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Q4FY22 – Result Update
25th May 2022

Prataap Snacks Ltd.

Higher input cost continued to impact margins

CMP: INR 653

Rating: Hold

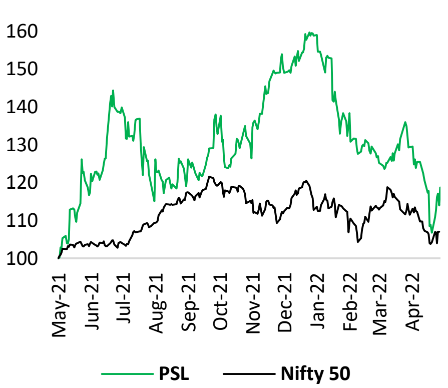
Target Price: INR 729

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)	1,537
52w H/L (INR)	953 / 541
Avg Yearly Volume (in 000')	44.37

Shareholding Pattern % *(As on March, 2022)*	
Promoters	71.49
FII	4.86
DII	8.43
Public & Others	15.22

Stock Performance (%)	1m	3m	12m
PSL	(9.2)	(14.9)	17.7
Nifty 50	(4.6)	(4.0)	7.9

PSL Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114872

Anushka Chitnis
Anushka.chitnis@arihantcapital.com
022 67114872

Q4FY22 Performance Highlights:

- **Prataap Snacks' (PSL)** overall Q4 performance was disappointing as it was below our estimates on all fronts, largely due to visible margin pressure resulting from high operating costs.
- Consolidated Revenue were INR 358 Cr vs INR 303 Cr in Q4FY21 (+16.57% YoY, -5.45% QoQ) which was above our estimate of INR 312 Cr.
- Gross Profit was INR 88 Cr vs INR 81 Cr in Q4FY21 (+8.78% YoY, -12.53% QoQ).
- Gross Profit Margins were 24.52% vs 26.27% in Q4FY21 (-175bps YoY, -199bps QoQ).
- EBITDA was INR 8 Cr vs INR 14Cr in Q4FY21 (-51.3% YoY, -66.9% QoQ) as compared to our estimate of INR 13 Cr.
- EBITDA Margins were 1.88% vs 4.5% in Q4FY21 (-262bps YoY, -344bps QoQ). The margins delivered were below our estimate of 4%.
- Company has reported loss of INR 3 Cr as against profit of INR 4 Cr in Q4FY21 as compared to our profit estimate of INR 2 cr.

Q4FY22 Earnings Call Highlights:

- **Capex Plans:** The plan is of INR ~100 Cr over the next 2 years. INR 85 Cr of this will be completed in FY23, dedicated toward setting up new facilities and making the 3P model more robust. The remaining will be for maintenance.
- **Rapid spread of the DDM (Direct Distribution Model):** Over the last 2 months, company has set up the DDM model all over India for maximum cost optimization which has resulted into substantial reduction in channel margins.
- **Revenue and Margin Guidance:** The company has guided for double digit margins and revenue growth will be in the high teens (~20%) for FY23E.
- **Palm Oil price outlook**: Prices are expected to be softer post Q2FY23, but are expected to remain high in the short to medium term, and will continue to pose challenge on the margins.
- **Demand Outlook:** Demand conditions are expected to remain stable as schools continue to open up.

Valuation & Outlook:

The company expects cost pressures to persist. In order to mitigate this, company has been aggressively optimizing the distribution network through the DDM, which has protected the EBITDA margin to a great extent this year and will continue to do so in the future. However, margins will remain in check going forward given the elevated palm oil prices. Prataap Snaacks will also get benefits from PLI scheme. With upcoming capacity expansion plan, the revenue of the company expected to increase. We expected Revenue/PAT to increase by 20%/39% respectively in FY23E. We have assigned a TP of INR 729, valued at a P/E multiple of 40x based on an FY23E EPS of INR 18. We have Hold rating on the stock.

Particulars (INR cr)	FY20	FY21	FY22	FY23E
Revenues	1,394	1,171	1,397	1,676
YoY growth (%)	19.1	(16.0)	19.3	20.0
Operating profit	94	63	58	101
OPM (%)	6.7	5.4	4.2	6.0
Reported PAT	47	14	31	43
YoY growth (%)	5.2	(69.8)	117.5	38.9
EPS (Rs)	20.0	6.0	13.1	18.2
P/E (x)	32.6	108.6	49.7	35.8
Price/Book (x)	2.5	2.5	2.5	2.3
EV/EBITDA (x)	17.5	25.7	27.5	19.4
Debt/Equity (x)	0.3	0.2	0.2	0.1
RoE (%)	8.0	2.3	0.5	6.6

Source: Company Filings & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	**358**	**379**	**308**	***-5.45%***	***16.57%***
Other Operating Income	**3**	**6**	**2**	***-48.82%***	***49.08%***
Raw Material Costs	274	284	229	*-3.83%*	*19.60%*
Gross Profit	88	100	81	*-12.53%*	*8.78%*
Gross Margin	24.52%	26.50%	26.27%	*-199bps*	*-175bps*
Employee costs	16	16	13	*1.77%*	*19.12%*
Other Expenses	67	67	54	*0.46%*	*25.27%*
Other Non Operating Income	2	2	3	*-19.83%*	*-38.41%*
EBITDA	**7**	**20**	**17**	***-66.88%***	***-59.99%***
EBITDA margin %	*1.88%*	*5.37%*	*5.48%*	*-349bps*	*-360bps*
Depreciation	14	13	13	*4.74%*	*6.15%*
EBIT	**-7**	**7**	**4**	***-201.11%***	***-290.93%***
Finance costs	2	2	1	*31.12%*	*39%*
Exceptional Items	0	-14	-	*-100.55%*	-
PBT	**-9**	**-8**	**2**	***7.55%***	***-496.69%***
Tax Expense	-6	-1	-5	*401.29%*	*28%*
Effective tax rate %	67.65%	14.51%	-210.28%	*5313bps*	*27793bps*
PAT	**-3**	**-7**	**7**	***-59.30%***	***-141.36%***
Add: Other Comprehensive Income	0	0	0	*382.71%*	*-83.77%*
Consolidated PAT	**-3**	**-7**	**7**	***-61.42%***	***-137.88%***
PAT margin %	*-0.78%*	*-1.90%*	*2.39%*	*113bps*	*-316bps*
EPS (INR)	**-1.26**	**-3.09**	**3.04**	***-59.22%***	***-141.45%***

Source: Company Filings & Arihant Research

Q4FY22 Earnings Call Highlights :

Highlights of the year:

- Revenues grew 17% YoY which beat the industry growth rate driven by an uptick in consumption and demand.
- New retail outlets were added to the distribution network ~1.5 lakh retail outlets added this year bringing the total number of retail outlets to 21.8 lakh vs 20.3 lakhs last year
- **Tele calling:** Implemented in a few geographies so far, ~10% of sales come from it. The company has prioritized the optimization of the distribution model, with the removal of the super stockists over tele calling. It has been put on hold and will be restarted after 1-2 months.
- The increase in prices of palm oil continues to be a problem as they impacted EBITDA margins by ~700bps this year. The Russia- Ukraine war disrupted the global supply chain and further escalated the rise in prices. They were partially mitigated by the cost optimization initiatives- The direct distribution model, grammage cuts, and higher price realization.
- Footfalls in touchpoints have reached pre covid levels as retail touchpoints have completely reopened, and new ones continue to be added in key geographies.
- PLI scheme for the food production sector with an outlay of INR 10,900 Cr laid out by the government to boost the food production sector. PSL qualifies under the RTC/RTE segment for food processing.
- Out of the Capex commitment of INR 105 Cr, INR 20 Cr has already been spent, and the balance of INR 85 Cr will be split between the company and the contract manufacturing partners of the 3P network. It will be completed by the end of FY23.
- Outlook for the medium term remains constrained due to rising input cost pressures and disruptions in global supply chains due to the Russia- Ukraine war and rising prices of palm oil due to the export ban by Indonesia.
- The government is undertaking initiatives to alleviate inflationary pressures and reduce the prices of soft commodities and the reduction in duties of fuel is expected to cool down the effects of inflation.
- There have been endeavors to look for alternative cooking oils.
- Urban-rural distribution is 50-50. A and B class outlets have a better scope for growth.
- Indonesia has expected to ban palm oil exports. In the medium to long term, there will be margin expansion, but there is margin pressure expected in the short term.

- **Palm oil prices:** They were very high due to shortages of labor in Indonesia and Malaysia. Availability of labor is now going up. Palm oil is expected to go down 20-30% in the next 3 months.

- **Mitigating palm oil prices:** Grammage reduction in INR 5-10 pack was done by 1-2 grams in the last 30-45 days. Most of the cost reduction took place on channel margins and PTR (price to retailers) which were increased to reduce channel margins. There was also factory-level optimization which reduced cost margins by 10%.

Q4FY22 Earnings Call Highlights :

DDM Implementation:

- The pilot run was happening in Mumbai after being implemented in Delhi and MP. There was initially a little pressure from super stockists, channel partners, and salespeople with the implementation of the DDM. However, it has resulted in a reduction in net channel margins to 10% vs the previous 14% and has now been implemented across the country.
- Additional savings on the removal of super stockists could save 2-3% on margins. They are more aggressive in reducing channel margins than grammage.

Pre covid GM: Depending on the reversal of RM pricing, pre covid GM of 30-32% might be attainable from Q2FY23 onward.

Avadh Snacks growth: Since the acquisition, it has grown in high single digits (~10%). As it is a super value brand, the effect of RM pricing was higher on it vs the yellow diamond products. Now, they have appointed a new team on board to manage Avadh, and it is expected to grow in the high teens along with Yellow Diamond (in high teens).

Impact of reducing channel margins: The company lost a few distributors, but since most of the sales come from the direct retailers, it did not impact the company much. In some geographies sales have increased as well.

INR 5 pack: The current contribution to revenues is 90%. The company wants to move away from it and make it 70-75% in 2-3 years. In order to do so, they have appointed staff to go to A and B class outlets to only sell INR 10 products, and encourage distributors to take only INR 10 packs of inventory.

Avadh growth outside Gujarat: Its products have been discharged in parts of Maharashtra, Rajasthan, and MP. Higher logistics costs and bigger packs have made it hard to transport them. So, the company is relaunching a lot of new products outside of Gujarat. They expect to get 30-35% of Avadh sales outside of Gujarat in a year or two vs the current 15-17%. Most of the products will be namkeen and pellets, and some extruded snacks. The grammage cuts will continue in this as well.

The PLI Scheme and the related Capex:

- Approval received under food processing. The scheme is for 6 years, from FY22-27. For the 1st 4 years, the base year will be FY20 at an incentive of 7.5% of incremental sales. For FY26 the base year will be FY22 at an incentive of 6.75%; for FY27 the base year will be FY23 at an incentive rate of 6%.
- They are committed to investing INR 105 Cr for capacity expansion under the PLI scheme, under which they have already invested INR 20 Cr in FY22, the balance will be invested in FY23 for the exclusive 3P operations and in their own investments.

Demand Outlook: No impact of inflationary pressure was seen on demand. Demand was impacted when schools were shut down. They get the advantage of down-trading since it is a value product.

Changes to improve margins: Reducing channel margins and increasing PTR are the two things undertaken with vigor. This involves removing super stockiest which saved 2-3% on channel margins and 1-2% on PTR. It doesn't affect competitiveness in the market. Grammage reduction might.

Streamlining the distribution model: This was done all across India 2 months ago, in phases. The 1st phase was in the north and west India, then it was rolled out to eastern and southern markets in Q4- around March. The full benefit of the saving will be reflected in Q1FY23 onward.

Geographical Expansion: Working on expanding markets in UP, Punjab, and South India. UP has seen good results and so has Punjab. South India will take 1-2 months to stabilize.

Kolkata plant fire update: The surveyor will submit the report by the end of this month to the insurance company.

Sweets portfolio: It was hit by covid as the target demographic was young children. New launches have been made which are performing well. It will take 1-2 quarters for it to start growing well. Right now its revenue contribution is 3.5-4%, which is targeted to grow to 7-8% in the next 2-3 years.

Capacity Utilization and revenue potential:

- There will be fresh investments under the PLI Scheme of about INR 85 Cr in FY23. They plan to set up a new plant in UP as it is a new target market for nankeen and extruded products. In the near term they also plan 1 new facility in south India. This is the plan for the next 2-3 years. There will be maintenance Capex in FY24 which won't be significant (INR 20-25 Cr). The total Capex will be ~100 Cr for the next 2 years.
- Current utilizations are at 60%, varying by individual plants.

Company Financials

Consolidated Income statement (INR cr)	FY20	FY21	FY22	FY23E
Revenue	**1,394**	**1,171**	**1,397**	**1,676**
Net Raw Materials	995	843	1,037	1,207
Power & Fuel Cost	27	29	0	34
Employee Cost	58	53	57	69
Contract labour	37	32	0	45
Freight & forwarding charges	98	83	0	119
Advt & Sales	15	13	0	18
Other Expenses	70	55	244	84
Total Expenditures	**1,300**	**1,108**	**1,338**	**1,575**
EBITDA	**94**	**63**	**58**	**101**
EBITDA %	**6.7**	**5.4**	**4.2**	**6.0**
Depreciation	(62)	(55)	(54)	(59)
Interest expense	(7)	(6)	(7)	(4)
Other income	9	9	14	16
Profit before tax	**34**	**11**	**25**	**53**
Taxes	13	3	5	(11)
Reported Net profit	**47**	**14**	**31**	**43**
Net profit	**47**	**14**	**31**	**43**

Consolidated Balance sheet (INR cr)	FY20	FY21	FY22	FY23E
Equity capital	12	12	12	12
Reserves	596	611	613	652
Net worth	**608**	**623**	**624**	**664**
Debt	165	113	105	90
Deferred tax liab (net)	41	34	24	24
Total liabilities	**814**	**771**	**753**	**778**
Fixed assets	359	339	341	306
Capital Work In Progress	20	21	14	22
Other Intangible assets	182	173	163	163
Goodwill	46	46	46	46
Other non current assets	54	49	63	70
Inventories	132	131	145	181
Sundry debtors	33	27	17	37
Loans & Advances	19	19	19	20
Other current assets	17	16	15	23
Sundry creditors	(87)	(89)	(90)	(131)
Other current liabilities & Prov	(19)	(26)	(63)	(26)
Cash	54	30	32	30
Other Financial Assets	5	34	52	23
Total assets	**814**	**771**	**753**	**763**

Consolidated Cash Flow Statement (INR cr)	FY20	FY21	FY22	FY23E
Profit before tax	34	11	25	53
Depreciation	62	55	54	59
Tax paid	13	3	5	(11)
Working capital Δ	(13)	16	36	(62)
Operating cashflow	**95**	**84**	**121**	**40**
Capital expenditure	(146)	(36)	(49)	(33)
Free cash flow	**(51)**	**48**	**72**	**7**
Equity raised	3	4	(27)	-
Others	(30)	(14)	(22)	22
Debt financing/disposal	73	(52)	(9)	(15)
Dividends paid	(3)	(3)	(3)	(3)
Other items	(20)	(7)	(10)	-
Net Δ in cash	**(28)**	**(24)**	**2**	**11**
Opening Cash Flow	**82**	**54**	**30**	**32**
Closing Cash Flow	**54**	**30**	**32**	**30**

Source: Company Filings & Arihant Research

Ratios

Ratio analysis	FY20	FY21	FY22	FY23E
Growth matrix (%)				
Revenue growth	19.1	(16.0)	19.3	20.0
Op profit growth	12.6	(32.7)	(7.5)	72.5
EBIT growth	(27.2)	(57.9)	5.3	213.9
Net profit growth	5.2	(69.8)	117.5	38.9
Profitability ratios (%)				
EBITDA margin	6.7	5.4	4.2	6.0
Net profit margin	3.4	1.2	2.2	2.6
RoCE	8.0	2.9	(3.0)	6.2
RoNW	8.0	2.3	0.5	6.6
RoA	5.8	1.8	0.4	3.7
Per share ratios				
EPS	20.0	6.0	13.1	18.2
Dividend per share	1.0	1.0	1.0	1.0
Cash EPS	46.3	29.3	36.1	43.4
Book value per share	259.2	265.7	266.2	283.2
Valuation ratios				
P/E	32.6	108.6	49.7	35.8
P/B	2.5	2.5	2.5	2.3
EV/EBIDTA	17.5	25.7	27.5	19.4
Liquidity ratios				
Debtor days	8.4	8.2	4.3	8.0
Inventory days	47.9	55.8	50.2	54.0
Creditor days	24.2	28.8	24.2	30.0
Leverage ratios				
Interest coverage	5.5	2.8	2.7	14.8
Net debt / equity	0.2	0.1	0.1	0.1
Net debt / op. profit	1.2	1.3	1.2	0.7

Source: Company Filings & Arihant Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880