

# Prataap Snacks Ltd.

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## Management Meet Takeaways

Prataap Snacks Ltd. (PSL) is a key player in the organized snacks market, offering multiple variants of *salty snacks* under the *Yellow Diamond* brand as well as a range of *sweet snacks* recently launched under the *Rich Feast* brand. The company is headquartered in Indore and operates through its 14 manufacturing facilities [5 In-house plants and 9 contract manufacturing units (3P)]. PSL's distribution network includes more than 240 super stockists and more than 4,100 distributors enabling product reach across the country. We recently interacted with Mr. Sumit Sharma, Chief Financial Officer (CFO) of the company in order to get an update on current operating environment. The following are the key takeaways:

### Operational and demand updates

- 1QFY21 was a challenging quarter as Indore (where the company's mother plant is located and which makes up for ~50% of overall capacity) was one of the cities with high number of cases. PSL got permission to resume manufacturing operations only in May.
- In 2QFY21, it smoothened out all production and supply side disruptions and ramped up operational capacity across all plants. With most operational issues resolved, the company exited 2QFY21 with an 85% recovery. As of date, the company has reached ~90-95% of pre-Covid levels.
- Kids-centric (schools) and transport-centric (railways/highways) demand is still under pressure.
- While rural demand has streamlined, urban demand is still facing challenges, especially in large cities. As per the management, the company's urban-rural mix would be 50:50.

### Industry specific comments

- Overall market size of snacks segment stands at ~Rs550-580bn, of which ~60% is dominated by unorganized players, thereby giving headroom for growth to organized players. Management believes that industry can grow at a rate of 10-11% in the next 5 years. Barring FY21, PSL is targeting 15% topline growth in the coming 3-4 years. Market size of *sweet snacks* is ~10% of *salty snacks*. Market size for *branded sweet snacks* (cakes & pies) stands at Rs25-27bn.
- Commenting on competitive intensity, the management stated that competitive intensity in the snacking category will persist and is not going anywhere. Regional/local players managed to streamline their supply chain and catered to their local market during the lockdown. Even national players are doing well.

### Company specific commentary & outlook

- Five years ago, Rs5 SKU contributed 90% to the overall revenue. Currently, it contributes 80% and within the next 5 years its contribution is likely to reduce to 70%. Thus, going forward, there would be favorable shift in the SKU mix, which would have positive impact on margins.
- PSL ventured into *sweet snacks* segment as it is (i) a small, yet a high growth category, (ii) under penetrated and (iii) the company's existing distribution strength can be leveraged to grow in this space. The management does not plan to go beyond its existing offerings of cookies, cakes and pies.
- Management re-iterated that the company's operations will continue to remain within the snacking & ready-to-eat (RTE) category. As of now, PSL does not foresee any inorganic growth in the near term.

### Raw material inflation & Margins

- Key raw material as a % of revenue: Palm oil (13-14%), laminate (15-16%) and potato (5-6%).
- Historically, palm oil prices have hovered between Rs60-65/kg. However, since Oct'2019, palm oil has been witnessing sharp inflation and currently stands at 100/kg. Being an essential commodity, the company believes that the inflation is a short-term issue and prices are likely to correct soon.
- The company is mitigating the adverse impact of palm oil prices on margins through process re-engineering and cost optimization. If inflationary pressure still persists, then change in grammage will be the last resort.
- In terms of packaging costs, earlier the company used to enter into short term contracts for laminate. Now it enters long term contracts of around nine months to one year.
- PSL is also looking at some structural changes. Earlier, the company used to follow a 3-layer distribution model (super stockist to distributor to retailer). Now that the company has plants across all four geographical zones, it plans to follow the direct distribution model (supply directly to distributors), which will reduce distribution costs and consequently aid margin improvement.

### Capex

- PSL will continue to rely primarily on 3P manufacturing facilities to expand its output.
- Over the next three years, the management has guided for a capex of Rs1.2-1.3bn, funded by internal accruals, and would include routine capex & investment on vehicles.

### Channel mix

- Company's products are primarily supplied through general trade. Institutional sales contribute ~8-10% to overall sales. PSL is working to increase the salience of modern trade (MT) channel, which is not more than 1% currently. At present, within the MT channel, company's products are available in DMART.

### PSL's play in healthy snacks segment

- As per the company, category is still at a nascent stage. Also, 50% of its product portfolio is already baked, not fried. It had also launched *quinoa chips* in 2016 but since the product was ahead of its time, PSL had to withdraw it.
- PSL is currently working on *Omega Fortified Potato Chips*, which is likely to be launched next month. Margin for this product would be at par with existing products.

## NOT RATED

**Sector:** Consumer

**CMP:** Rs667

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### Key Data

Current Shares O/S (mn)	23.5
Mkt Cap (Rsbn/US\$bn)	15.6/0.2
52 Wk H / L (Rs)	896/435
Daily Vol. (3M NSE Avg.)	6,314

### Price Performance (%)

	1 M	6 M	1 Yr
Prataap Snacks Ltd.	8.3	9.9	(21.6)
Nifty Index	6.2	36.9	12.6

Source: Bloomberg

[FY20 Annual Report](#)
[2QFY21 Presentation](#)

**Exhibit 1: Financial summary (consolidated)**

Y/E March (Rsmn)	FY17	FY18	FY19	FY20	1HFY21
Net revenues	8,940	10,174	11,706	13,938	5,224
YoY growth (%)		13.8	15.1	19.1	-27.3
EBITDA	422	869	832	937	316
EBITDA margin (%)	4.7	8.5	7.1	6.7	-45.9
Adj PAT	196	442	446	469	25
EPS (Rs)	10.3	18.8	19.0	20.0	1.1
YoY growth (%)		82.9	1.1	5.1	-88.5
P/E (x)	64.8	35.4	35.0	33.3	-
P/BV (x)	5.3	3.0	2.8	2.6	-
EV/EBITDA (x)	31.4	15.6	18.0	16.2	-
RoCE (post-tax) (%)	-	11.1	8.2	9.7	1.6
RoE (%)	-	11.7	8.3	8.0	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Note: Return ratios for 1HFY21 are annualized

## Financials (Consolidated)

**Exhibit 2: Income statement**

Y/E March (Rsmn)	FY17	FY18	FY19	FY20
Net Sales	8,940	10,174	11,706	13,938
<b>% Growth</b>	-	<b>13.8</b>	<b>15.1</b>	<b>19.1</b>
COGS	6,261	6,862	8,204	9,947
Staff costs	249	365	415	577
Other expenses	2,009	2,077	2,254	2,477
Total expenses	8,518	9,304	10,874	13,001
EBITDA	422	869	832	937
<b>% growth</b>	-	<b>106.2</b>	<b>-4.3</b>	<b>12.6</b>
<b>EBITDA margin (%)</b>	<b>4.7</b>	<b>8.5</b>	<b>7.1</b>	<b>6.7</b>
Other income	18	80	109	92
Interest costs	46	29	9	75
Depreciation	255	304	376	617
Profit before tax	139	617	557	337
Exceptional items	10	0	0	0
Tax	-57	175	110	-132
Rate of Tax (%)	-41.1	28.4	19.8	-39.3
Adj PAT	196	442	446	469
<b>Adj PAT margin (%)</b>	<b>2.2</b>	<b>4.3</b>	<b>3.8</b>	<b>3.3</b>
<b>% Growth</b>	-	<b>125.2</b>	<b>1.1</b>	<b>5.1</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Balance sheet**

Y/E March (Rsmn)	FY17	FY18	FY19	FY20
Share capital	19	117	117	117
Reserves	2,358	5,078	5,496	5,936
Net worth	2,377	5,195	5,614	6,053
Share warrants	0	0	0	27
Total debt	656	75	179	30
Other long term liabilities	39	32	745	1,497
Deferred tax liabilities	-80	-58	624	400
<b>Total liabilities</b>	<b>2,991</b>	<b>5,244</b>	<b>7,161</b>	<b>8,007</b>
Gross block	2,302	3,239	6,190	7,340
Depreciation	255	557	929	1,461
Net block	2,047	2,682	5,261	5,879
Capital work-in-progress	518	24	67	196
Other LTA	409	592	488	713
Investments	0	0	0	0
Inventories	789	897	1,195	1,323
Debtors	145	204	308	326
Cash	112	2,144	819	538
Other current assets	240	359	263	787
Total current assets	1,286	3,604	2,584	2,974
Creditors	716	997	856	875
Other current liabilities & provisions	553	661	383	880
Total current liabilities	1,269	1,658	1,239	1,755
Net current assets	17	1,946	1,345	1,219
<b>Total assets</b>	<b>2,991</b>	<b>5,244</b>	<b>7,161</b>	<b>8,007</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Cash flow**

Y/E March (Rsmn)	FY17	FY18	FY19	FY20
PAT	102	472	402	274
Depreciation	255	304	376	617
Other income	36	-19	-95	23
(Inc.)/dec. in working capital	-81	81	-575	-164
<b>Cash flow from operations</b>	<b>313</b>	<b>837</b>	<b>108</b>	<b>751</b>
Capital expenditure (-)	-586	-498	-389	-580
<b>Net cash after capex</b>	<b>-274</b>	<b>339</b>	<b>-280</b>	<b>171</b>
Inc./(dec.) in investments	-10	-1,562	1,075	48
Other income	7	1,627	-2,200	-220
<b>Cash flow from investments</b>	<b>-589</b>	<b>-433</b>	<b>-1,514</b>	<b>-752</b>
Inc./(dec.) in share capital & debt	374	1,643	55	-149
Dividends paid (-)	0	0	-23	-23
Others	-45	-16	49	-108
<b>Cash from financial activities</b>	<b>328</b>	<b>1,627</b>	<b>80</b>	<b>-280</b>
Opening cash balance	61	112	2,144	819
Closing cash balance	112	2,144	819	538
Change in cash balance	52	2,032	-1,325	-281

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Key ratios**

Y/E March	FY17	FY18	FY19	FY20
<b>Per share (Rs)</b>				
EPS	10.3	18.8	19.0	20.0
Book value	124.7	221.5	239.4	258.1
DPS	0.0	1.0	1.0	1.0
<b>Valuation (x)</b>				
EV/sales	1.5	1.3	1.3	1.1
EV/EBITDA	31.4	15.6	18.0	16.2
P/E	64.8	35.4	35.0	33.3
P/BV	5.3	3.0	2.8	2.6
<b>Return ratios (%)</b>				
RoCE (post-tax)	-	11.1	8.2	9.7
RoE	-	11.7	8.3	8.0
RoIC	-	16.0	10.4	9.6
<b>Profitability ratios (%)</b>				
Gross margin	30.0	32.5	29.9	28.6
EBITDA margin	4.7	8.5	7.1	6.7
PAT margin	2.2	4.3	3.8	3.3
<b>Liquidity ratios (%)</b>				
Current ratio	0.0	1.2	1.1	0.7
Quick ratio	0.4	1.6	1.1	0.9
<b>Solvency ratio (%)</b>				
Debt to Equity ratio	0.3	0.0	0.0	0.0
<b>Turnover ratios</b>				
Total asset turnover ratio (x)	3.0	1.9	1.6	1.7
Fixed asset turnover ratio (x)	4.4	3.8	2.2	2.4
Inventory days	46	48	53	49
Debtors days	6	7	10	9
Creditor days	29	36	27	23

Source: Company, Nirmal Bang Institutional Equities Research

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