

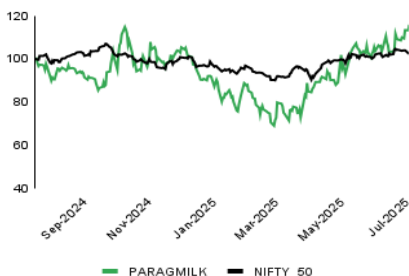
**CMP: INR 243**
**Rating: BUY**
**Target Price: INR 347**
**Stock Info**

BSE	539889
NSE	PARAGMILK
Bloomberg	PARAG:IN
Reuters	EQUITASB.BO
Sector	Dairy Products
Face Value (INR)	10
Equity Capital (INR Cr)	119
Mkt Cap (INR Cr)	2,905
52w H/L (INR)	258/135
Avg Daily Vol (in 000')	1,134

**Shareholding Pattern %**
*(As on March 2025)*

Promoters	42.61
FII	9.24
DII	6.87
Public & Others	41.28

Stock Performance (%)	1m	6m	12m
Parag Milk	15.6	45.1	19.4
Nifty 50	0.36	8.23	2.25

**Parag Milk vs Nifty 50**

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The company reported a steady performance with revenue rising 12.35% YoY to INR 8,515 Mn (-7.27% QoQ), surpassing our estimate of INR 8,337 Mn. However, gross margin contracted 19bps YoY to 27.36% (-224bps QoQ) due to elevated input costs. EBITDA grew 3.01% YoY to INR 579 Mn (-6.65% QoQ), slightly below our estimate of INR 592 Mn, while EBITDA margin declined 62bps YoY to 6.80% (-5bps QoQ), missing the 7.10% forecast. PAT rose modestly by 1.03% YoY to INR 276 Mn (+5.23% QoQ), beating our estimate of INR 254 Mn.

**Market Share:** Gowardhan Ghee and Go Cheese maintained leadership with 22% and 35% market shares in their respective branded segments.

**Procurement Strength:** Milk procurement scaled to 16.5 (LLPD), a 10% increase QoQ, with 40% sourced directly from farmers and 60% through a robust aggregator network, ensuring quality and sustainability.

**Portfolio Expansion:** Focus on high-margin categories like whey protein, Greek yogurt, and protein snack bars aligns with rising consumer demand for health and nutrition products. Avvatar, a 100% vegetarian whey protein brand, grew 8x over the last three quarters, establishing itself as a top player in India's INR 1,600 Cr sports nutrition market (30% CAGR).

**Valuation and Outlook:** Parag Milk Foods Limited is targeting INR 10,000 Cr in revenue over the next five years. This ambition is fueled by a strategic shift towards health and nutrition, particularly the 'New-Age Business' portfolio (Avvatar, Pride of Cows), which demonstrated 57% YoY growth in Q1 FY26. The company aims for double-digit EBITDA margins in the medium term (12-24 months), aspiring to reach the "teens", alongside a Return on Capital above 20% in two years. This improved profitability is expected from the enhanced product mix, with new-aged businesses yielding "superlative" gross margins and operational efficiencies. The company is steadily evolving from a dairy enterprise into a diverse FMCG company and is now heading towards the health and nutrition segment, driven by shifting dietary patterns in India, where protein is becoming a key component. We maintain Buy rating at a P/E multiple of 20x FY27E EPS of INR 17.4, leading to a TP of INR 347.

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	31,387	34,322	38,787	44,511	51,913
YoY	8.51%	9.35%	13.01%	14.76%	16.63%
Gross Profit	7,487	8,855	10,252	11,809	13,825
Gross Profit Margin	23.85%	25.80%	26.43%	26.53%	26.63%
EBITDA	1,971	2,527	3,140	3,692	4,410
EBITDA Margin	6.28%	7.36%	8.09%	8.29%	8.49%
EBIT	1,621	2,257	2,688	3,221	3,882
EBIT Margin	5.12%	6.50%	6.88%	7.19%	7.43%
PAT	906	1,188	1,651	2,040	2,369
YoY	70.10%	31.14%	38.96%	23.55%	16.16%
EPS (INR)	7.71	10.11	14.05	17.36	20.16
YoY	56.71%	31.14%	38.96%	23.55%	16.16%
P/E (x)	31.52	24.03	17.30	14.00	12.05
P/B (x)	3.23	2.88	2.19	1.91	1.66
EV/EBITDA (x)	18.19	14.22	10.99	9.60	8.15
EV/EBIT (x)	22.13	15.92	12.84	11.01	9.25
D/E (x)	0.77	0.69	0.49	0.52	0.47
RONW	9.93%	11.61%	12.27%	13.20%	13.33%
ROCE	8.49%	10.71%	12.07%	12.43%	13.46%

Source: Company, Arihant Research

INR Mn (Consolidated)	Q1FY26	Q4FY25	Q1FY25	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>8515</b>	<b>9183</b>	<b>7579</b>	<b>-7.27%</b>	<b>12.35%</b>
Raw Material Costs	6186	6876	5492	-10.04%	12.64%
Gross Profit	2329	2307	2088	0.98%	11.57%
<i>Gross Margin</i>	27.36%	25.12%	27.55%	224bps	-19bps
Employee costs	386	437	328	-11.71%	17.83%
Other Expenses	1365	1250	1198	9.21%	13.88%
<b>EBITDA</b>	<b>579</b>	<b>620</b>	<b>562</b>	<b>-6.65%</b>	<b>3.01%</b>
<i>EBITDA margin</i>	6.80%	6.75%	7.41%	5bps	-62bps
Other Non-Operating Income	76	131	55	-41.63%	38.91%
Depreciation	163	174	156	-6.10%	4.35%
<b>EBIT</b>	<b>492.00</b>	<b>577.10</b>	<b>460.50</b>	<b>-14.75%</b>	<b>6.84%</b>
Finance costs	200	252	192	-20.43%	4.05%
<b>PBT</b>	<b>292</b>	<b>326</b>	<b>268</b>	<b>-10.35%</b>	<b>8.84%</b>
Tax Expense	16	63	-5	-74.76%	-426.53%
<i>Effective tax rate</i>	5.48%	19.48%	-1.83%	-1399bps	731bps
<b>PAT</b>	<b>276</b>	<b>262</b>	<b>273</b>	<b>5.23%</b>	<b>1.03%</b>
<i>PAT margin</i>	3.21%	2.81%	3.58%	40bps	-37bps
<b>EPS (INR)</b>	<b>2.31</b>	<b>2.20</b>	<b>2.29</b>	<b>5.00%</b>	<b>0.87%</b>

**Volume and Value Growth:** Core categories recorded 9% volume growth and 14% value growth in Q1 FY26, with blended volume growth at 10% for FY26 YTD. New-age businesses (whey protein under Avvatar and Pride of Cows) grew 57% YoY, contributing 9% to topline (up from 6% in Q1 FY25).

**Capacity Utilization:** Cheese production remains near full capacity at 98-99%, reflecting strong demand. Bhagyalaxmi Dairy Farm, which houses 20,000 cows across 2,000 acres, is fully operational, providing a premium milk supply with yields averaging 26 liters per cow (three times higher than traditional farms).

**E-commerce and quick-commerce channels** drove 60% of new-age business revenue, with expanded direct-to-consumer presence and increased points of sale in seven key cities. Products like Avvatar's travel packs and high-protein paneer gained traction on quick-commerce platforms.

**Capex and Funding:** Routine capex of INR 40-50 Cr annually continues, with Bhagyalaxmi Dairy Farm capex largely complete. The INR 161 Cr raised via preferential warrants in FY25 is allocated as follows: INR 70 Cr for debt reduction, INR 40 Cr for working capital, INR 20 Cr for residual capex, and the balance for general corporate purposes.

**Raw Material Prices & Pricing Strategy:** Despite an 18% Y-o-Y increase in milk prices to INR 37/liter, gross margins were maintained due to the company's ability to command pricing power and an improved product mix. The company passes on cost increases while aiming to protect absolute margins, which may result in a percentage margin drop in an inflationary cycle.

**Advertisement and Promotion Spending:** There was a marginal decline in EBITDA percentage due to higher A&P spending. The company views ROI on A&P as a long-term brand-building exercise and will continue to invest in brands.

**Income Statement**

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
<b>Revenue from operations</b>	<b>31,387</b>	<b>34,322</b>	<b>38,787</b>	<b>44,511</b>	<b>51,913</b>
Cost of materials consumed	23,900	25,467	28,535	32,701	38,088
Employee benefit expenses	1,164	1,500	1,733	2,034	2,424
Other expenses	4,351	4,828	5,379	6,084	6,992
<b>EBITDA</b>	<b>1,971</b>	<b>2,527</b>	<b>3,140</b>	<b>3,692</b>	<b>4,410</b>
<b>EBITDA Margin</b>	<b>6.28%</b>	<b>7.36%</b>	<b>8.09%</b>	<b>8.29%</b>	<b>8.49%</b>
Depreciation & amortisation expense	603	672	724	782	892
Finance Cost	762	931	854	955	920
Other income	252	403	272	312	363
<b>PBT after exceptional Items</b>	<b>859</b>	<b>1,326</b>	<b>1,834</b>	<b>2,266</b>	<b>2,961</b>
Cash Tax	-47	138	183	227	592
<b>PAT</b>	<b>906</b>	<b>1,188</b>	<b>1,651</b>	<b>2,040</b>	<b>2,369</b>
EPS after exceptional items:					
Basic (INR)	7.71	10.11	14.05	17.36	20.16
Diluted (INR)	7.47	9.80	13.61	16.82	19.54

**Balance Sheet**

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	1,192	1,192	1,192	1,282	1,282
Preference Capital	-	-	90	-	-
Other Equity	7,929	9,042	12,172	14,166	16,490
<b>Net Worth</b>	<b>9,121</b>	<b>10,234</b>	<b>13,454</b>	<b>15,448</b>	<b>17,772</b>
Total debt	7,008	7,077	6,565	7,958	8,365
Deferred tax liability (net)	-38	105	105	105	105
Other non-current liabilities	37	47	39	45	52
<b>Total Liabilities</b>	<b>7,007</b>	<b>7,229</b>	<b>6,710</b>	<b>8,108</b>	<b>8,523</b>
Net Block	3,888	4,880	4,077	4,080	3,902
CWIP	691	193	386	313	334
Other intangible assets	9	20	22	26	30
Biological assets other than bearer plants	758	877	1,052	1,262	1,515
Investments	336	474	776	890	1,038
Other non-current assets	348	303	388	445	519
<b>Net Working Capital:</b>	<b>9,992</b>	<b>10,598</b>	<b>12,448</b>	<b>12,889</b>	<b>15,361</b>
Inventories	6,153	5,780	7,300	7,359	9,329
Trade receivables	2,443	2,595	2,460	2,609	2,450
Cash and cash equivalents	106	119	1,015	3,651	3,596
Bank Balances	170	132	145	159	175
Other current assets	3,929	4,955	5,600	6,426	7,495
Trade payables	2,166	2,557	2,741	3,339	3,752
Other current liabilities	538	306	316	326	336
<b>Total assets</b>	<b>16,128</b>	<b>17,463</b>	<b>20,164</b>	<b>23,556</b>	<b>26,294</b>

**Cash Flow**

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Profit before tax	859	1,326	1,834	2,266	2,961
Depreciation & amortization	603	672	724	782	892
Tax paid	-47	138	183	227	592
Working capital Δ	1,113	607	1,850	440	2,472
<b>Operating cash flow</b>	<b>395</b>	<b>1,253</b>	<b>524</b>	<b>2,382</b>	<b>789</b>
Capital expenditure	981	1,165	114	713	734
<b>Free cash flow</b>	<b>-586</b>	<b>88</b>	<b>411</b>	<b>1,669</b>	<b>54</b>
Equity raised	190	26	1,610	-	-
Investments made	-172	138	302	114	148
Other asset purchases	295	84	263	271	331
Debt financing	601	69	-512	1,393	407
Dividends & other appropriations	60	119	60	64	64
Other items	-55	172	11	24	26
<b>Net Δ in cash</b>	<b>-32</b>	<b>13</b>	<b>896</b>	<b>2,637</b>	<b>-55</b>
<b>Opening cash balance</b>	<b>138</b>	<b>106</b>	<b>119</b>	<b>1,015</b>	<b>3,651</b>
<b>Ending cash balance</b>	<b>106</b>	<b>119</b>	<b>1,015</b>	<b>3,651</b>	<b>3,596</b>

Source: Arianth Research, Company Filings

Ratios	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth Matrix (%)</b>					
Revenue	8.51%	9.35%	13.01%	14.76%	16.63%
EBITDA	48.34%	28.17%	24.25%	17.59%	19.44%
EBIT	52.61%	39.25%	19.08%	19.85%	20.50%
PBT	68.14%	54.43%	38.33%	23.55%	30.68%
PAT	70.10%	31.14%	38.96%	23.55%	16.16%
PAT after OCI	69.86%	32.55%	38.36%	23.29%	16.01%
<b>Profitability (%)</b>					
EBITDA Margin	6.28%	7.36%	8.09%	8.29%	8.49%
EBIT Margin	4.33%	5.34%	6.19%	6.49%	6.73%
Net Profit Margin	2.86%	3.42%	4.23%	4.55%	4.53%
Net Profit Margin after OCI	2.88%	3.47%	4.27%	4.59%	4.57%
RoCE	8.49%	10.71%	12.07%	12.43%	13.46%
RoNW	9.93%	11.61%	12.27%	13.20%	13.33%
RoA	5.91%	7.07%	8.77%	9.33%	9.50%
<b>Per Share (INR)</b>					
Basic EPS	7.71	10.11	14.05	17.36	20.16
Diluted EPS	7.47	9.80	13.61	16.82	19.54
DPS	0.50	1.00	0.50	0.50	0.50
Basic Cash EPS	12.84	15.83	20.21	24.02	27.75
Diluted Cash EPS	12.44	15.34	19.58	23.27	26.89
BVPS	75.22	84.40	110.95	127.40	146.56
Sales	267.15	292.13	330.14	378.86	441.86
<b>Valuation (x)</b>					
P/E	31.52	24.03	17.30	14.00	12.05
P/CEPS	18.93	15.35	12.02	10.12	8.76
P/BV	3.23	2.88	2.19	1.91	1.66
P/Sales	0.91	0.83	0.74	0.64	0.55
EV/EBITDA	18.19	14.22	10.99	9.60	8.15
EV/EBIT	22.13	15.92	12.84	11.01	9.25
EV/Sales	1.14	1.05	0.89	0.80	0.69
Dividend Yield	0.00	0.00	0.00	0.00	0.00
<b>Liquidity (x)</b>					
Current Ratio	4.74	4.74	5.40	5.51	5.64
Quick Ratio	2.46	2.72	3.02	3.51	3.36
Defensive Interval Ratio	82.48	89.55	94.40	114.87	105.39
Cash Ratio	0.04	0.04	0.33	1.00	0.88
<b>Activity (x)</b>					
Receivables turnover	15.22	13.63	15.34	17.56	20.52
Inventory turnover	4.02	4.27	4.36	4.46	4.56
Payables turnover	12.95	10.79	10.77	10.76	10.74
Total asset turnover	2.05	2.04	2.06	2.04	2.08
Fixed asset turnover	6.18	6.07	6.74	7.94	9.06
Working capital turnover	3.14	3.24	3.12	3.45	3.38
<b>Days</b>					
Receivable days	23.98	26.79	23.79	20.79	17.79
Inventory days	90.78	85.51	83.65	81.81	79.96
<b>Cash Conversion cycle</b>					
Payable days	28.19	33.84	33.88	33.93	33.97
<b>Operating cycle</b>	<b>86.58</b>	<b>78.46</b>	<b>73.56</b>	<b>68.67</b>	<b>63.77</b>
<b>Leverage (x)</b>					
Interest Coverage	2.13	2.42	3.15	3.37	4.22
Debt Equity	0.77	0.69	0.49	0.52	0.47
Net Debt Equity	0.76	0.68	0.41	0.28	0.27
Assets to Equity	1.68	1.64	1.40	1.42	1.40
<b>Du Pont</b>					
Tax burden	1.06	0.90	0.90	0.90	0.80
Interest burden	0.53	0.59	0.68	0.70	0.76
EBIT Margin	0.05	0.07	0.07	0.07	0.07
Asset turnover	2.05	2.04	2.06	2.04	2.08
Leverage	1.68	1.64	1.40	1.42	1.40
<b>ROE</b>	<b>0.10</b>	<b>0.12</b>	<b>0.12</b>	<b>0.13</b>	<b>0.13</b>

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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