



TM

03 August 2021

Prataap Snacks

Strategic transformations on track

Prataap Snacks (PSL) 1QFY22 sales grew 43% YoY (vs. our estimate of 40% growth) to Rs 2.8bn, despite the closure of schools and colleges and subdued travel activities due to the second wave of COVID-19. Uninterrupted supplies to trade channels and an expanded tele-calling network aided growth. The impact of a ~65% YoY inflation in palm oil (~14% of sales) on its margins was mitigated through process re-engineering and cost-optimization. Gross margin contracted 422bps to 23.9% while EBITDA margin contracted 25bps to 4% (vs. our estimate of 2%). The new plant in Kolkata will serve as a hub for the Eastern region and also optimize distribution. The management expects the benefits of direct distribution and tele-calling to be visible in the coming quarters; it plans a total capex of ~Rs 1bn over the next 2-3 years. The demand scenario is challenging as educational institutions remain closed but PSL is operationally better prepared to capture impulse consumption as mobility improves with the increase in vaccination rates and the easing of lockdown restrictions.

We expect revenue CAGR of 23% between FY21-23E; EBITDA and PAT should grow at a CAGR of 48% and 118% led by operating leverage, a better product mix and efficiencies in distribution and logistics – PSL plans to deliver products directly to the distributors instead of selling them through super-stockists. Its RoCE is likely to improve to 10% in FY23E from 1.2% in FY21 as the revenues from sweet snacks increase and synergy benefits from the Avadh acquisition play out. We reiterate BUY with a revised target price of Rs 875 (earlier Rs 820) based on 14x FY23E EV/EBITDA (13x earlier; revised on account of market share gains from unorganized players).

Consolidated revenue grew 43% YoY to Rs 2.8bn despite the closure of schools and colleges and weak footfalls/traffic on railway stations/highways. Schools and institutional sales contribute to ~20% of PSL's revenues. The company ensured unhindered plant operations and better supply chain management, resulting in uninterrupted supplies to trade channels. The expansion of its tele-calling facility (plans to reach 2.5-3 lakh outlets) also supported faster and efficient replenishment. To drive growth in its sweet snacks portfolio (largely driven by school kids), PSL is working on new products (<Rs 10) for home consumption. Through the Kolkata plant, it can now supply the entire portfolio in the Eastern markets (*namkeens* to be delivered from the Indore plant). Avadh posted double-digit growth in 1QFY22. The company has 14 plants (seven owned) across India and a distribution network of 1.7mn outlets with 240+ super-stockists and 4,300 distributors. It is aggressively ramping up capacities pan-India mainly via the outsourcing route - outsourced share in total revenue is likely to cross 30% in 2-3 years. The response for its new sweet snack products has been encouraging and it expects the segment to contribute to ~10% of its revenue by FY25E, up from ~3% currently. We expect revenue CAGR of 23% between FY21-23E given the shift in demand from the unorganized segment, market share gains through product innovation and distribution expansion, synergies from the integration of Avadh's business and growth in the sweet snacks category.

RESULT UPDATE

Sector: FMCG **Rating: BUY**
CMP: Rs 732 **Target Price: Rs 875**

Stock Info

Sensex/Nifty	53,823/ 16,131
Bloomberg	DIAMOND IN
Equity shares (mn)	24
52-wk High/Low	Rs 827/ 485
Face value	Rs5
M-Cap	Rs 17bn/USD 0.2bn
3-m Avg volume	USD 0.8mn

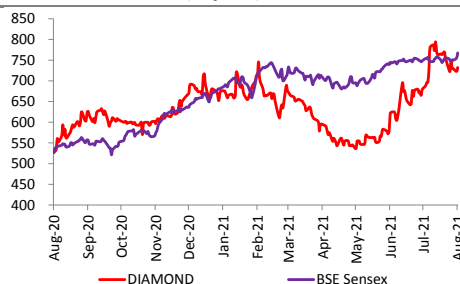
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Sales	11,711	13,923	17,618
Adj. PAT	142	324	671
Adj. EPS (Rs)	6.0	13.8	28.6
PE (x)	121.3	52.9	25.6
EV/EBITDA (x)	26.9	17.5	11.6
P/BV (x)	2.2	2.0	1.8
EV/Sales	0.9	0.7	0.6
RoE (%)	2.3	5.1	9.8
RoCE (%)	1.2	5.1	9.9
NWC (days)	20.2	17.2	16.2
Net gearing (x)	0.1	0.0	(0.1)

Shareholding Pattern (%)

	Jun 21	Mar 21	Dec 20
Promoter	71.5	71.5	71.5
-Pledged	-	-	-
FII	4.7	4.8	4.9
DII	16.5	16.4	16.3
Others	7.4	7.3	7.3

Stock Performance (1-year)



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Investors are advised to refer disclosures made at the end of the research report.

Cost optimization and process re-engineering limit margin contraction: Gross margins contracted 422bps to 23.9% despite volatility in palm oil prices (+65% YoY). The impact of high input costs was mitigated through cost-rationalization and process re-engineering initiatives. EBITDA margin contracted 25bps to 4%. On account of resignation of certain employees, PSL reassessed SAR (Stock Appreciation Rights) and reversed Rs 15.3mn in standalone results (netted from employee benefits expense). The management expects a sustainable margin of ~10% over the next 2-3 years. We expect PSL's EBITDA margin to improve to 7.8% in FY23E from 5.4% in FY21 led by operating leverage, a better product mix and efficiencies in distribution and logistics. The gross margin in sweet snacks is higher than in salty snacks. The company targets to increase the contribution of sweet snacks from 3% to 10% of revenues in 3-4 years. It plans to deliver products directly from its factories to the distributors instead of taking the super-stockist route to save on the second leg of the logistics cost. In the 1st phase, the company aims to reduce the second leg of logistics cost (3% of sales) by 30-35% over the next three years.

Maintain BUY with a revised target price of Rs 875: We expect its RoCE to improve to 10% in FY23E from 1.2% in FY21 along with a healthy FCF generation of Rs 1bn between FY22-23E. At our target price of Rs 875, PSL trades at 1.2x FY23E revenues, 14x FY23E EBITDA, 31x FY23E EPS and a 3% FCF yield.

Exhibit 1: Long-term strategies to drive sales and margins

Compressing distribution structure	Expanding 3P facilities	Enhancing distribution	Improving product portfolio	Product optimisation
<ul style="list-style-type: none"> •Moving away from the traditional three-tier distribution structure (~95% of sales) of super stockists, distributors and retailers. •Doing away with stockists to save trade margins. •Will reduce overheads costs like secondary freight. •Permanent savings of 2-3% in EBITDA margin likely. 	<ul style="list-style-type: none"> •To augment capacity through the asset light model. •Production will be closer to consumption centres. •Plans to have hubs at strategic locations across the country. •Converted 3P facility in Bengaluru to serve as a hub for the Southern markets. Commissioned own facility in Kolkata to support direct distribution in the Eastern region. •Planning to convert Hisar plant as a hub for the Northern markets. 	<ul style="list-style-type: none"> •Initiated tele-calling to deepen distribution in micro-markets and drive sales. •This will increase its retail touch points in the market. •Will extend across the network in the coming months. 	<ul style="list-style-type: none"> •Evaluating the entire portfolio to assess the impact of the pandemic on its products. •Plans to add products that are suited for in-home consumption. •Launched the Avadh portfolio in new markets outside Gujarat. 	<ul style="list-style-type: none"> •Working on product improvements through optimization in box/laminate sizes, reduction of weight per packet and reduction of oil content in recipes. •These initiatives will mitigate the impact of RM inflation.

Source: Company, Systematix Institutional Research

Exhibit 2: Actuals vs. estimates

(Rs mn)	Q1FY22	1QFY22E	Variance (%)	Q1FY21	YoY growth (%)
Total Sales	2,796	2,740	2.1	1,957	42.9
EBITDA	111	52	113.1	82	34.5
EBITDA margin (%)	4.0	1.9	+210bps	4.2	-20bps
Adj. PAT	(16)	(45)		(60)	
EPS	(0.7)	(1.9)		(2.5)	

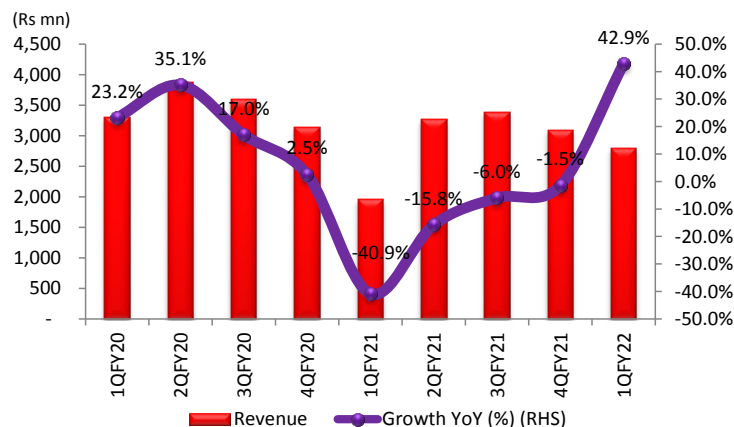
Source: Company, Systematix Institutional Research

Exhibit 3: Quarterly performance

YE March (Rs mn)	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Net sales	2,782	1,944	3,075		
Other operating income	14	13	20		
Net Revenues	2,796	1,957	3,095	42.9	(9.7)
Cost of goods sold	2,118	1,405	2,283	50.7	(7.2)
(% of sales)	75.8	71.8	73.7		
Purchase of stock in trade	7.2	0	5		53.3
(% of sales)	0.3	0.0	0.2		
Employee cost	104	119	133	(13.0)	(22.1)
(% of sales)	3.7	6.1	4.3		
Others	457	351	536	30.1	(14.8)
(% of sales)	16.3	17.9	17.3		
EBITDA	111	82	139	34.5	(20.4)
EBITDA margin (%)	4.0	4.2	4.5		
Other income	15	19	29	(23.1)	(49.9)
PBITD	125	101	169	23.7	(25.5)
Depreciation	131	160	131	(17.8)	0.0
Interest	16	17	15	(7.2)	10.9
PBT	(22)	(75)	23	(71.2)	(194.7)
Tax	(6)	(16)	(48)	(63.4)	(88.0)
ETR (%)	26.7	21.0	(210.3)		
Adjusted PAT	(16)	(60)	71	(73.2)	(122.4)
PATAMI margin	(0.6)	(3.0)	2.3		
Reported PAT	-15.9	-59.6	71.3	(73.2)	(122.4)
No. of shares (mn)	23.5	23.5	23.5		
Adj EPS (Rs)	(0.7)	(2.5)	3.0		

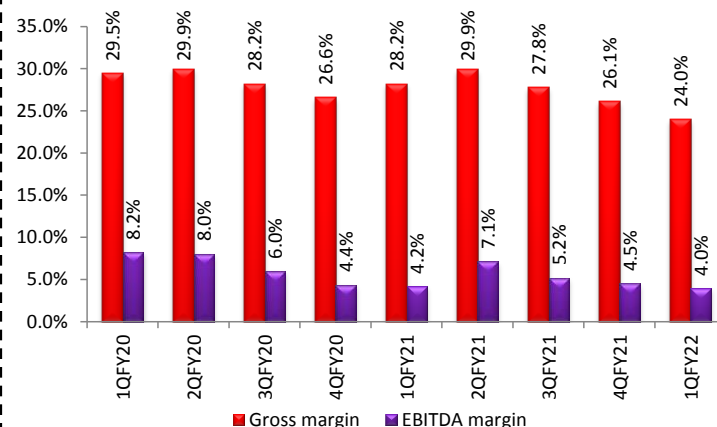
Source: Company, Systematix Institutional Research

Exhibit 4: Sales growth of 43% YoY



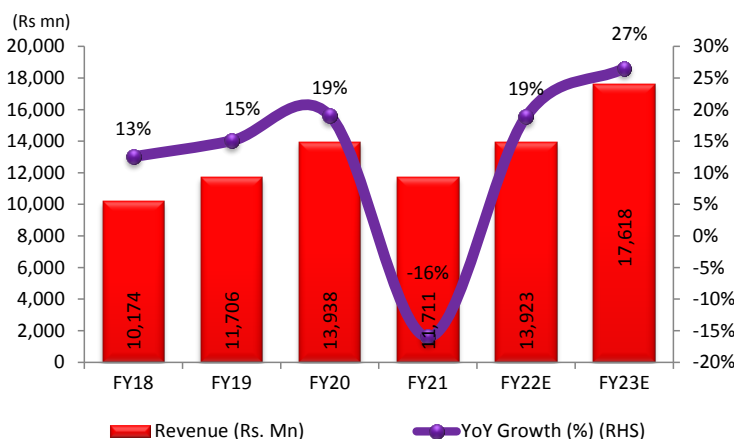
Source: Company, Systematix Institutional Research

Exhibit 5: EBITDA margin contracts 25bps



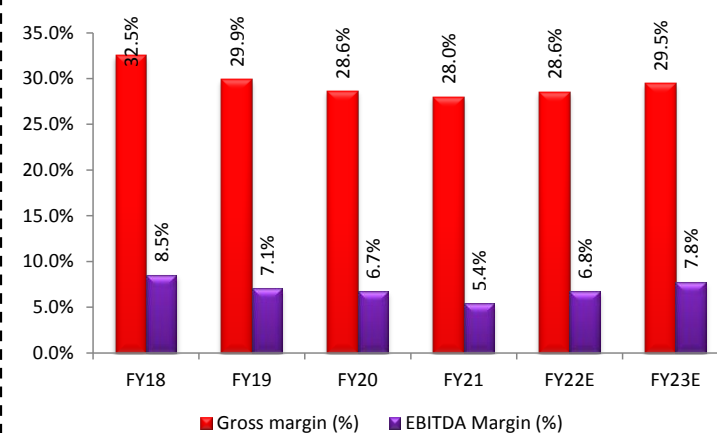
Source: Company, Systematix Institutional Research

Exhibit 6: Expect revenue CAGR of 23% over FY21-23E



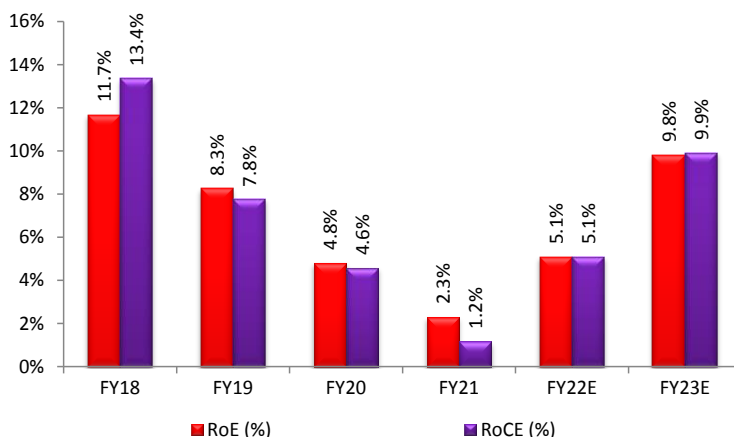
Source: Company, Systematix Institutional Research

Exhibit 7: Margins should increase gradually



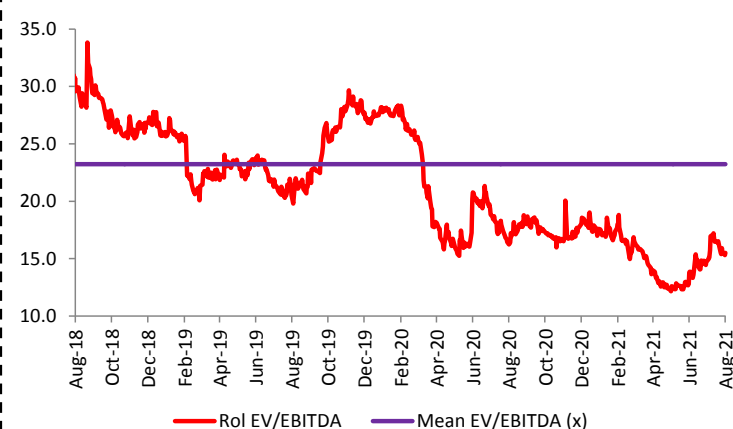
Source: Company, Systematix Institutional Research

Exhibit 8: RoCE to improve from FY22 onwards



Source: Company, Systematix Institutional Research

Exhibit 9: Currently trading at 15.5x one-yr fwd EV/E multiple



Source: Bloomberg, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	11,706	13,938	11,711	13,923	17,618
RM Cost	8,093	9,864	8,426	9,939	12,419
Purchase of trad. Goods	111	83	5	6	8
Gross Profits	3,502	3,991	3,280	3,978	5,192
Employee costs	415	577	533	599	714
Selling & Admin costs	2,254	2,477	2,116	2,435	3,106
Total Expenses	10,874	13,001	11,080	12,979	16,246
EBITDA	832	937	631	944	1,372
Depreciation	376	617	546	573	602
Other income	109	92	88	97	131
EBIT	565	411	173	468	902
Interest cost	9	75	63	63	63
PBT	557	337	111	406	839
Taxes	110	55	-31	81	168
Adj. PAT	446	282	142	324	671
Extraordinaries	0	-188	0	0	0
Reported PAT	446	469	142	324	671
No. of shares (mn)	23	23	23	23	23
Adj. EPS	19.0	20.0	6.0	13.8	28.6

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	557	524	111	406	839
Add: Depreciation	376	617	546	573	602
Add: Interest	(101)	(17)	(26)	(35)	(69)
Less: taxes paid	(154)	(63)	(37)	(81)	(168)
Add: other adjustments	6	(147)	38	0	0
Less: WC changes	(575)	(164)	143	25	(70)
Total OCF	108	751	774	888	1134
OCF w/o WC changes	683	915	631	863	1204
Capital expenditure	(383)	(588)	(338)	(400)	(600)
Creation of leased assets					
Interest/Dividend reced.	100	39	43	97	131
Other Investing activities	(310)	56	(483)	0	0
Total ICF	(593)	(493)	(778)	(303)	(469)
Free Cash Flows	(275)	163	435	488	534
Share issuances	0	0	0	0	0
Change in borrowings	111	(177)	(98)	0	0
Dividends	(28)	(28)	(23)	(29)	(47)
Interest payment	(2)	(74)	(21)	(63)	(63)
Others	0	0	0	0	0
Total FCF	80	(280)	(142)	(92)	(110)
Net change in cash	(405)	(22)	(147)	494	556
Opening cash & CE	691	287	265	118	611
Closing cash & CE	287	265	118	611	1167

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	117	117	117	117	117
Reserves and surplus	5,496	5,963	6,114	6,409	7,033
Net worth	5,614	6,080	6,231	6,526	7,150
Minority Interest	0	0	0	0	0
Total Debt/Lease	864	1,419	928	928	928
Other LT liabilities	711	671	579	579	579
Total sources	7,189	8,170	7,738	8,033	8,657
Net Block	2,873	3,593	3,393	3,220	3,219
Net deferred tax	18	2	2	2	2
Other assets	326	713	676	676	676
CWIP	67	196	209	209	209
Goodwill and intangibles	2,388	2,286	2,187	2,187	2,187
Cash	819	538	304	798	1,353
Inventories	1,195	1,323	1,307	1,439	1,773
Debtors	308	326	266	316	400
Loans & Advances	263	231	514	516	520
Current Assets	1,765	1,880	2,087	2,272	2,693
Creditors	856	875	926	1,101	1,393
Other CL	211	164	194	229	288
Current Liabilities	1,067	1,038	1,120	1,330	1,681
Net Working Capital	698	842	967	942	1,012
Total Uses	7,189	8,170	7,738	8,033	8,657

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
YoY growth in Revenue	15.1	19.1	(16.0)	18.9	26.5
YoY growth in EBITDA	7.1	6.7	5.4	6.8	7.8
YoY growth in Net income (%)	1.1	(36.9)	(49.7)	129.2	106.8
Effective tax rate	19.8	16.4	(27.9)	20.0	20.0
EBITDA margin	7.1	6.7	5.4	6.8	7.8
Adj PAT margin	3.8	2.0	1.2	2.3	3.8
ROACE (pre-tax)	7.8	4.6	1.2	5.1	9.9
ROAE	8.3	4.8	2.3	5.1	9.8
Net debt to equity (x)	0.0	0.1	0.1	0.0	(0.1)
Inventory days	37	35	41	38	37
Debtors days	10	9	8	8	8
Payable days	27	23	29	29	29
NWC days	20	20	20	17	16
Per share numbers (Rs)					
Reported earnings	19.0	12.0	6.0	13.8	28.6
Dividend	1.0	1.0	0.5	1.3	2.0
Free cash	(11.7)	6.9	18.6	20.8	22.8
Book Value	239.4	259.2	265.7	278.3	304.9
Valuations (x)					
Price to diluted earnings	38.5	61.0	121.3	52.9	25.6
EV / EBITDA	20.4	18.1	26.9	17.5	11.6
Price to sales	1.5	1.2	1.5	1.2	1.0

Source: Company, Systematix Institutional Research

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I, **Ashutosh Joytiraditya, Premal Kamdar**, hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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BUY (B): The stock's total return is expected to exceed 15% over the next 12 months.

HOLD (H): The stock's total return is expected to be within -15% to +15% over the next 12 months.

SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

NOT RATED (NR): The analyst has no recommendation on the stock under review.

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ATTRACTIVE (AT): Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

NEUTRAL (NL): Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

CAUTIOUS (CS): Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

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