

CMP: INR 242

Rating: BUY

Target Price: INR 372

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)	3,025
52w H/L (INR)	377/135
Avg Daily Vol (in 000')	1,168

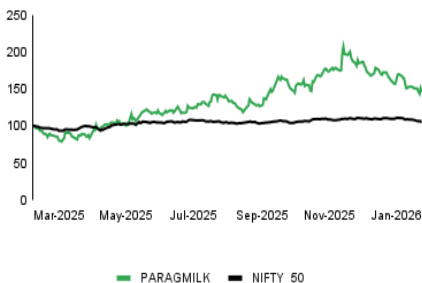
Shareholding Pattern %

(As on March 2025)

Promoters	40.67
FII	9.26
DII	6.16
Public & Others	43.91

Stock Performance (%)	1m	6m	12m
Parag Milk	(19.6)	2.77	34.7
Nifty 50	(2.31)	4.03	8.21

Parag Milk vs Nifty 50



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Parag Milk revenue showed robust 16.56% YoY growth to INR 10,127 million (up 0.47% QoQ), exceeding our estimate of INR 9,774 million; however, EBITDA declined 7.43% YoY to INR 683 million (down 4.13% QoQ), leading to a 175 bps YoY contraction in EBITDA margin to 6.74% (down 32 bps QoQ) and falling short of our 7.1% expectation, while PAT recorded a modest 3.25% YoY increase to INR 353 million despite a steep 22.69% QoQ drop.

High-Growth New Age Business Transition: The company is successfully transitioning its portfolio toward premium, high-margin segments through its New Age business (Pride of Cows and Avvatar). This segment delivered a robust 123% YoY growth and crossed the INR 100 crore quarterly revenue mark for the first time. The company aims to increase the New Age business contribution from its current 9% to approximately 20% over the next two to three years.

Pricing Power and Brand Equity: The company maintains significant pricing power, particularly with its Gowardhan Ghee brand, which is priced approximately 20% higher than leading competitors. To deepen household penetration and accessible trials, the company introduced a 20 ml sachet of Gowardhan Ghee at an INR 20 price point. Furthermore, brand building remains a priority, with marketing expenditures maintained at 3.5% to 4% of revenue, and collaborations with high-profile celebrities, such as Janhvi Kapoor, for the Avvatar brand.

Valuation and Outlook: The company maintains a positive outlook centered on its strategic transition into a health and nutrition-led organization. While milk prices are expected to remain elevated in the near term due to seasonal summer scarcity, the company plans to mitigate cost pressures through calibrated pricing actions, maintaining its significant pricing power in core brands like Gowardhan Ghee. The company targets doubling the revenue contribution of the high-margin "New Age" business to approximately 20% over the next two to three years, supported by aggressive distribution expansion toward a goal of one million outlets and ongoing product innovation. We value the company at a P/E multiple of 25x FY28E EPS of INR 14.88, leading to a TP of INR 372. We maintain a 'Buy' rating.

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	2,507	2,966	3,563
EBITDA Margin	6.28%	7.36%	6.46%	6.66%	6.86%
EBIT	1,621	2,257	2,055	2,495	3,034
EBIT Margin	5.12%	6.50%	5.26%	5.57%	5.80%
PAT	906	1,188	1,081	1,422	1,748
YoY	70.10%	31.14%	-9.00%	31.55%	22.91%
EPS (INR)	7.71	10.11	9.20	12.10	14.88
YoY	56.71%	31.14%	-9.00%	31.55%	22.91%
P/E (x)	31.39	23.93	26.30	19.99	16.27
P/B (x)	3.22	2.87	2.28	2.06	1.84
EV/EBITDA (x)	18.13	14.17	13.95	12.31	10.55
EV/EBIT (x)	22.05	15.86	17.02	14.64	12.39
D/E (x)	0.77	0.69	0.51	0.53	0.48
RONW	9.93%	11.61%	8.39%	9.97%	10.95%
ROCE	8.49%	10.71%	9.17%	9.98%	11.28%

Source: Company, Arihant Research

INR Mn (Consolidated)	Q3FY26	Q2FY26	Q3FY25	Q-o-Q	Y-o-Y
Net Revenue	10,126.9	10,079.5	8,688.1	0.47%	16.56%
Raw Material Costs	7,506.2	7,476.5	6,471.6	0.40%	15.99%
Gross Profit	2,620.7	2,603.0	2,216.5	0.68%	18.24%
<i>Gross Margin</i>	25.88%	25.82%	25.51%	5bps	37bps
Employee costs	494.2	426.9	359.8	15.76%	37.35%
Other Expenses	1,443.5	1,463.7	1,118.9	-1.38%	29.01%
EBITDA	683.0	712.4	737.8	-4.13%	-7.43%
<i>EBITDA margin</i>	6.74%	7.07%	8.49%	-32bps	-175bps
Other Non Operating Income	89.3	180.3	16.0	-50.47%	458.13%
Depreciation	181.4	187.5	142.2	-3.25%	27.57%
EBIT	590.9	705.2	611.6	-16.21%	-3.38%
Finance costs	208.0	200.3	235.0	3.84%	-11.49%
PBT	382.9	504.9	376.6	-24.16%	1.67%
Tax Expense	30.0	48.4	34.8	-38.02%	-13.79%
<i>Effective tax rate</i>	12.00%	12.00%	9.24%	0bps	276bps
PAT	352.9	456.5	341.8	-22.69%	3.25%
<i>PAT margin</i>	3.45%	4.45%	3.93%	-100bps	-47bps
EPS (INR)	2.37	3.83	2.87	-38.12%	-17.42%

Gross Margin Resilience Amidst Commodity Volatility: Despite a significant 20% YoY inflation in milk prices and a 6.5% sequential increase, the company managed to keep sequential gross margins relatively flat at 25.9%. This was achieved through a calibrated passing on of cost increases to consumers and an improved product mix. The company has indicated a commitment to maintaining pricing power and taking necessary price hikes to compensate for elevated milk costs in the near term.

Innovation-Driven Product Portfolio: Strategic product development, such as the recently launched Avvatar protein wafer bar, has seen encouraging traction, contributing 8% to the brand's revenue within three quarters of launch. This product has now been scaled for nationwide distribution, reinforcing the company's journey toward becoming a health and nutrition-led organization anchored by premium offerings.

Significant Deleveraging and Debt Management: The company has made substantial progress in strengthening its balance sheet by reducing its debt levels. Gross debt decreased from INR 615 crores to INR 483 crores. The company highlighted that it is now generating significant cash flows from operating activities totaling INR 99 crores in the first half of the year, which is sufficient to fund capital expenditure programs through internal accruals.

Enhanced Operational and Working Capital Efficiency: The company has optimized its net working capital cycle, reducing it from approximately 75 days to 60 days. This improvement in capital efficiency has contributed to a notable rise in ROCE, which inched up from 8.6% to 14.3%. The company remains focused on further efficiency gains and discipline in pricing to drive sustainable and profitable growth.

Strategic Distribution Expansion: The company is aggressively expanding its last-mile reach, particularly in East and Northeast India. To date, it has added approximately 30,000 additional outlets through a focused distribution strategy and the use of IT-enabled sales tools. The long-term goal is to reach a respectable presence of close to 1 million outlets across all states to support its volume growth targets.

Income Statement					
INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Revenue from operations	31,387	34,322	38,787	44,511	51,913
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	6,012	6,810	7,839
EBITDA	1,971	2,527	2,507	2,966	3,563
EBITDA Margin	6.28%	7.36%	6.46%	6.66%	6.86%
Depreciation & amortisation expense	603	672	724	782	892
Finance Cost	762	931	854	915	849
Other income	252	403	272	312	363
PBT after exceptional Items	859	1,326	1,201	1,580	2,185
Cash Tax	-47	138	120	158	437
PAT	906	1,188	1,081	1,422	1,748
EPS after exceptional items:					
Basic (INR)	7.71	10.11	9.20	12.10	14.88
Diluted (INR)	7.47	9.80	8.91	11.73	14.41
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	11,602	12,979	14,681
Net Worth	9,121	10,234	12,884	14,261	15,963
Total debt	7,008	7,077	6,565	7,621	7,723
Deferred tax liability (net)	-38	105	105	105	105
Other non-current liabilities	37	47	39	45	52
Total Liabilities	7,007	7,229	6,710	7,771	7,880
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
Net Working Capital:	9,992	10,598	12,448	12,889	15,361
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	445	2,127	1,145
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
Total assets	16,128	17,463	19,594	22,032	23,843
Cash Flow					
INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Profit before tax	859	1,326	1,201	1,580	2,185
Depreciation & amortization	603	672	724	782	892
Tax paid	-47	138	120	158	437
Working capital Δ	1,113	607	1,850	440	2,472
Operating cash flow	395	1,253	-45	1,764	167
Capital expenditure	981	1,165	114	713	734
Free cash flow	-586	88	-159	1,051	-567
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	1,056	101
Dividends & other appropriations	60	119	60	64	64
Other items	-55	172	11	24	26
Net Δ in cash	-32	13	326	1,682	-983
Opening cash balance	138	106	119	445	2,127
Ending cash balance	106	119	445	2,127	1,145

Source: Arianth Research, Company Filings

Ratios	FY24	FY25	FY26E	FY27E	FY28E
Growth Matrix (%)					
Revenue	8.51%	9.35%	13.01%	14.76%	16.63%
EBITDA	48.34%	28.17%	-0.80%	18.31%	20.13%
EBIT	52.61%	39.25%	-8.97%	21.42%	21.63%
PBT	68.14%	54.43%	-9.41%	31.55%	38.27%
PAT	70.10%	31.14%	-9.00%	31.55%	22.91%
PAT after OCI	69.86%	32.55%	-8.86%	31.02%	22.61%
Profitability (%)					
EBITDA Margin	6.28%	7.36%	6.46%	6.66%	6.86%
EBIT Margin	4.33%	5.34%	4.57%	4.87%	5.11%
Net Profit Margin	2.86%	3.42%	2.77%	3.17%	3.34%
Net Profit Margin after OCI	2.88%	3.47%	2.81%	3.21%	3.38%
RoCE	8.49%	10.71%	9.17%	9.98%	11.28%
RoNW	9.93%	11.61%	8.39%	9.97%	10.95%
RoA	5.91%	7.07%	5.83%	6.83%	7.62%
Per Share (INR)					
Basic EPS	7.71	10.11	9.20	12.10	14.88
Diluted EPS	7.47	9.80	8.91	11.73	14.41
DPS	0.50	1.00	0.50	0.50	0.50
Basic Cash EPS	12.84	15.83	15.36	18.76	22.47
Diluted Cash EPS	12.44	15.34	14.88	18.18	21.77
BVPS	75.22	84.40	106.25	117.61	131.65
Sales	267.15	292.13	330.14	378.86	441.86
Valuation (x)					
P/E	31.39	23.93	26.30	19.99	16.27
P/CEPS	18.85	15.29	15.76	12.90	10.77
P/BV	3.22	2.87	2.28	2.06	1.84
P/Sales	0.91	0.83	0.73	0.64	0.55
EV/EBITDA	18.13	14.17	13.95	12.31	10.55
EV/EBIT	22.05	15.86	17.02	14.64	12.39
EV/Sales	1.14	1.04	0.90	0.82	0.72
Dividend Yield	0.00	0.00	0.00	0.00	0.00
Liquidity (x)					
Current Ratio	4.74	4.74	5.22	5.10	5.04
Quick Ratio	2.46	2.72	2.83	3.09	2.76
Defensive Interval Ratio	82.48	89.55	87.02	99.47	85.04
Cash Ratio	0.04	0.04	0.15	0.58	0.28
Activity (x)					
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	2.09	2.14	2.26
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
Days					
Receivable days	23.98	26.79	23.79	20.79	17.79
Inventory days	90.78	85.51	83.65	81.81	79.96
Cash Conversion cycle	114.77	112.30	107.44	102.59	97.74
Payable days	28.19	33.84	33.88	33.93	33.97
Operating cycle	86.58	78.46	73.56	68.67	63.77
Leverage (x)					
Interest Coverage	2.13	2.42	2.41	2.73	3.57
Debt Equity	0.77	0.69	0.51	0.53	0.48
Net Debt Equity	0.76	0.68	0.48	0.39	0.41
Assets to Equity	1.68	1.64	1.44	1.46	1.44
Du Pont					
Tax burden	1.06	0.90	0.90	0.90	0.80
Interest burden	0.53	0.59	0.58	0.63	0.72
EBIT Margin	0.05	0.07	0.05	0.06	0.06
Asset turnover	2.05	2.04	2.09	2.14	2.26
Leverage	1.68	1.64	1.44	1.46	1.44
ROE	0.10	0.12	0.08	0.10	0.11

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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