

Margin pressure easing up; cost saving initiatives aiding margin expansion.  
Operating leverage benefits to accrue.

**CMP: INR 811**

**Rating: Buy**

**Target Price: INR 1,088**

**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)	1,903
52w H/L (INR)	1,010/ 630
Avg Daily Volume (in 000')	17

**Shareholding Pattern %**

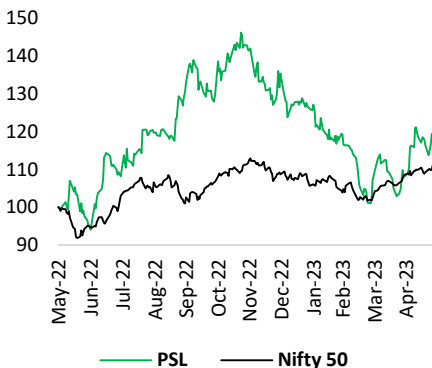
(As on March 2023)

Promoters	71.18
FII	3.52
DII	11.23
Public & Others	14.06

**Stock Performance (%)**

	1m	3m	12m
PSL	11.9	3.8	20.8
Nifty 50	3.2	7.6	11.8

**PSL Vs Nifty**



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**Revenue misses due to curtailed demand coupled with margin expansion from visible input price softening.** PSL's Revenue grew 11% YoY to INR 398 Cr (-4.79% QoQ) vs our quarterly revenue estimate of INR 410 Cr. Gross Margin expanded 718bps YoY to 31.49% (+248bps QoQ). EBITDA grew 282.83% YoY to INR 19 Cr (-19.15% QoQ) and the Margin expanded 352bps YoY to 4.89% (-59bps QoQ) vs our estimate of INR 51 Cr and 12% respectively. PAT grew 7x YoY to INR 22 Cr (+311.39% QoQ). **During the year there was a PLI reversal of INR 11 Cr due to the inability to meet annualized sales criteria due to the sluggish demand environment owing to high inflation. This was shown as a reduction in other operating income. The reversal impacted operating revenues and EBITDA.**

**Margin expectations:** The company can exit FY24 at 9% margins (ex-PLI benefits) i.e. by Q4FY24 (an additional 1.25% including PLI benefits. The expansion will come from cost savings (success of the DDM, overhead optimization in factories, bottom slicing, and range selling) as well as operating leverage benefits as they had invested heavily in salaries for the growing sales force which won't go up drastically as a percentage of sales from here on.

**Softening in key commodity prices and recovery in the demand environment:** Inputs like RPO, packaging, and corn have come down significantly from their pandemic peak price and are unlikely to go up significantly from current levels. Wheat prices are still slightly volatile. The general level inflation has also begun to moderate which will result in volumes beginning to return in FY24.

**Avadh merger:** The merger has been concluded which will lead to significant synergies between the two companies. Avadh displayed strong growth during the year- in line with the parent company, and with double-digit margins.

**PLI Quantum:** If the company manages to achieve the target growth of 15-17% in select categories for FY24, there can be a PLI benefit of ~INR 26-27 Cr recognized on a full-year basis. Going forward, PLI benefits will be recorded conservatively i.e. when they are earned, rather than on accrual as they were during FY23.

**Shrinking share of the INR 5 pack:** As of FY23, the share of the INR 5 pack to revenues was 85% vs 90% last year. This share is expected to come down to 70% in the next 2-3 years as they shift toward larger packs with higher margins.

**Focus on profitable products:** Products like pellets, fryums, potato chips, namkeen, and other extruded snacks are high margin. The company is pushing them more to distributors and retailers vis-a-vis other products.

**Headroom to grow capacity utilization and expected capex:** The company is currently running at 55-60% utilization which can go up to 80-85%. They continue to invest under the PLI scheme (the new plant in Jammu & Kashmir), and the total investment over the next 2 years will amount to INR 100-105 Cr.

**Valuation & Outlook:** We believe the worst is over for PSL as they are already starting to see better times. There will be a steady recovery in margins in the quarters to come with operating leverage benefits and improving demand. We assign a TP of INR 1,088 valued at a P/E multiple of 35x the FY25E EPS of INR 31, and a 'BUY' rating.

Particulars (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	1,397	1,653	1,967	2,360	2,785
YoY growth (%)	19.3	18.4	19.0	20.0	18.0
Operating profit	58	62	126	165	212
OPM (%)	4.2	3.8	6.4	7.0	7.6
Reported PAT	31	20	47	73	109
YoY growth (%)	117.5	(34.0)	129.6	56.4	49.3
EPS (Rs)	13.1	8.7	19.9	31.1	46.4
P/E (x)	61.8	93.7	40.8	26.1	17.5
Price/Book (x)	3.0	2.8	2.6	2.4	2.1
EV/EBITDA (x)	33.9	31.3	14.3	10.7	7.7
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.0
RoE (%)	0.5	3.1	6.7	9.7	12.9

Source: Company Filings & Arihant Research

## Quarterly Result

INR Cr (Consolidated)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>398</b>	<b>418</b>	<b>358</b>	<b>-4.79%</b>	<b>11.00%</b>
<b>Other Operating Income</b>	<b>-11</b>	<b>9</b>	<b>3</b>	<b>-232.58%</b>	<b>-479.29%</b>
Raw Material Costs	265	303	274	-12.51%	-3.18%
Gross Profit	122	124	88	-1.59%	38.53%
<i>Gross Margin</i>	<i>30.60%</i>	<i>29.60%</i>	<i>24.52%</i>	<i>100bps</i>	<i>608bps</i>
Employee costs	21	19	16	6.90%	31.37%
Impairment losses on financial assets	1	0	3	331.62%	-57.82%
Other Expenses	81	81	64	0.27%	25.92%
<b>EBITDA</b>	<b>19</b>	<b>23</b>	<b>5</b>	<b>-19.15%</b>	<b>282.83%</b>
<i>EBITDA margin</i>	<i>4.89%</i>	<i>5.48%</i>	<i>1.37%</i>	<i>-59bps</i>	<i>352bps</i>
Other Non Operating Income	1	2	2	-17.52%	-21.55%
Depreciation	15	15	14	1.44%	9.83%
<b>EBIT</b>	<b>5</b>	<b>10</b>	<b>-7</b>	<b>-49.76%</b>	<b>-170.42%</b>
Finance costs	1	2	2	-10.60%	-30%
Exceptional Items	-	-	-0	-	-100%
<b>PBT</b>	<b>4</b>	<b>8</b>	<b>-9</b>	<b>-57.10%</b>	<b>-139.17%</b>
Tax Expense	-18	3	-6	-660.94%	192%
<i>Effective tax rate</i>	<i>-495.52%</i>	<i>37.90%</i>	<i>66.52%</i>	<i>-53342bps</i>	<i>-56204bps</i>
<b>PAT</b>	<b>22</b>	<b>5</b>	<b>-3</b>	<b>311.44%</b>	<b>-796.79%</b>
<i>PAT margin</i>	<i>5.57%</i>	<i>1.23%</i>	<i>-0.85%</i>	<i>434bps</i>	<i>642bps</i>
<b>EPS (INR)</b>	<b>9.06</b>	<b>2.20</b>	<b>-1.26</b>	<b>311.82%</b>	<b>-819.05%</b>

Source: Company Filings & Arianth Research

#### Q4FY23 Earnings Call Highlights:

- The company enjoys a net debt-free status and a healthy cash position. They will declare dividends for the next year, and meet their capex needs internally.
- About 55% of their sales come from the DDM and the remaining comes from traditional wholesale.
- There was an improvement in WC days from 22 to 13.
- Once the company hits double-digit margins, it will start spending more on advertisement and promotion to improve visibility.
- The ring category was down during covid and is now showing signs of improvement.
- Cost savings from the DDM model in FY23 were close to ~1.25%.
- PSL was one of the few companies to gain market shares in H2, despite a bad market.
- Namkeen category is less than 12-13% of sales vs 50% in the industry. They are trying to increase namkeen sales and are adding new products for the same, as it has a better margin profile. It should improve over 1-2 years.
- The share of potato chips is 23-24%.
- 75% of the manufacturing is done in-house and the rest is outsourced. Namkeen production is centralized in Indore.

Company Financials

Consolidated Income statement (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,397</b>	<b>1,653</b>	<b>1,967</b>	<b>2,360</b>	<b>2,785</b>
Net Raw Materials	1,037	1,192	1,416	1,688	1,978
Power & Fuel Cost	30	0	43	52	61
Employee Cost	57	75	90	104	120
Contract labour	39	0	291	352	415
Freight & forwarding charges	92	0	138	165	195
Advt & Sales	11	0	16	21	25
Other Expenses	72	323	138	165	195
<b>Total Expenditures</b>	<b>1,338</b>	<b>1,591</b>	<b>2,132</b>	<b>2,547</b>	<b>2,989</b>
<b>EBITDA</b>	<b>58</b>	<b>62</b>	<b>126</b>	<b>165</b>	<b>212</b>
<b>EBITDA %</b>	<b>4.2</b>	<b>3.8</b>	<b>6.4</b>	<b>7.0</b>	<b>7.6</b>
Depreciation	(54)	(62)	(72)	(82)	(86)
Interest expense	(7)	(7)	(5)	(4)	(3)
Other income	14	8	10	12	14
Exceptional items	(14)	-	-	-	-
<b>Profit before tax</b>	<b>25</b>	<b>2</b>	<b>58</b>	<b>91</b>	<b>136</b>
Taxes	5	19	(12)	(18)	(27)
<b>Reported Net profit</b>	<b>31</b>	<b>20</b>	<b>47</b>	<b>73</b>	<b>109</b>
Consolidated Balance sheet (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	12	12	12	12	12
Reserves	613	665	708	778	884
<b>Net worth</b>	<b>624</b>	<b>676</b>	<b>720</b>	<b>790</b>	<b>896</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>786</b>	<b>841</b>	<b>932</b>
Fixed assets	341	383	301	287	239
Capital Work In Progress	14	15	18	23	25
Other Intangible assets	163	152	152	152	152
Goodwill	46	46	46	46	46
Other non current assets	63	42	14	20	21
<b>Net working capital</b>	<b>42</b>	<b>47</b>	<b>36</b>	<b>52</b>	<b>47</b>
Inventories	145	135	149	178	198
Sundry debtors	17	14	16	20	23
Loans & Advances	19	20	6	6	7
Other current assets	15	24	29	36	43
Sundry creditors	(90)	(104)	(118)	(134)	(157)
Other current liabilities & Prov	(63)	(42)	(47)	(54)	(66)
Cash	32	29	165	182	310
Other Financial Assets	52	43	55	79	93
<b>Total assets</b>	<b>753</b>	<b>757</b>	<b>786</b>	<b>841</b>	<b>932</b>
Consolidated Cash Flow Statement (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	25	2	58	91	136
Depreciation	54	62	72	82	86
Tax paid	5	19	(12)	(18)	(27)
Working capital Δ	36	(5)	11	(15)	5
<b>Operating cashflow</b>	<b>121</b>	<b>77</b>	<b>130</b>	<b>139</b>	<b>200</b>
Capital expenditure	(49)	(105)	7	(73)	(40)
<b>Free cash flow</b>	<b>72</b>	<b>(27)</b>	<b>136</b>	<b>66</b>	<b>160</b>
Equity raised	(27)	33	-	-	-
Others	(22)	40	17	(30)	(15)
Debt financing/disposal	(9)	(23)	(15)	(15)	(15)
Dividends paid	(3)	(1)	(3)	(3)	(3)
Other items	(10)	(24)	-	-	-
<b>Net Δ in cash</b>	<b>2</b>	<b>(3)</b>	<b>135</b>	<b>18</b>	<b>127</b>
<b>Opening Cash Flow</b>	<b>30</b>	<b>32</b>	<b>29</b>	<b>165</b>	<b>182</b>
<b>Closing Cash Flow</b>	<b>32</b>	<b>29</b>	<b>165</b>	<b>182</b>	<b>310</b>

Source: Company Filings & Arihant Research

## Ratios

Ratio analysis	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	19.3	18.4	19.0	20.0	18.0
Op profit growth	(7.5)	7.1	101.7	31.3	28.1
EBIT growth	5.3	(55.9)	687.2	50.1	46.1
Net profit growth	117.5	(34.0)	129.6	56.4	49.3
<b>Profitability ratios (%)</b>					
EBITDA margin	4.2	3.8	6.4	7.0	7.6
Net profit margin	2.2	1.2	2.4	3.1	3.9
RoCE	(3.0)	14.6	6.6	9.4	12.6
RoNW	0.5	3.1	6.7	9.7	12.9
RoA	0.4	2.7	5.9	8.7	11.7
<b>Per share ratios</b>					
EPS	13.1	8.7	19.9	31.1	46.4
Dividend per share	1.0	0.5	1.0	1.0	1.0
Cash EPS	36.1	35.2	50.7	66.0	83.3
Book value per share	266.2	288.3	307.0	336.9	382.1
<b>Valuation ratios</b>					
P/E	61.8	93.7	40.8	26.1	17.5
P/B	3.0	2.8	2.6	2.4	2.1
EV/EBIDTA	33.9	31.3	14.3	10.7	7.7
<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	23.0	22.0	22.0
<b>Leverage ratios</b>					
Interest coverage	2.7	1.2	12.3	23.2	45.6
Net debt / equity	0.1	0.1	(0.1)	(0.2)	(0.3)
Net debt / op. profit	1.2	0.8	(0.8)	(0.8)	(1.3)

Source: Company Filings & Arian 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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