increase in operating profits
Net Profit Margin (%)	5.47	4.80	Increased
Return on Assets (%)	7.09	6.65	The ROA of the company has improved

Key ratios analysis

Current Ratio: The company's current ratio has improved. The current ratio measures the company's ability to pay short-term and long-term obligations.

Interest Coverage Ratio: The company's interest coverage ratio improved. The interest coverage ratio of a company states how easily a company can pay its interest expense on outstanding debt. A higher ratio is preferable.

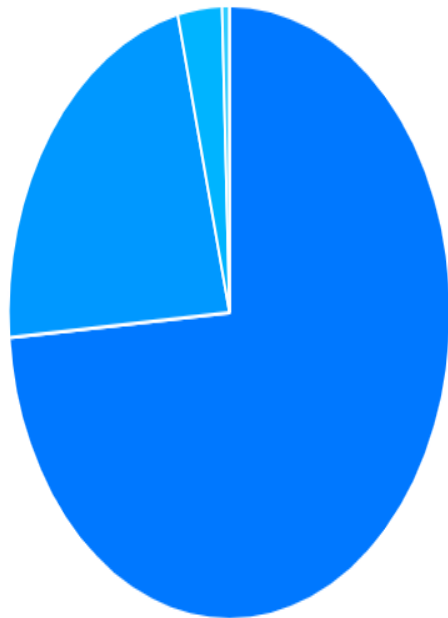
Return on Capital Employed (ROCE): The ROCE for the company improved and stood at 20.1% during FY21, from 16.8% during FY20. The ROCE measures the ability of a firm to generate profits from its total capital (shareholder capital plus debt capital) employed in the company.

Return on Assets (ROA): The ROA of the company has improved. The ROA measures how efficiently the company uses its assets to generate earnings.

Debt Equity Ratio: The company's Debt Equity Ratio ratio has improved due to debt repayment and no additional debt having been taken.

Shareholding Pattern

Share Holding Pattern



- Promoters : 73.7%
- Public : 22.53%
- DII : 3.23%
- FII : 0.54%
- Others : 0%

Promoter Pledging %

DATE	PROMOTER %	PLEDGE %
Sep 2021	73.7	0
Jun 2021	73.71	0
Mar 2021	73.71	0
Dec 2020	73.71	0
Sep 2020	73.71	0

Risks

Competition risk The Company faces intense competition from recognised organized and unorganized players in the market.

Raw Material risk Raw material can be threatened by adverse climatic conditions or profitable crop switchovers. A decline in corn meal and potato production or availability of palm oil can impact the production as it can also increase the procurement cost.

Revenue Concentration risk Concentration on particular geographic area for revenue generation, may result in limited growth of the organization.

Peer comparison

The Company faces intense competition from recognised organized and unorganized players in the market. DFM for decades have been competing with large FMCG companies like Pepsico, ITC, Haldiram etc. In the event of any aggressive disruption or stiff competition in the marketplace, there can be an impact of its overall growth and earnings trajectory.

DFM has taken Subscription to AC Nielsen database to track monthly competitive data for market share, distribution and sales by player and brand. This helps us to track competition performance by geography & brand.

Historically, DFM has been able to scale-up its successful launches and has been able to constantly expand its product portfolio. Evolving from a kids focused to a full family snacking company over the years, DFM Foods Ltd has been constantly increasing its product offerings and has been continuously focusing on new innovative product launches targeting people of all age groups.

Going forward, we expect the new owners and management to further expedite its focus on new launches and geography expansion strategy.

Covid-19 Impact:

The outbreak of the COVID-19 pandemic is the most defining global crisis. It has not just impacted us economically but also emotionally as millions of people across the world continue to lose their loved ones. The spread of the virus disrupted the global economy and consumer sentiment and has severely affected all the key dimensions of business operations. However, being in the food items category DFM was allowed to run all its plants at stable utilisation levels post obtaining requisite permission. Management is making sure that the organization remains fully energized during the period and ready to bounce back on the next opportunity.

In India, majority of the population still prefers unpackaged food. But the on-going pandemic has put health safety into the spotlight and divided this preference. Now there's an organic move towards packaged snack foods in tier-3 cities as well, where the packaged food has been processed with minimum handling and reaches consumers in sealed packs. Many local as well as foreign entities are expecting gains from the rise of the snacking industry in India.

Conclusion

With new professional management team's focus on product introductions, enhancement of distribution reach and increased technology adoption, we expect DFM Foods to resume high growth trajectory.