

Easing up of unlocking restrictions leading to sustainable top-line growth; future outlook is promising.

CMP: INR 737

Rating: Buy

Target Price: INR 1,225

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)	1,704
52w H/L (INR)	827 / 485
Avg Yearly Volume (in 000')	35

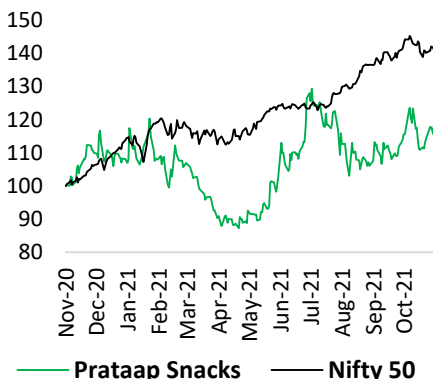
Shareholding Pattern %

(As on June, 2021)

Promoters	71.5
FII	-
DII	-
Public & Others	28.5

Stock Performance (%)	1m	3m	12m
PSL	2.4	5.1	18.2
Nifty 50	-0.9	10	42.2

PSL Vs Nifty



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- **Prataap Snacks (PSL)** reported consolidated revenue for Q2FY22 was INR 371cr vs INR 280cr in Q1FY22, +32.53% QoQ (+13.43% YoY).
- EBITDA for Q2FY22 was INR 24cr vs INR 11cr in Q1FY22, +118.17% QoQ (+3.54% YoY).
- EBITDA Margin for Q2FY22 was 6.5% vs 4% in Q1FY22, +256bps QoQ (-62bps YoY).
- PAT for Q2FY22 was INR 15cr vs INR -2cr in Q1FY22, +1,035.65% QoQ (+84.5% YoY).
- PAT Margin for Q2FY22 was 4% vs -0.6% in Q1FY22, +460bps QoQ (+156bps YoY).

Conference Call Highlights:

- **Outlook on Input Prices:** Palm oil prices had a +34% YoY increase (which had an adverse impact of 6% on EBITDA Margins), but have declined from INR 122 to INR 119 QoQ. The management expects these to fall to INR 110 by January 2022, which will let margins bounce back. Prices of packing material are also on the rise, due to a shortage of export containers in the US and China. It has led to rise in input prices of about 12 to 13% in Q2FY22. Management believes this rise will reverse going ahead.
- **Initiatives:** They have undertaken the following to improve volumes and margins: a Tele-Calling initiative, which has helped increase the efficacy of their distribution network; a Direct Distribution Model to lower freight costs by compressing the distribution structure, setting up hubs to cater better to proximate markets; along with other process reengineering and cost optimization initiatives. All of these are being progressively rolled out and have started to have a positive impact on topline growth, which is expected to persist into the future. These initiatives also help mitigate the impact of rising input costs.
- **Plans for the next 2 years:** They are going to vigorously undertake to grow their distribution network, exploring more areas to increase their coverage and improve their topline growth. They are also going to diversify their product lines to include different prices and packaging sizes to reach stores at different price points.

Valuation & Outlook: We maintain a BUY rating at a TP of INR 1,225 per share; valued at PE 40x the FY23E EPS; providing an upside of 66.2%. We believe the company will have continued and sustained top-line growth due to its aggressive initiatives to build margins, cut costs, grow the distribution network, and increase efficiency and volumes, which will reap benefits in the coming quarters. That, coupled with the now normalizing economy which will ease distribution, lower input prices, and better their profitability.

Particulars (INR cr)	FY20	FY21	FY22E	FY23E
Revenues	1,394	1,171	1,370	1,644
YoY growth (%)	19.1	(16.0)	17.0	20.0
Operating profit	94	63	86	138
OPM (%)	6.7	5.4	6.3	8.4
Reported PAT	47	14	26	67
YoY growth (%)	5.2	(69.8)	84.6	155.4
EPS (Rs)	20.0	6.0	11.1	28.5
P/E (x)	36.5	121.0	65.6	25.7
Price/Book (x)	2.8	2.7	2.6	2.4
EV/EBITDA (x)	19.5	28.5	20.5	12.4
Debt/Equity (x)	0.3	0.2	0.1	0.1
RoE (%)	8.0	2.3	4.1	9.8

Source: Company Filings & Arihant Research

Quarterly Result

INR Cr (consolidated)	Q2FY22	Q1FY22	Q2FY21
Net Revenue	371	280	327
Raw Material Costs	266	213	229
Gross Profit	104	67	98
Gross Margin	28%	24%	30%
Employee costs	15	10	14
Other Expenses	65	46	60
EBITDA	24	11	23
<i>EBITDA margin %</i>	<i>6.5%</i>	<i>4.0%</i>	<i>7.1%</i>
Other Income	8	1	2
Depreciation	13	13	13
EBIT	19	-1	12
Finance costs	2	2	2
PBT	18	-2	11
Tax Expense	3	-1	3
Effective tax rate %	15.2%	26.7%	23.7%
PAT	15	-2	8
Add: Other Comprehensive Income	0	0	-0
Consolidated PAT	15	-2	8
<i>PAT margin %</i>	<i>4.0%</i>	<i>-0.6%</i>	<i>2.5%</i>
EPS (Rs)	6.26	-0.7	3.6

Source: Company Filings & Arianth Research

Conference Call Highlights:

- **Outlook on Volumes:** Aside from the aggressive initiatives the company is undertaking, management stated that a major drivers for volumes is school children. They believe that their volumes will greatly once schools open back up.
- **Sweets Portfolio:** The Sweet Snacks Segment is highly underpenetrated, and is currently growing a fast pace. Their sweets portfolio currently contributes about 3 to 3.4% of the Revenue. Since the launch of the Swiss roll in FY22, by next year they expect this contribution to reach 5%. In the next 3 to 4 years they expect it to reach 6 to 7% of Revenue Contribution.
- **Avadh Snacks:** The bottom-line performance has improved this quarter but not so much the top-line performance. They owed this to frequent changes in marketing strategies that hindered top-line growth. They expect to see better topline performance from Avadh from Q3FY22 onward. The company has plans for merging with Avadh this year, by paying INR 30cr for the remaining 9.5 to 9.52% stake (They had already acquired 10% of the remaining 20% stake in FY21).
- They are currently working on developing an asset-light model, to facilitate easily scalable production, in order to meet increasing market demand.
- **Duties on Palm Oil:** The previously steep duties on Palm Oil imports were cut in Q2FY22 (by about 20%). However, the benefit that came to the company was less than 5 to 6%. According to the company, an INR 50 rise in Palm Oil prices could lower the EBITDA by 1%.
- **The Kolkata Plant Fire:** There was a fire accident on 3rd November 2021 in their Kolkata plant that was newly set up about 1.5 months ago. It caused great damage to building, plant & machinery, leasehold improvements and inventories. The assets were insured and company has filed for a claim. The loss of capacity is being compensated by the additional capacity at their older Guwahati Plant to cater to demand. The company does not believe that this will cause any major negative consequence to their volumes.
- **Tele-Calling Outlets:** The Tele- Calling Initiative has supported revenue momentum. They currently have about 60,000 outlets for tele- calling in many districts across India. Wherever they implement this, they have a revenue growth of 35 to 40%. They are planning to bring this initiative to Mumbai, and it is currently underway. By the end of FY22 they plan to set up 200,000 tele-calling outlets.
- They plan to continue with bottom slicing (a cost optimizing initiative) which will help them discontinue low-volume SKUs to save overheads and also free up allow them to drive traction in higher-yielding SKUs.

Company Financials

Consolidated Income statement (INR cr)	FY20	FY21	FY22E	FY23E
Revenue	1,394	1,171	1,376	1,720
Net Raw Materials	995	843	991	1,221
Power & Fuel Cost	27	29	34	43
Employee Cost	58	53	63	73
Contract labour	37	32	34	41
Freight & forwarding charges	98	83	96	117
Advertisement & Sales	15	13	15	19
Other Expenses	70	55	55	61
Total Expenditures	1,300	1,108	1,289	1,576
EBITDA	94	63	87	144
EBITDA %	6.7	5.4	6.3	8.4
Depreciation	(62)	(55)	(59)	(63)
Interest expense	(7)	(6)	(5)	(4)
Other income	9	9	10	12
Profit before tax	34	11	33	90
Taxes	13	3	(7)	(18)
Reported Net profit	47	14	26	72

Consolidated Balance sheet (INR cr)	FY20	FY21	FY22E	FY23E
Equity capital	12	12	12	12
Reserves	596	611	635	704
Net worth	608	623	647	716
Debt	165	113	93	78
Deferred tax liabilities (net)	41	34	34	34
Total liabilities	814	771	774	828
Fixed assets	359	339	331	305
Capital Work In Progress	20	21	21	23
Other Intangible assets	182	173	173	173
Goodwill	46	46	46	46
Other non current assets	54	49	57	72
Inventories	132	131	154	183
Sundry debtors	33	27	31	38
Loans & Advances	19	19	19	20
Other current assets	17	16	19	24
Sundry creditors	(87)	(93)	(107)	(131)
Other current liabilities & Provisions	(19)	(22)	(21)	(26)
Cash	54	30	32	78
Other Financial Assets	5	34	19	24
Total assets	814	771	774	828

Source: Company Filings & Arihant Research

Consolidated Cash Flow Statement (INR cr)	FY20	FY21	FY22E	FY23E
Profit before tax	34	11	33	90
Depreciation	62	55	59	63
Tax paid	13	3	(7)	(18)
Working capital Δ	(13)	16	(16)	(13)
Operating cash flow	95	84	69	121
Capital expenditure	(146)	(36)	(51)	(38)
Free cash flow	(51)	48	18	83
Equity raised	3	4	0	-
Others	(30)	(14)	7	(19)
Debt financing/disposal	73	(52)	(20)	(15)
Dividends paid	(3)	(3)	(3)	(3)
Other items	(20)	(7)	-	-
Net Δ in cash	(28)	(24)	1	47
Opening Cash Flow	82	54	30	32
Closing Cash Flow	54	30	32	78

Ratio analysis	FY20	FY21	FY22E	FY23E
Growth matrix (%)				
Revenue growth	19.1	(16.0)	17.5	25.0
Operating profit growth	12.6	(32.7)	37.5	66.7
EBIT growth	(27.2)	(57.9)	117.2	148.6
Net profit growth	5.2	(69.8)	86.7	171.9
Profitability ratios (%)				
EBITDA margin	6.7	5.4	6.3	8.4
Net profit margin	3.4	1.2	1.9	4.2
RoCE	8.0	2.9	4.1	9.8
RoNW	8.0	2.3	4.2	10.5
RoA	5.8	1.8	3.4	8.7
Per share ratios				
EPS	20.0	6.0	11.3	30.6
Dividend per share	1.0	1.0	1.0	1.0
Cash EPS	46.3	29.3	36.4	57.4
Book value per share	259.2	265.7	275.7	305.2
Valuation ratios				
P/E	36.5	121.0	64.8	23.8
P/B	2.8	2.7	2.6	2.4
EV/EBIDTA	19.5	28.5	20.5	11.9
Liquidity ratios				
Debtor days	8.4	8.2	8.0	8.0
Inventory days	47.9	55.8	56.0	54.0
Creditor days	24.2	30.1	30.0	30.0
Leverage ratios				
Interest coverage	5.5	2.8	8.1	24.3
Net debt / equity	0.2	0.1	0.1	(0.0)
Net debt / operating profit	1.2	1.3	0.7	(0.0)

Source: Company Filings & Arianth 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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