

**CMP: INR 858**

**Rating: BUY**

**Target Price: INR 1,268**

**Stock Info**

BSE	540724
NSE	DIAMONDYD
Bloomberg	DIAMOND:IN
Reuters	PRAT.NS
Sector	Packaged Foods
Face Value (INR)	5
Equity Capital (INR cr)	12
Mkt Cap (INR cr)	2,071
52w H/L (INR)	1,010/ 662
Avg Daily Volume (in 000')	16

**Shareholding Pattern %**

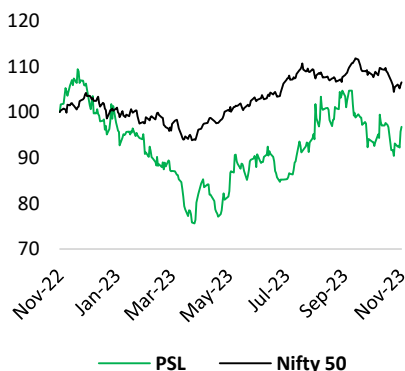
(As on September 2023)

Promoters	69.75
FII	2.92
DII	11.25
Public & Others	16.07

**Stock Performance (%)**

	1m	3m	12m
PSL	3.8	(4.6)	(2.9)
Nifty 50	(1.5)	(0.8)	6.6

**PSL Vs Nifty**



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**Prataap Snacks reported a decent performance despite misses on all fronts. There is sequential improvement across the board with visible margin expansion.** Revenue de-grew 4.15% YoY to INR 431 Cr (+11.81% QoQ), missing our quarterly revenue estimate of INR 491 Cr by 12%. Gross Margin expanded 531bps YoY to 33.82% (-12bps QoQ). EBITDA grew 71.81% YoY to INR 38 Cr (+15.52% QoQ), missing our estimate of INR 44 Cr by 14%. EBITDA Margin expanded 392bps YoY to 8.75% (+28bps QoQ), missing our estimate of 8.87% by 12bps. PAT grew 290% YoY to INR 17 Cr (+23.09% QoQ), missing our estimate of 21 Cr by 21%.

**Competitive intensity:** Since commodity prices have softened significantly from their peak, and inflation has begun to moderate, it has led to a lot of unorganized players re-entering the market which has led to some organized players losing some market share/ having a flat growth.

**Marketing spends:** Marketing spends were kept a little higher for H1 at 7.25% of revenues. On a full-year basis they are expected to remain in this range as the company is working toward retaining its market share and improving brand visibility however, they will go back to normal levels next year. In Q2 they signed with a brand ambassador to improve the visibility of Avadh in Gujarat.

**Upcoming capacities:** The capacity at J&K should become operational by the 1st week of Jan'24. This, combined with the completion of the Rajkot facility should add INR 2,700-2,800 Cr of revenue. The current overall utilization of existing facilities is 60-62%.

**Namkeen to take the spotlight:** Namkeens are a key focus area as they are 43% of industry demand but only 16% of revenues. This should go up to 20-23% in the next year. They also have a favorable freight-to-volume ratio.

**Re-entering modern trade:** They exited modern trade outlets like D-Mart during COVID-19 as inflation and the high associated costs were posing an issue, but they plan to re-enter these outlets soon with bigger pack sizes in the INR 10-20 range to cater to the urban market. This will help reduce their dependence on INR 5 pack sales which come from impulse purchases.

**Valuation & Outlook:** The company's market share remained mostly flat as it grew in line with the industry, registering healthy volume growth during the quarter. The cost-saving initiatives taken added 2-3% to the EBITDA margin which can be sustained. The company should meet its previous guidance of closing the year at ~9% margins with flattish growth for FY24. We assign a TP of INR 1,268 valued at a P/E multiple of 30x the FY26E EPS of INR 42, yielding an upside of 46% and a 'BUY' rating.

Particulars (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	1,397	1,653	1,752	1,927	2,178
YoY growth (%)	19.3	18.4	6.0	10.0	13.0
Operating profit	58	62	154	183	224
OPM (%)	4.2	3.8	8.8	9.5	10.3
Reported PAT	31	20	65	76	99
YoY growth (%)	117.5	(34.0)	220.0	16.6	30.8
EPS (Rs)	13.1	8.7	27.7	32.3	42.3
P/E (x)	66.1	100.2	31.3	26.9	20.5
Price/Book (x)	3.3	3.0	2.8	2.5	2.2
EV/EBITDA (x)	36.2	33.4	13.0	10.8	8.4
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.0
RoE (%)	0.5	3.1	9.2	9.8	11.5

Source: Company Filings & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>431</b>	<b>386</b>	<b>450</b>	<b>11.81%</b>	<b>-4.15%</b>
<b>Other Operating Income</b>	<b>2</b>	<b>2</b>	<b>7</b>	<b>16.22%</b>	<b>-68.80%</b>
Raw Material Costs	288	257	329	12.04%	-12.51%
Gross Profit	146	131	128	11.42%	13.70%
<i>Gross Margin</i>	<i>33.82%</i>	<i>33.93%</i>	<i>28.51%</i>	<i>-12bps</i>	<i>531bps</i>
Employee costs	19	20	18	-1.39%	5.90%
Impairment losses on financial assets	1	1	2	-14.60%	-60.19%
Other Expenses	88	78	86	13.21%	2.13%
<b>EBITDA</b>	<b>38</b>	<b>33</b>	<b>22</b>	<b>15.52%</b>	<b>71.81%</b>
<i>EBITDA margin</i>	<i>8.75%</i>	<i>8.47%</i>	<i>4.83%</i>	<i>28bps</i>	<i>392bps</i>
Other Non Operating Income	2	2	3	6.09%	-31.07%
Depreciation	15	15	18	1.46%	-12.65%
<b>EBIT</b>	<b>24</b>	<b>19</b>	<b>7</b>	<b>25.80%</b>	<b>246.65%</b>
Finance costs	1	1	2	-4.90%	-31%
Exceptional Items	-	-1	-	-	-
<b>PBT</b>	<b>23</b>	<b>17</b>	<b>5</b>	<b>35.31%</b>	<b>345.91%</b>
Tax Expense	6	4	1	81.04%	606%
<i>Effective tax rate</i>	<i>28.21%</i>	<i>21.08%</i>	<i>17.82%</i>	<i>713bps</i>	<i>1038bps</i>
<b>PAT</b>	<b>17</b>	<b>13</b>	<b>4</b>	<b>23.09%</b>	<b>289.57%</b>
<i>PAT margin</i>	<i>3.79%</i>	<i>3.45%</i>	<i>0.92%</i>	<i>35bps</i>	<i>287bps</i>
<b>EPS (INR)</b>	<b>6.93</b>	<b>5.63</b>	<b>1.81</b>	<b>23.09%</b>	<b>282.87%</b>

Source: Company Filings & Arihant Research

**Operational Highlights:**

- The benefit of cooling off input prices should start to flow through in H2.
- The PLI benefit will be accounted for at the end of the year if it is earned (provided the company meets its threshold revenue), instead of accruing and then reversing it.
- 70% of revenues come from the West and North markets, but they are now seeing good growth from the South and East markets- particularly Guwahati, Calcutta, and Patna.
- Expect to attain a run rate of INR 500 Cr 1-2 quarters down the line.
- The current balance sheet is strong enough to support growth for the next couple of years.

Company Financials

Consolidated Income statement (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,397</b>	<b>1,653</b>	<b>1,752</b>	<b>1,927</b>	<b>2,178</b>
Net Raw Materials	1,037	1,192	1,051	1,156	1,307
Power & Fuel Cost	30	0	39	39	48
Employee Cost	57	75	88	96	109
Contract labour	39	0	421	453	490
Freight & forwarding charges	92	0	123	135	152
Advt & Sales	11	0	18	19	11
Other Expenses	72	323	280	299	327
<b>Total Expenditures</b>	<b>1,338</b>	<b>1,591</b>	<b>2,018</b>	<b>2,197</b>	<b>2,444</b>
<b>EBITDA</b>	<b>58</b>	<b>62</b>	<b>154</b>	<b>183</b>	<b>224</b>
<b>EBITDA %</b>	<b>4.2</b>	<b>3.8</b>	<b>8.8</b>	<b>9.5</b>	<b>10.3</b>
Depreciation	(54)	(62)	(77)	(94)	(108)
Interest expense	(7)	(7)	(5)	(4)	(3)
Other income	14	8	9	10	11
Exceptional items	(14)	-	-	-	-
<b>Profit before tax</b>	<b>25</b>	<b>2</b>	<b>81</b>	<b>95</b>	<b>124</b>
Taxes	5	19	(16)	(19)	(25)
<b>Reported Net profit</b>	<b>31</b>	<b>20</b>	<b>65</b>	<b>76</b>	<b>99</b>
Consolidated Balance sheet (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	12	12	12	12	12
Reserves	613	665	727	801	897
<b>Net worth</b>	<b>624</b>	<b>676</b>	<b>739</b>	<b>812</b>	<b>909</b>
Debt	105	81	66	51	36
Deferred tax liab (net)	24	(0)	(0)	(0)	(0)
<b>Total liabilities</b>	<b>753</b>	<b>757</b>	<b>805</b>	<b>863</b>	<b>945</b>
Fixed assets	341	383	421	448	464
Capital Work In Progress	14	15	21	24	28
Other Intangible assets	163	152	152	152	152
Goodwill	46	46	46	46	46
Other non current assets	63	42	12	16	16
<b>Net working capital</b>	<b>42</b>	<b>47</b>	<b>4</b>	<b>6</b>	<b>(2)</b>
Inventories	145	135	111	122	131
Sundry debtors	17	14	15	16	18
Loans & Advances	19	20	5	5	5
Other current assets	15	24	26	28	32
Sundry creditors	(90)	(104)	(111)	(121)	(136)
Other current liabilities & Prov	(63)	(42)	(42)	(44)	(52)
Cash	32	29	100	117	179
Other Financial Assets	52	43	49	54	60
<b>Total assets</b>	<b>753</b>	<b>757</b>	<b>805</b>	<b>863</b>	<b>945</b>
Consolidated Cash Flow Statement (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	25	2	81	95	124
Depreciation	54	62	77	94	108
Tax paid	5	19	(16)	(19)	(25)
Working capital Δ	36	(5)	44	(2)	7
<b>Operating cashflow</b>	<b>121</b>	<b>77</b>	<b>185</b>	<b>168</b>	<b>215</b>
Capital expenditure	(49)	(105)	(121)	(124)	(128)
<b>Free cash flow</b>	<b>72</b>	<b>(27)</b>	<b>64</b>	<b>43</b>	<b>87</b>
Equity raised	(27)	34	-	-	-
Others	(22)	40	24	(9)	(7)
Debt financing/disposal	(9)	(23)	(15)	(15)	(15)
Dividends paid	(3)	(3)	(2)	(2)	(2)
Other items	(10)	(24)	-	-	-
<b>Net Δ in cash</b>	<b>2</b>	<b>(3)</b>	<b>71</b>	<b>17</b>	<b>62</b>
<b>Opening Cash Flow</b>	<b>30</b>	<b>32</b>	<b>29</b>	<b>100</b>	<b>117</b>
<b>Closing Cash Flow</b>	<b>32</b>	<b>29</b>	<b>100</b>	<b>117</b>	<b>179</b>

Source: Company Filings & Arihant Research

Ratios

Ratio analysis	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	19.3	18.4	6.0	10.0	13.0
Op profit growth	(7.5)	7.1	147.0	18.7	22.5
EBIT growth	5.3	(55.9)	972.3	14.4	28.5
Net profit growth	117.5	(34.0)	220.0	16.6	30.8
<b>Profitability ratios (%)</b>					
EBITDA margin	4.2	3.8	8.8	9.5	10.3
Net profit margin	2.2	1.2	3.7	3.9	4.6
RoCE	(3.0)	14.6	8.8	9.5	11.2
RoNW	0.5	3.1	9.2	9.8	11.5
RoA	0.4	2.7	8.1	8.8	10.5
<b>Per share ratios</b>					
EPS	13.1	8.7	27.7	32.3	42.3
Dividend per share	1.0	1.0	1.0	1.0	1.0
Cash EPS	36.1	35.2	60.4	72.4	88.4
Book value per share	266.2	288.3	315.1	346.4	387.6
<b>Valuation ratios</b>					
P/E	66.1	100.2	31.3	26.9	20.5
P/B	3.3	3.0	2.8	2.5	2.2
EV/EBIDTA	36.2	33.4	13.0	10.8	8.4
<b>Liquidity ratios</b>					
Debtor days	4.3	3.0	3.0	3.0	3.0
Inventory days	50.2	40.9	38.0	38.0	36.0
Creditor days	24.2	23.5	25.0	25.0	25.0
<b>Leverage ratios</b>					
Interest coverage	2.7	1.2	16.8	24.1	41.6
Net debt / equity	0.1	0.1	(0.0)	(0.1)	(0.2)
Net debt / op. profit	1.2	0.8	(0.2)	(0.4)	(0.6)
<b>Du-Pont Analysis</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Tax burden (x)	1.2	13.4	0.8	0.8	0.8
Interest burden (x)	1.4	0.2	0.9	1.0	1.0
EBIT margin (x)	0.0	0.0	0.0	0.1	0.1
Asset turnover (x)	2.5	2.8	2.7	2.7	2.7
Financial leverage (x)	0.9	0.9	0.9	0.9	0.9
RoE (%)	4.9	3.1	9.2	9.8	11.5

Source: Company Filings & Arihant Research

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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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