Foundation Alert

FFL: Analyst Briefing Key Takeaways

Event

- Fauji Foods Limited (FFL PA) held its Analyst briefing to discuss the financial/operational performance and future outlook of the company. Following are the key takeaways of the briefing.
- The company is not under our formal coverage.

Impact

- FFL reported sales of Rs5.2bn (up 117/21% YoY/QoQ) in 1QCY23 as compared to Rs2.4bn in 1QCY22.
- Management attributes growth in sales to (1) higher volumetric growth, (2) increase in distribution outlets, and (3) strong institutional sales of Rs2.3bn.
- Contribution of value added portfolio increased from 68% in 2022 to 84% in 1QCY23.
- Company has witnessed overall volumetric growth of 9% in 1QCY23. UHT milk/Flavored milk/Butter/Cream volumes increased by 54%/10%/19%/98% YoY in 1QCY23. However, volumes of Dostea LTW decreased by 41% YoY in 1QCY23.
- The topline growth was complimented by improvement in Gross margins that nearly doubled from 6.4% in 1QCY22 to 12.8% in 1QCY23, highest in the history of FFL.
- Management has shared that company loss has decreased by 66/24% YoY/QoQ to Rs170mn in 1QCY23 due to 115% YoY growth in topline and lower finance cost due to legacy debt repayment of Rs8.0bn in Mar'23.
- Management projects interest cost saving of Rs1.5bn in 2023 due to legacy debt repayment.
- FFL management also shared details of their products and disclosed that company is penetrating into UHT milk/Butter/Cheese/Flavored milk/cream segment.
- In order to improve margins, company is taking efficiency measures such as (1) elimination of coal usage by shifting to bio mass facility, (2) commencement of electricity production from 1MW solar power plant at its plant site and (3) localization of packaging material in order to reduce the impact of rupee depreciation.
- Management expect these cost reduction measures to generate saving of Rs1bn on annual basis.
- FFL receivables as a % of credit sales decline to 42% in 1QCY23 from 131% in 1QCY22.
- Subsequently, company cash operating cycle improves to 34 days in 1QCY23 from 93 days in 1QCY22.

Outlook

- The company is not in our formal coverage. We expect company losses to reduce in future due to (1) change in management strategy towards increased penetration in household retail segment and group synergies, (2) conversion of consumer preferences from loose milk to packaged milk products, (3) higher prices of loose milk given increased regulatory tightening, (4) increased revenue contribution of value added products and (5) decline in finance cost due to payment of debt.

Fig 1: FFL 1QCY23 Financial Highlights

Rs(mn)	**1QCY23**	**1QCY22**	**YoY**	**QoQ**
Net sales	5,169	2,387	117%	21%
COGS	4,508	2,234	102%	26%
Gross profit	**661**	**153**	**332%**	**-4%**
Selling and distribution expenses	347	320	8%	12%
Administrative expenses	187	111	68%	49%
Other income	70	42	66%	13%
Other expenses	0	-	na	-100%
EBIT	**197**	**(236)**	**na**	**8%**
Finance cost	300	233	29%	-14%
PBT	**(103)**	**(468)**	-78%	-39%
Tax	66	31	116%	18%
PAT	**(170)**	**(499)**	**-66%**	**-24%**
EPS	(0.07)	(0.32)		
GP Margin	12.78%	6.41%		
EBIT Margin	3.80%	-9.88%		

Source: Company Accounts, Foundation Research, May 2023

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If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.