Prataap Snacks Ltd

Crunching…Munching…Snacking towards Growth

Ruchitaa Maheshwari
022 4225 4872
ruchita.maheshwari@arihantcapital.com

ArihantCapital Generating Wealth

Initiating Coverage
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CMP: INR 697

Rating: BUY

Target Price: INR 1,149

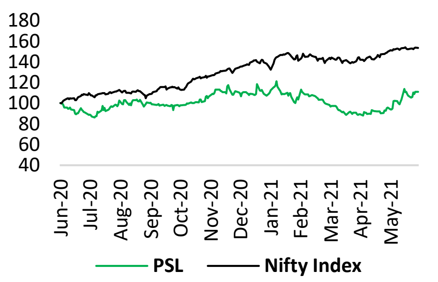
Stock Info	
BSE	540724
NSE	DIAMONDYD
Bloomberg	DIAMOND:IN
Reuters	PRAT.NS
Sector	Packaged Foods
Face Value (INR)	5
Equity Capital (INR cr)	2.3
Mkt Cap (INR cr)	1,634
52w H/L (INR)	762 / 485
Avg Yearly Vol (in 000')	154

Shareholding Pattern %
(As on March, 2021)

Promoters	71.5
DII	4.8
FII	16.4
Public & Others	7.3

Stock Performance (%)	3m	6m	12m
PSL	13	1	11
NIFTY	7	14	53

PSL Price Chart



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Prataap Snacks (PSL) is one of the fastest growing players in the savoury segment and has transformed itself from a regional player to a pan India player. The company has increased its market share from 1% in 2010 to ¬6% in 2020. PSL has established itself as a) value for money player, b) introduction of new and innovative products and has created its positioning under – potato chips, extruded, namkeen & sweets, and c) strong footprints of 1.7mn retail outlets across 30 states and Union Territories. We believe, margin expansion led by better product mix & revamping distribution strategies, pick up in newer geographies, ramp up of product portfolio to other geographies, rising consumption specially in non metro and rural segment, opening up of economy and a shift from unorganized to organised would be key drivers going forward. We expect PSL to post Revenue/EBITDA/PAT CAGR of 18.5%/47.5%/118.2% to INR1,644cr/INR137cr/INR67cr in FY23E. We initiate coverage with a BUY rating at a TP of INR1,149 per share; valued at PE 40x and EV/EBITDA of ¬20x FY23E; provides an upside of 65%.

Value for money + Innovations + Strong distribution reach to drive growth: PSL is one of the fastest growing organized players in the attractive savory segment. PSL has established itself in a highly competitive intensity by a) value for money player (more grammage for less), b) constantly focussing on new innovations and expanding its product profile (from earlier potato chips expanded to extruded, namkeen and sweets), c) streamlining its distribution channel (from 3 tier to 2 tier by removing super stockists), d) 1.7mn retail outlets spread across 30 States & UT, e) faster market replenishment, f) emphasis on popular flavours, g) relevant marketing schemes and h) with tapping newer geographies in order to accelerate its revenue growth trajectory. PSL has not only multiplied its market share (1% to ¬6% from 2010 to 2020) in just ten years, but also transcend beyond regional boundaries.

Revenue Growth & Margin expansion to improve: We expect PSL to post Revenue CAGR of 18.5% and margin expansion of 296.5bps to 8.4% over FY21-FY23E aided by a) expanding & deepening distribution reach to the existing portfolio, b) increasing contribution of extruded and sweets, c) increasing contribution of Avadh business, d) increasing revenue from launch of new products, and e) expanding to newer geographies.

Healthy financials and rising share of outsourcing to drive RoCE : PSL is a high quality cash generating business. PSL has CFO/EBITDA as high as ¬90%. In addition, the company is expanding its footprints via outsourcing model (contribution to increase from current 24% to 30% in next 3 years) which will improve the asset turn and eventually will improve the RoCE from 2.9% in FY21 to 9.1% in FY23E.

INR in Cr	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,171	1,394	1,171	1,370	1,644
EBITDA	83	94	63	96	137
EBITDA margin (%)	7.1	6.7	5.4	7.0	8.4
PAT	45	47	14	35	67
PATM (%)	3.8	3.4	1.2	2.6	4.1
EPS(in INR)	19.0	20.0	6.0	14.9	28.7
ROCE(%)	7.7	8.0	2.9	5.2	9.1
PE(x)	36.6	34.8	115.4	46.6	24.2

Source: Company , Arihant Capital Research

Valuations & Recommendations

Prataap Snacks (PSL), an emerging player in the packaged snacks category, has established a sizeable presence over the last few years, primarily driven by its **constantly focussing on new innovations and expanding its product profile, streamlining its distribution channel, faster market replenishment, emphasis on popular flavours, relevant marketing schemes and with tapping newer geographies in order to accelerate its revenue growth trajectory. PSL has multiplied its market share (1% to ¬6% from 2010 to 2020) in just ten years.** The Company's ability to compete with regional players on their own turf and gain market leadership is indicative of PSLs strong brand positioning.

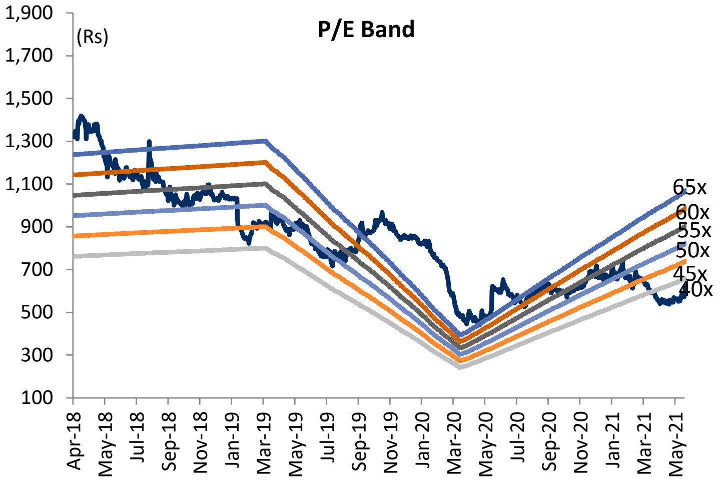
During FY21, PSL reported a Revenue/EBITDA/PAT of INR1,171cr/INR63cr/INR14cr as against Revenue/EBITDA/PAT of INR1,394cr/INR116cr/INR69cr in FY20. Even, the EBITDA margins declined 293bps YoY to 5.4% in FY21. **The company's dismal FY21 performance was accounted on a) April & May witness a shut down of Indore facility which got resumed only in the last week of May 21, b) closure of schools and colleges and subdued travel activities due to lockdown (forms ¬20% of total revenue), c) rings and sweet snacks portfolio was impacted as a major portion is consumed by kids in schools, d) Avadh's top-line was marginally impacted due to operational closure in Q1FY21, and e) margins were impacted due to inflationary palm oil prices.**

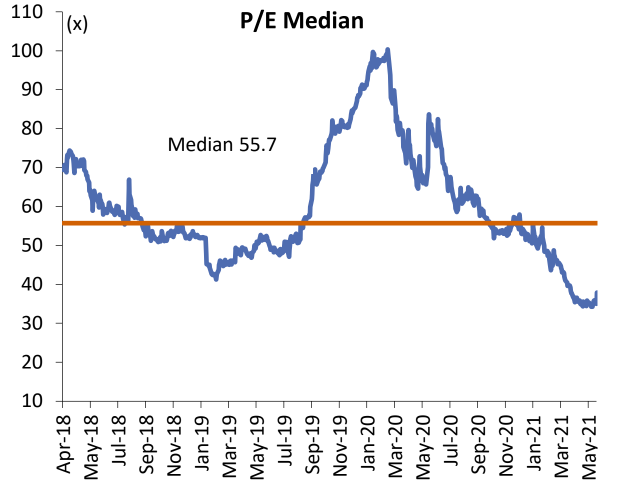
To counter the negatives experienced during FY21, PSL has taken i) Tele-calling initiative with stockists and dealers to aid faster replenishment of stock, ii) We believe that with rising health awareness and availability of smaller packaged foods (INR5), rural consumption will shift from unorganized to organized. PSL is increasing its focus on rural markets (less affected by COVID-19) to drive growth, iii) PSL is working on new products of <INR10 and rusk for home consumption to improve the brand visibility and brand recall, iv) Aggressively ramping up capacities pan-India mainly via the outsourcing route - outsourced share in total revenue is expected to cross 30% in 2-3 years from current 24%, v) Mitigate inflationary pressure through process re-engineering and cost optimisation, and vi) Going ahead with the re-opening of schools, railway stations and other institutions would give an uptick in the consumption of packaged snacks.

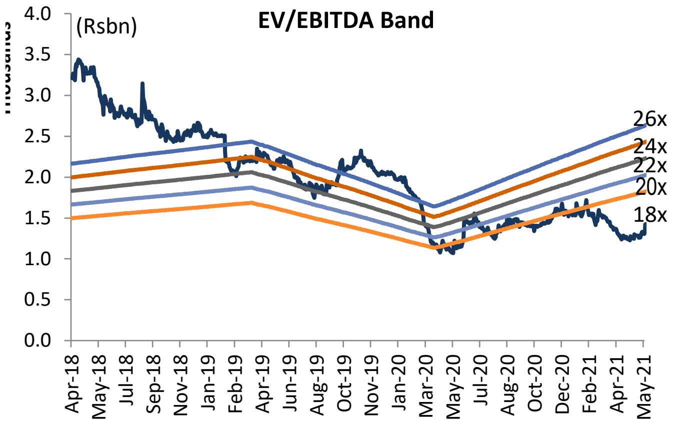
Given the right price - value proposition (more grammage for less price), there is an accelerated shift emerging in the consumption pattern from the unorganized to the organized sector offerings. We believe PSL with its strong brand "Yellow Diamond" is well placed to benefit from this demand uptick from packaged snacks by expanding its geographical presence into markets, expanding distribution in existing markets and launching new innovative products.

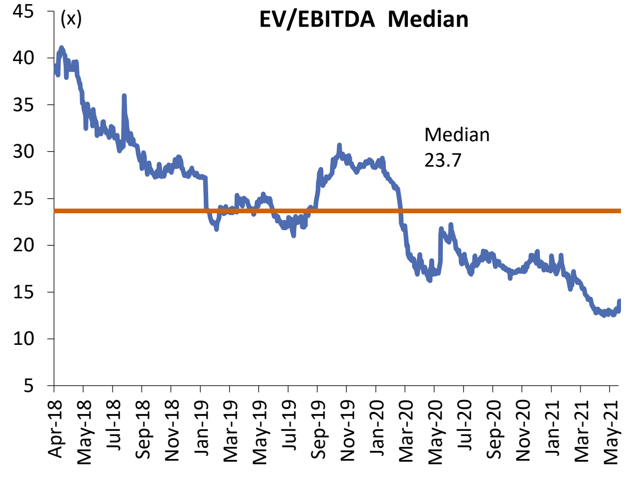
At CMP, the stock trades at 46.6x/24.2x P/E and 17.4x/11.7x EV/EBITDA based on FY22E/FY23E earnings, respectively, against its four-year median of PE and EV/EBITDA of 52.3x and 20x respectively. We feel that the opening up of the economy would give an uptick in the consumption of packaged snacks. We expect PSL to post Revenue/EBITDA/PAT CAGR of 18.5%/47.5%/118.2% to INR1,644cr/INR137cr/INR67cr, respectively in FY23E on the back of focus on multi-product, multi-channel and multi-geography approach would drive sustainable and profitable growth ahead.

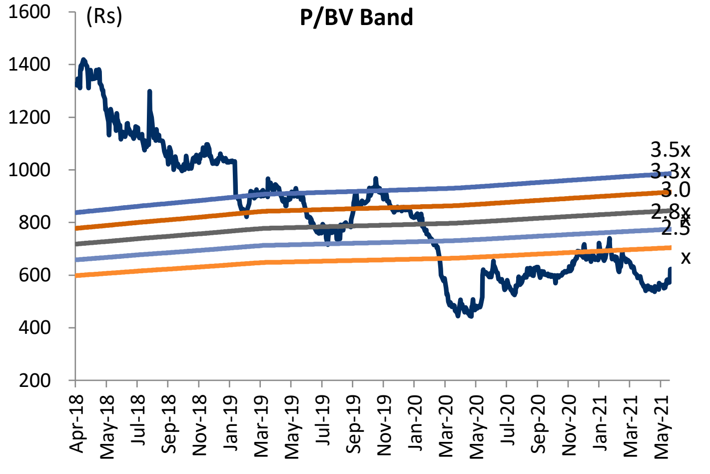
We initiate coverage with a BUY rating at a TP of INR1,149 per share; valued at PE 40x and EV/EBITDA of ¬20x FY23E; an upside of 65%.

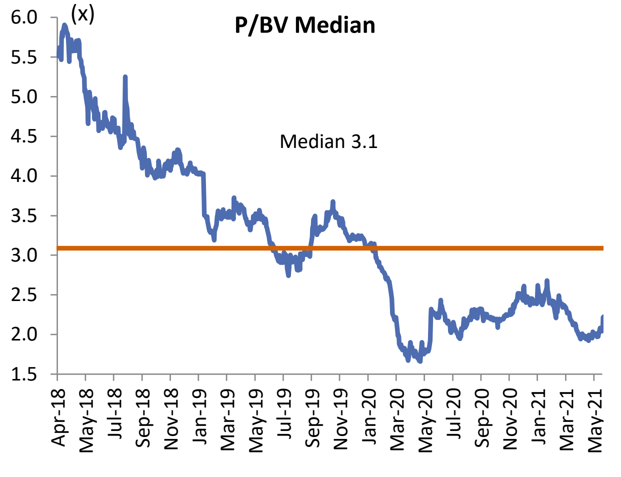












Source: Arihant Capital Research

Peer Comparison

PSL leads in the value/price metric but at the same time, is equivalent to its peers on the basis of maintaining the quality of ingredients, taste and packaging. This has been critical for the price conscious middle-class Indian consumer and is one of the reasons of the company's proven success in urban and 'rurban' (rural + semi-urban) markets. The INR5 forms the major chunk of the revenue ¬80% of sales, whereas INR10 forms 12-15% and balance comes from the high value packet.

PSL's key inherent strategy for longevity of growth is led by present in high growth and highly underpenetrated organized category, continuous improvement and expansion, focus on asset light model through contract manufacturing and entry into newer product/categories led by PSL's far sightedness of investment in distribution, brand building and facilities.

We feel that PSL is in early growth phase, the margins will be sub-optimal. However, with increase in scale of operations, optimization of channel of distribution (from 3tier to 2tier distribution), stabilization of distribution set-up, and pick-up in sweets snacks, we expect the margins to expand disproportionately compared to earnings growth. This will also expand the RoCE for the company going forward. We believe that the valuations will look optically high as these growth drivers are not been captured in the current earnings.

With better than expected revenue growth and margin expansion, PSL is available at EV/EBITDA of 18.6x/27.2x in FY20/FY21 as compared to 35.3x/48.7x for DFM Foods and 39.6x/37x for Agrotech Foods, respectively. PSL is currently trading below the industry average of 43.4x, which gives an enough room for improvement going forward on the back of consistent product innovation, entry into sweet snacks, increasing volumes due to higher penetration in rural and semi-urban areas through contract manufacturing and logistics efficiencies, streamlining of channel of distribution and improving mobility led by unlocking and heightened Covid vaccine drive.

Comparative Analysis

	CMP	Market Cap	Sales (INR cr)		Growth%	EBITDA (INR cr)		EBITDA%		PAT (INR cr)		PAT%	
Company	**(INR)**	**(INR cr)**	**FY20**	**FY21**	**YoY**	**FY20**	**FY21**	**FY20**	**FY21**	**FY20**	**FY21**	**FY20**	**FY21**
Britannia Industries	3,619	87,796	11,600	13,136	13.0%	1,843	2,509	15.9%	19.1%	1,393	1,850	12.0%	14.1%
Dabur	577	101,643	8,704	9,562	9.9%	1,792	2,003	20.6%	20.5%	1,448	1,696	16.6%	17.7%
Godrej Consumer	893	90,741	9,911	11,029	11.0%	2,143	2,388	21.6%	21.7%	1,497	1,721	15.1%	15.6%
Hindustan Unilever	2,483	593,714	38,785	45,996	19.0%	9,600	11,324	24.8%	24.6%	6,738	7,954	17.4%	17.3%
Marico	521	67,307	7,315	8,048	10.0%	1,470	1,591	20.1%	19.8%	1,022	1,172	14.0%	14.6%
Nestle (Jan-Dec)	17,671	169,884	12,369	13,290	7.4%	2,924	3,197	23.6%	24.1%	1,968	2,082	15.9%	15.7%
Future Cons (FY19-20)	10.15	2,096	4,040	3,881	(4.0%)	(156)	587	(3.9%)	15.1%	(1,695)	223	(42.0%)	5.7%
DFM Foods	400	1,981	508	524	3.1%	42	56	8.3%	10.7%	25	29	4.9%	5.5%
Agrotech food	958	2,316	835	893	6.9%	58	62	6.9%	6.9%	34	31	4.1%	3.5%
Prataap Snacks (PSL)	**697**	**1,634**	**1,394**	**1,171**	**(16.0%)**	**116**	**63**	**8.3%**	**5.4%**	**69**	**14**	**5.0%**	**1.2%**

...Contd Comparative Analysis

	RoE (%)		RoCE (%)		EPS (INR)		P/E (x)		EV/EBITDA (x)	
Company	**FY20**	**FY21**	**FY20**	**FY21**	**FY20**	**FY21**	**FY20**	**FY21**	**FY20**	**FY21**
Britannia Industries	31.4	51.6	43.7	73.2	58.4	77.4	62.0	46.8	31.1	35.0
Dabur	21.9	22.1	22.0	21.5	8.2	9.6	70.4	60.1	50.9	45.3
Godrej Consumer	29.2	27.1	40.1	35.4	14.6	16.8	61.2	53.2	24.7	36.9
Hindustan Unilever	81.7	16.7	81.7	16.7	31.1	33.9	79.8	73.2	47.1	49.8
Marico	33.7	36.2	39.1	39.1	7.9	9.1	65.9	57.3	31.3	28.5
Nestle (Jan-Dec)	102.6	103.1	35.2	42.9	216	204	81.8	86.6	48.0	54.7
Future Cons (FY19-20)	(17.1)	2.3	(4.9)	4.6	(1.6)	0.32	(6.3)	31.7	26.4	70.7
DFM Foods	17.4	16.1	25.5	27.7	4.9	5.7	81.5	70.1	35.3	48.7
Agrotech food	21.9	22.1	22.0	21.5	8.2	9.6	116.8	99.8	39.6	37.0
Prataap Snacks (PSL)	**8.0**	**2.3**	**8.0**	**2.9**	**29.5**	**6.0**	**33.6**	**115.4**	**18.6**	**27.2**
Industry Average	**33.1**	**30.0**	**31.3**	**28.6**	**36.8**	**37.2**	**64.8**	**69.4**	**35.3**	**43.4**

Source: Industry & Arihant Capital Research

DFM Foods vs PSL

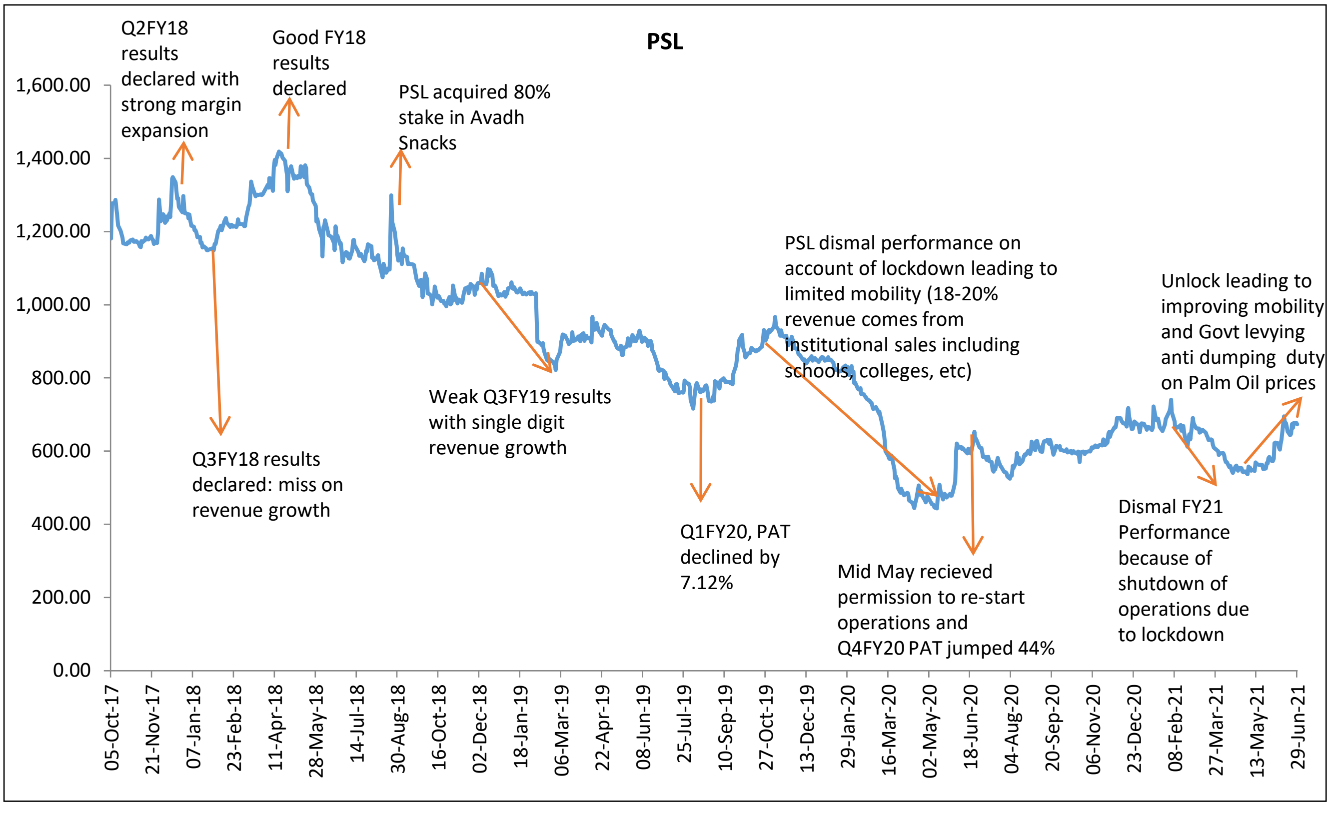
DFM Foods was one of the first few players to enter the extruded snacks market. The company was the pioneer in giving free toys with snacks to target kids for driving growth. The company sells the products under the 'CRAX' brand. The company has not been able to scale in terms of products and geography. The company still derives ¬75% of its revenue from North and Delhi market. In addition, DFM will continue to focus on North and West India. South is just 5% of the total revenue and It is going to be difficult to serve the southern markets, given that its plant is located in north India and snacks are a freight-intensive category and highly competitive at the time. The company in a bid to expand different geographies, is providing a distributor margin of ¬12% in non-North region compared to ¬7% margin to North distributors.

While, PSL entered the domestic snacks market in 2005 with a facility in Indore. Sensing the bigger opportunity, PSL entered the West market of Mumbai and North market of Delhi by taking advantage of reverse logistics. After gaining a critical scale, the company further expanded its reach to East via Guwahati and then via outsourcing ventured in to South India as well.

Thus, PSL has an uniform revenue contribution across geographies. As on FY21, North (¬29%), West (¬31%), East (¬27%) and South (¬13%) contributes to the total revenue.

Hence, we feel that PSL enjoys first mover advantage of an early investment in pan based distribution channel and strategic location of plants which enables PSL to effectively respond to market demands, evolving consumer preferences and competitive pressures. In addition, the company is also streamlining its distribution channel which in turn will reduce the freight cost and distributor margin going forward. However, DFM is expanding to different geographies and will face the heat in terms of higher freight cost and distributor margin, which we believe will negatively impact the margin going forward.

PSL in Nutshell



Source: Arihant Capital Research

Investment Rationale

To reap benefits of strong distribution network from hereon

The company through its proactive approach has established a strong distribution network, and has focused on establishing a strong base in Tier B, C and D sales outlets, where the SKU at INR5 is sold the most. The INR5 is a sensitive selling price point and company has created a strong positioning in this by a) Rings, Sweet snacks and Wheels, etc which are favourite amongst children, the company has increased its presence near schools and tuition centre, and b) Namkeen are more prevalent near tobacco and liquor shops. This in effect, increases the per dealer off-take growth rate.

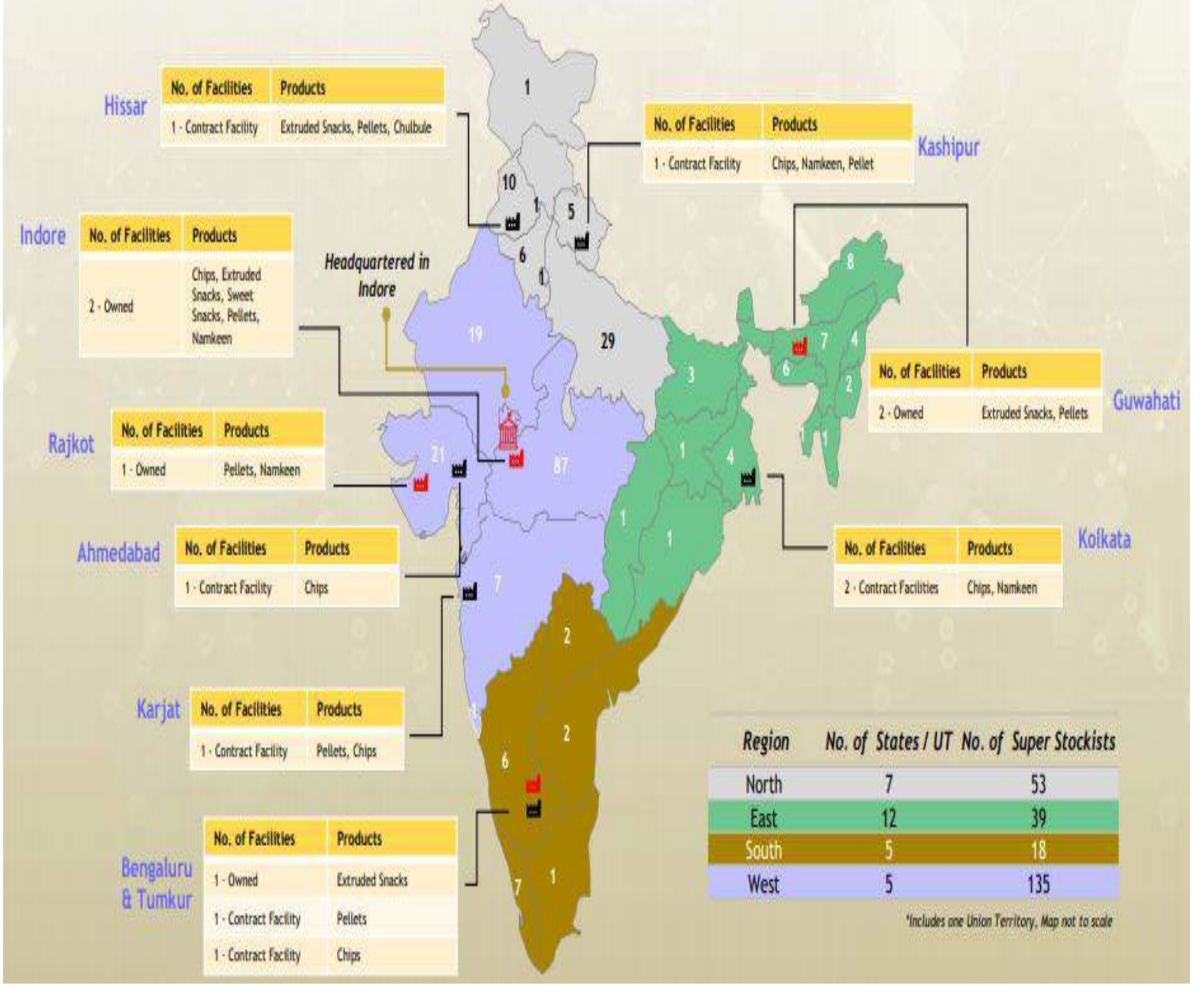
The company follows asset light model where the contract manufacturing which stood at ¬4% in FY16 has increased to 24% in FY21. the company is targeting the contribution to increase to 30% in next 2-3 years. To enable optimum efficiency in the distribution and to reach out to a more expansive market, the company is increasingly employing an asset-light 3P (Production Preparation Process) third-party manufacturing model. This model is based on proximity to the target market, enabling faster replenishments, and is expected to reduce freight costs. Along with lower logistics costs, the 3P model results in lower capex. Going forward, this asset-light model will help in yielding better margins and thereby drive higher return on capital employed.

PSL has 6 owned manufacturing units (2 Indore, 2 Guwahati, 1 Bangalore and 1 Rajkot of Avadh Snacks). In addition, PSL has 8 contract manufacturing units (2 Kolkata, 1 Hissar – Haryana, 1 Kashipur – Uttarakhand, 1 Karjat – Maharashtra, 1 Ahemdabad and 2 Bengaluru & Tumkur). Going forward, the company is expected to increase the 3P model as its lucrative in terms of expanding rapidly without significant outlay, rapid innovation and rolling swiftly in the market. However, the company will continue to manufacture innovation driven products like Sweet snacks due to protection of intellectual property as well as the 3P's are inefficient to manufacture such products satisfactorily.

Indore in Madhya Pradesh is a key production hub for quality potatoes—key raw material for potato chips. It is also well connected to Delhi and Mumbai—key distribution hubs for the company's products in North and West, respectively. In addition, the strategic location of Indore helps the company to effectively leverage supply chain logistics as Madhya Pradesh is a major consumer state and Indore is the final destination for a large number of transportation companies and distribution network of MNCs. The location enables PSL transport products at cost-effective rates, thereby ensuring lower transportation costs, resulting in operating cost efficiencies. Similarly, Guwahati in Assam serves as a strategic location for leveraging efficient logistics operations.

PSL has a total reach of 1.7mn outlets and currently serves 30 states and Union Territories. The company effectively uses these distribution network to increase its penetration into the existing key markets North and West. The company is also increasing its presence in Gujarat (highest snacks market in terms of per capita consumption) and Southern markets as these markets are largely dominated by regional players with high competitive intensity. Further, the East market continues to grow led by increasing demand in extruded snacks particularly rings and specific flavours like cream and onion. PSL expects to replicate the same model in southern markets and garner market share and brand loyalty going forward.

Strategically located Manufacturing facilities to cater the regional demand



Source: Company Presentation & Arihant Capital Research

Optimization of channel distribution to reduce cost & improve margin

The street-smart entrepreneur spotted an opportunity in long trailer trucks carrying Maruti and Hyundai cars from Delhi to Indore. The trucks, Kumat noticed, would go back to Delhi empty. In a win-win for the drivers and Kumat, the entrepreneur loaded the truck with his cartons of snacks. In one go, a local brand from Indore was catapulted to the national capital where it started rubbing shoulders with much bigger rivals such as PepsiCo, Haldiram's, ITC and DFM Foods (of Crax fame).

PSL has used reverse logistics to cater to cities like Delhi and Mumbai at a relatively cheap rate from its manufacturing facilities in Indore. This enables the company to reach to most metros in a cost-efficient manner.

The company follows a traditional three-tier distribution channel model (¬95% of sales) of super stockists, distributors and retailers. The company first distributes its product to super stockists who are appointed to operate and maintain outlets/warehouses for sale to distributors and dealers. Generally, these super stockists have formal agreement with the company for 3-5 years. Currently, PSL has a network of +240 super stockists and 4,300 distributors.

After strongly establishing itself, the company to follow two-tier distribution channel model (just like its competitor Balaji Snacks) under which the company will do away with the super stockists and will trade directly with distributors followed by retailers. This move will start in the big city where the smaller distributors will be consolidated. However, the company will continue to follow the three-tier distribution model in the rural area as the job of super stockists is to replenish the distributor and retailers.

The company pays 2.5%-3% margin to the super stockists, and ¬3% margin is paid as a reimbursement of secondary freight. Distributor is paid 7.5%-8% margin and retailers are paid to the tune of 15%-20% margin. After removing super stockists from the scene, company will save huge cost of ¬6% and operating margin to improve by ¬4%. As of now, company expects margin to improve by 2-2.5% over a period of two years and will be visible from Q3 onwards.

Distribution is not only about quantity (number of stores tapped) but its also about the quality of products placed as per the target consumers. This has been effectively implemented by the company. For instance, Rings, Sweet Snacks, Wheels etc are popular amongst children and finds their presence near schools, coaching centers, etc. whereas, smaller SKUs of Namkeen are more prevalent near tobacco and liquor shops. This increases per-dealer off-take growth rate.

Focus on innovations, value for money and premiumization to drive growth

PSL is focused on understanding local consumer tastes and preferences through innovative product launches at competitive prices. At the bottom of the pyramid, there is a huge population who are going to try the product (packaged snacks) for the first time; they are shifting from the unorganised to the organised market.

PSL holds three brands, including the parent **Yellow Diamond brand, Rich Feast for sweet snacks, and the recently acquired Avadh brand**. The company created a diverse product portfolio at strategic price points and pack sizes, with more than 100 Stock Keeping Units (SKUs).

PSL succeeded in building a strong business because it was ahead of the curve in creating the right taste, in innovation, and in giving value to the customer.

Under the Yellow Diamond brand, the company initially started out with chips/crisps and rapidly expanded its portfolio. The entry into newer categories helped PSL achieve double-digit growth while effectively catering to the tastes and preferences of different consumers. Today, the company offers a bevy of snack offerings, including katori, pipes, trikon, rings, chips, namkeen chulbule, puff and popcorn, amongst others.

PSL is delivering value products that are either priced lower than bigger brands, or offer more per pack. The emphasis is on offering a value proposition to the price-conscious consumer by providing higher grammage. For instance, when Frito-Lay was offering 22 grams in a INR5 pack, PSL offered 30 grams for the same amount, which has helped the company grow at 20%-25% in the past five-six years. The company's pricing strategy pushed several bigger companies to also offer value packs in an effort to stay ahead in the market.

The company has further tried to attract younger segment of population (children) through its offerings of toys inside Rings packets. In addition, PSL has tied up with producers of cartoon to include cartoon character as Toys. PSL uses cartoon character 'Motu & Patlu' for its promotional campaign. Company enjoys the right to use for another few years. And also has the first refusal advantage.

PSL has also ventured into the healthy snacks category with its brand '7Wonders'. These are made with healthy ingredients like hummus, lentils and quinoa. With slow pick-up, PSL has no plans to launch the brand in the near term. It has the structure in place to remain relevant if there is a consumer shift towards healthier alternatives.

In order to tap the regional markets, PSL change flavours as the need per se. For instance, the company uses pepper based variants (Ratlami) in the North and sweet variants in the West. This has helped the company in garnering nation wide acceptance of its products.

In 2018, the company launched a Nachos in 4 flavours at a price point of INR10. This is aimed at disrupting the market as no current players served the product at this price point. However, after major disruption, many players launched at INR10 price point.

PSL has launched a product under Rich Fest brand named ‘Yum Pie’ whose target consumers are in the age of 4-15 years. This is a chocolate jam-based snack with a cake- like base making it distinctly different from existing products in the market. The company has launched the products at a INR5 price point in three flavours in H2FY18 and has thus entered into the sweet snacks category.

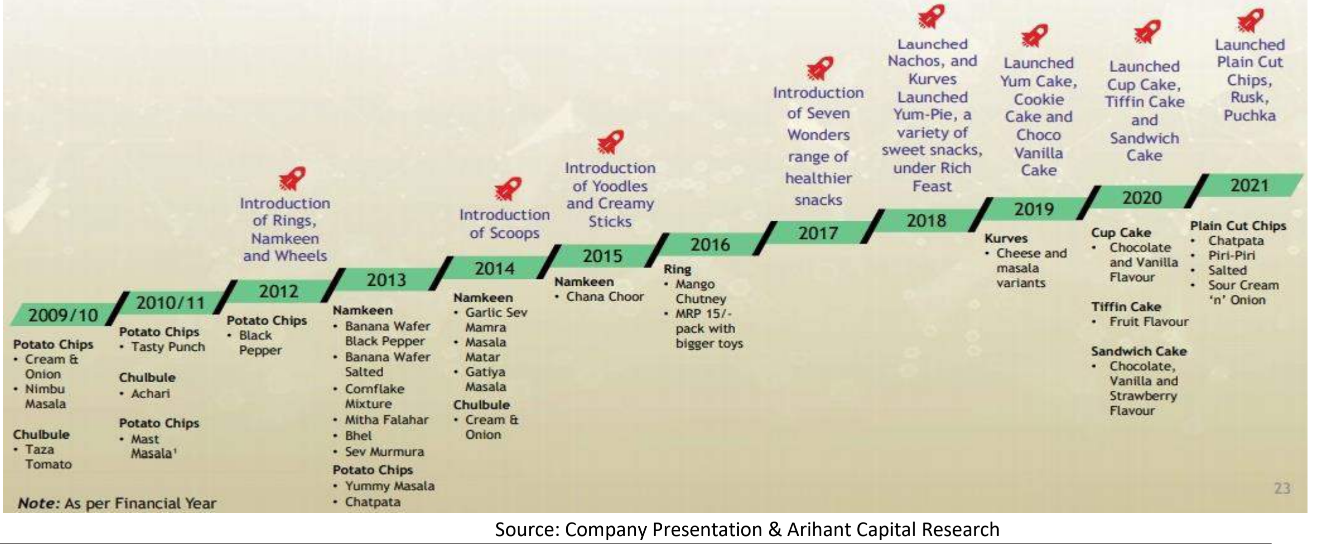
Further, to expand the sweet portfolio, the company has launched ‘Yum Cake’, ‘Choco Vanila Cake’ and ‘Cookie Cake’ in 2019, followed by ‘Cup Cake, ‘Tiffin Cake’ and ‘Sandwich Cake’ in 2020.

In 2021, the company has also launched plain cut chips, puchka and rusk. This product profile is to increase the home consumption.

The diversified product portfolio enables PSL cater to a wide range of taste preferences and consumer segments, including adults and children. While its products in the extruded snacks and sweets category are primarily targeted at the youth & children, potato chips and namkeen snacks are for all consumer segments.

Extruded has the highest margin owing to less volatile in terms of raw material movement (corn, gram flour). Its mostly baked and use of less oil consumption. Followed by Potato Chips (medium margin) and Namkeen (less margin due to high regional competition). Extruded which is favourite amongst kids was the highest impacted because of shut down of schools. In addition, the company is also increasing the contribution of sweets snacks which got impacted due to lockdown, from current ¬3% to 10% by FY25E. The gross margin in sweet snacks is higher than in salty snacks. Hence, with the opening up of economy, and increasing contribution from extruded segment and sweets, we expect the margin to improve from 2HFY22E onwards.

Track record of Innovations



Source: Company Presentation & Arihant Capital Research

PSL's Product Portfolio and Competitor Profile

Product Category	Launched in Year	PSL's Brand	Flavors	SKUs (INR)	Competitors
Potato Chips	FY05	Yellow Diamond	Plain Salted, Cream 'n' Onion, Tom-Chi, NimbuMasala, Yummy Masala, Tangy Tomato, Plain Upvas, Black Pepper and Magic Masala	5, 10, 20, 50	Lays (Pepsico), Bingo (ITC), Balaji, Parle'sWafers, Haldirams
Extruded Snacks	FY06	Chulbule	Tangy Tomato, Teekha Tadka, Noodle Masala, Taza Tomato, Achari Chatka, Tango Mango and Cream 'N' Onion	5, 10, 20, 50	Kurkure (Pepsico), Balaji, Crax (DFM Foods), Bingo (ITC), Taka Tak (Haldiram)
	FY10	Wheels	Chatpata Masala and Tomato Ketchup	5	
	FY10	Scoops	Masala and Tomato	5	
	FY11	Puffs	Cocktail, Tomato, Pudina and Punjabi Tadka	5	
	FY12	Rings	Masala, Tomato, Mango Chutney, and Chilli Cheese	5, 10, 15	
	FY18	Seven Wonders	Lentil Crackers –Cumin & Black pepper, Lentil Crackers –Cream & Onion, Lentil Crackers –Sweet Mango Chutney, Veggie Straws - Masala Tikka, Veggie Straws – PeriPeri, QuinoaChips -Cheese Garlic	30	
	FY18	Kurves	Four Flavors	5	
Namkeen	2012	Yellow Diamond	MoongDal, ChhanaDal, ChanaMasala – HeengJeeraflavour, All-in-One, AlooBhujiya, BhujiaSev, Punjabi Tadka, RatlamiSev, Tasty ShingBhujia, Mixture, FalahariChivda–Meethaand sweet and salty flavours, KhattaMeetha, Banana Wafers –Black Pepper and Mamra, Garlic SevMamra, Masala Matar, ChanaChoorand Salted flavours, Cornflake Mixture, Bhel, Plain SevPeanuts – Classic and Black Pepper flavours.	5, 10,30, 70	Haldirams, Lehar (Pepsico), Balaji, BikajiFoods
Sweet Snacks	2018	Rich Feast	Orange, Strawberry, Vanilla and Chocolate	5	Britannia, Lotte, Sunfeast, Monginis, Cadbury, Pilsbury, Moonfills

Source: Company & Arihant Capital Research

Synergy between Prataap Snacks and Avadh Snacks

Started in 2010, Avadh Snacks' product range includes bhujia, chevda, fafda and gathiya, and extruded pellets like wheels, cups and pasta. Avadh has a manufacturing facility at Rajkot and a well-established direct distribution network in Gujarat. As of now, the products are available at 75,000-1,00,000 retail touch points. The company is targeting to increase the capacity of Avadh's Rajkot plant by 100%. Phase 1 of this expansion, which aimed at 50% capacity expansion, was duly completed in June 2020.

Prataap Snacks has approved the acquisition of a further 10.48% of paid-up equity share capital of Avadh Snacks Private Limited (Avadh), the subsidiary, for an aggregate value of INR33cr. Earlier PSL acquired 80% equity stake in Avadh Snacks for INR148cr so till now total 90.48% and remaining 9.52% will do in next one and a half-year.

With 55 SKUs, Avadh has a strong presence in Gujarat (~6% market share), and has also entered in Maharashtra, Madhya Pradesh and Rajasthan. These three states forms 10% of the Avadh's revenue and will contribute 20% in the next 2-3 years. The Company also plans to launch Avadh's extensive range of pellet-based snacks pan-India by leveraging Yellow Diamond's manufacturing and distribution network. PSL has been increasing its touch points in Gujarat and in the neighbouring markets by cross-selling its popular Yellow Diamond products.

Avadh is slightly a different business model where the company offer more value as compared to Prataap products, so it is basically a super value model. Compared to PSL, Avadh follows a lean distribution model, resulting into low distribution cost as compared to Prataap. So, the gross margin is relatively lower (¬15% compared to ¬30% for PSL). However, at the EBITDA level, the margins are almost similar as Prataap in the normalcy level. Though, if the oil prices shots up (as the oil prices were at its peak of INR142/kg in May 2021), Avadh faces more heat because of higher quantity being offered.

Management is targeting 15% revenue growth in FY22E and FY23E in normal course of business. We expect Avadh to be one of a leading contributor of growth for PSL going forward and expects to do a Net Sales CAGR of 13.5% over FY21-FY23E.

Avadh Complimenting PSL:

1. The acquisition gives PSL entry into Gujarat, which is the largest salty snacks market in India.

2. Product portfolio of Avadh is complementary to Prataap's existing portfolio. On combined basis, Prataap Snacks now have a good mix of regional and national flavours and variants.

3. The company will use the distribution strength of Avadh and will market its products into the western India where the company has a limited presence. With a reach of 75,000-1,00,000 retail outlets in Gujarat, Avadh is the fourth largest player in the state.

4. Expanding sweet snacks portfolio.

Interestingly, this is not the first acquisition by Prataap. In 2012, it acquired Prakash Snacks and then it acquired Yellow Diamond brand and the snacks business under it. **PSL has, over the years, leveraged its understanding of target markets and consumer segments, product innovation capabilities, extensive distribution network, strategically located manufacturing facilities and focused its marketing and promotional activities to strengthen its brands and establish the Yellow Diamond brand across India.** Hence, we believe that the company will be able to repeat the replica of success with Avadh Snacks at Pan India level.

Avadh's Product Portfolio

Source: Company Presentation and Arihant Capital Research

Sweet snacks; nascent but Opportunity is huge

The Indian sweet and candy market is currently valued at around $664 mn, with sugar confectionery holding a 70% share ($461 mn), and chocolate confectionery accounting for the remainder ($203 mn).

There is a huge untapped growth opportunity in the sweet snacks segment on account of current segmentation of offerings and changing lifestyles of consumers. Traditionally, consumers seeking a sweet snack have had limited options such as chocolates or traditional Indian sweets. The opportunity for a sweet snack option at a convenient size with attractive packaging has not been comprehensively addressed in the Indian market. The volume weight ratio for sweets snacks is favourable for manufacturers, leading to lower logistics cost and relatively higher gross margin. **Within sweet snacks, cake is an evolving category which has witnessed some major developments in formats, pricing and variants in the last few years.**

Given the potential of the industry had and has a global reach, a lot of brands in their early days made a name for themselves in the space. A few of the renowned ones are Haldirams, Balaji, Bikano, Bikaji, Prataap Snacks, Cornitos – the brands have not only achieved local but also a global footprint. In fact, the branded segment covers about 30% of this market and is growing at 10-12%. With the use of automation and better shelf life, the segment is all set to only grow further.

There is an increasing preference towards western sweets, especially chocolate-based confectionaries, due to changes in consumer preference, exposure to media and the internet, and increasing living standards. In addition, concerns related to hygiene and low quality due to lack of established processes to manufacture Indian sweets is also driving this shift.

The sweet market is ¬INR3,000cr (10% of salty snacks) and his highly under penetrated. The segment is expected to grow more than 15% over the next 4-5 years. PSL too has entered this segment under the Rich feast brand with a launch of – (a) Cup Cake (b) Tiffin Cake (c) Cup Cake and (d) Cookie cakes, in three different flavor- (Chocolate, Strawberry, Vanilla and Tuti fruity). The product has evinced good response and demand is picking up. To enhance its sweet product basket PSL is in the process of launching few more products in the market. The management has maintained to launch only eggless sweet as the target audience is huge.

Given that small packs of INR5 and INR10 contribute to 70-80% of the sales in the snacks category market in India, this is encouraging. After all, guilty pleasures can be derived from small packs, since once can never really wish them away. For PSL, the INR5 contributes ¬80% of sales, 10-12% comes from INR10 per pack and balance is high value pack.

To make its presence felt and garner market share, PSL is playing its game effectively of ‘value proposition’ by providing ‘more for less price’. For instance, Pilsbury Choco Cookie Cake INR5 offers 11gm and PSL offers 16gm at the same rate and same product profile.

As of now, the sweet contribution to the overall revenue forms ¬3% as on FY21. The gross margin of the sweet segment is 33-38%. The segment is also freight cost effective due to light weight and small packaging, more products are transported. The logistics cost for salty snacks is 7-8% whereas for sweets is 4-5%. The combination for higher gross margin and lower freight cost results in higher EBITDA margin, which is almost 1-1.2x of the salty snacks EBITDA margin.

The Company aims to take the sweet snacks product range across its distribution network and scale the category higher. The nascent stage of the sweet snack market, its niche products, an effective Go-to-Market (GTM) strategy and a growing distribution network of salty snacks augurs well for its expansion into this space. **The Company still considers the INR5 price point to remain as an important growth strategy going forward including eggless cake where the competition is less and market size is huge.**

The management expects the sweet segment to grow big and will contribute roughly 10% to the overall revenue in the next three years from current ¬3%. Thus, in our view; with increasing contribution of sweets category will improve the overall margin for the business going forward.

Sweet Snacks: Synergies in the Portfolio

Particulars	Salty Snacks	Sweet Snacks
Price Points	INR: 5, 10, 20, 40, 80	INR: 5
Gross Margin	28-32%	33-38%
Volatility in RM Prices	Medium to High	Low
Freight Cost as a % of revenue	7-8%	4-5%
MRP Value on the vehicle (INR)	16,000-20,000	30,000-35,000
Distributor Margin ¬7.5% (INR)	1,200-1,500	2,250-2,625
Variable Costs	Same	Same
Entry Barrier	Low to Medium	Medium to High

Source: Arihant Capital Research

Diverse product portfolio at strategic price points and pack sizes

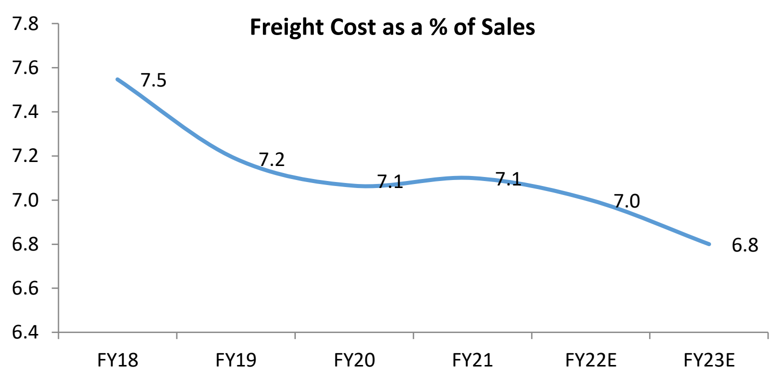
Source: Company Presentation & Arihant Capital Research

Prataap Snacks Rich Feast vs Competitors

Sweet Category	Price INR	Quantity
Prataap Snacks Rich Feast- Cookie Cake	5	16gm
Prataap Snacks Rich Feast- Centre Filled Cup Cake	5	22gm
Prataap Snacks Rich Feast- YumCake	5	20gm
Prataap Snacks Rich Feast Sandwich Cake	5	18gm
Britannia Cake Layers	5	16gm
Britannia Tiffin Cake	5	20gm
Monginis Choco Muffin Cake	5	17gm
Pillsbury Choco Cookie Cake	5	11gm
Anmol Tiffin Cake	5	20gm
Anmol Kream Cake	5	20gm
Pillsbury Choco Cookie Cake	10	23gm
Pillsbury Pastry Cake	10	23gm
Pillsbury Lava Cake	10	28gm
Sunfeast Bounce Cream Cake	10	25gm
Sunfeast Trinity Cake	10	28gm
Sunfeast Layered Cake	10	25gm
Sunfeast Swiss Roll	10	29gm
Monginis Swiss Roll	10	40gm
Monginis Choco Bar Cake	10	45gm
Cadbury Chocobake Cakes	10	21gm
Britannia Muffin	10	35gm
Anmol Cake	10	45gm

Source: Arihant Capital Research

With increasing contribution of sweets and streamlining of distribution channel, freight cost to decline



Source: Company & Arihant Capital Research

Financial Analysis

Revenue expected to witness a 18.5% CAGR over FY21-FY23E

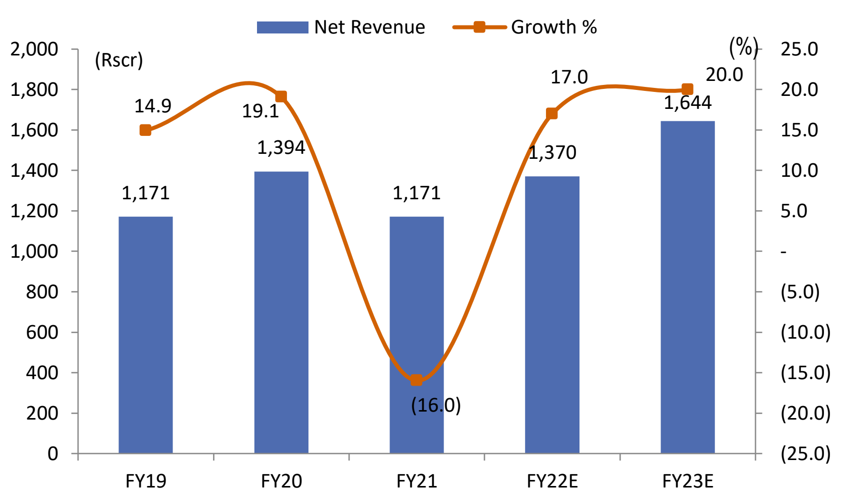
Due to covid, FY21 was a washed out year for the company, as these products are mainly OOH (out of home consumption), and with lockdown, low socializing, schools being closed, PSL reported a Revenue/EBITDA/PAT CAGR of 4.8%/(10.1%)/(31.5%) over FY18-FY21.

In terms of demand, PSL witness a soft demand across Jan-March 2021 and could not take the benefit of low March base, as this year, the demand was impacted by the second wave of covid. The institutional business (railways, bus depots, schools, colleges, coaching centres etc), which forms 18-20% of total revenue was impacted the most due to low mobility. However, with unlocking in place and easing of restrictions, we expect the company to witness improvement in demand going forward.

We believe multiple triggers going ahead for PSL. A) The company has pan India presence with strong balance sheet. B) Margin expansion led by in product mix & revamping distribution strategies. C) Pick up in newer geographies, ramp up of product portfolio to other geographies. D) Increasing contribution of sweet snacks from current ¬3% to 10% in next 3 years. E) Rising consumption specially in non metro and rural segment. F) PSL is working on new products of <INR10 for home consumption. G) Aggressively ramping up capacities pan-India mainly via the outsourcing route - outsourced share in total revenue is expected to cross 30% in 2-3 years from current 24%, H) A shift from unorganized to organised, and I) Re-opening of schools, railway stations and other institutions would give an uptick in the consumption of packaged snacks

Hence, we expect PSL to report a Revenue/EBITDA/PAT CAGR of 18.5%/47.5%/118.2% to INR1,644cr/INR137cr/INR67cr, over FY21-FY23E, respectively.

Revenue to grow at a CAGR of 18.5% over FY21-FY23E



Source: Company & Arihant Capital Research

Financial Analysis... continued

Increasing premiumization and expanded product bouquet to improve EBITDA margin

With high volatility in input costs especially in key raw-material prices of edible palm oil and potato, shut down of plants due to lockdown and increased freight cost, the EBITDA de-grew by 10.1% and margin also declined by 315bps over FY18-FY21 to 5.4% in FY21.

We expect EBITDA margins to stabilize to ¬9% in FY23E, led by:

A) Extruded has the highest margin owing to less volatile in terms of Raw material movement (corn, gram flour). Its mostly baked and use of less oil consumption. Followed by Potato Chips (medium margin) and Namkeen (less margin due to high regional competition). Extruded which is favourite amongst kids was the highest impacted because of shut down of schools. **Hence, with the opening up of economy, and increasing contribution from extruded segment, we expect the margin to improve from 2HFY22E onwards.**

B) **The company has forayed into sweet snacks (relatively higher gross margin than salty snacks) which currently forms ¬3% of the total revenue and is highly under penetrated; providing immense growth opportunity. The gross margin in sweet snacks is higher than in salty snacks.** PSL has received an encouraging customer response for the new sweet snack products and expects the segment to contribute to ~10% of its revenue by FY25E. Scaling up these products, through existing distribution network followed by an entry into hitherto untapped modern-trade channels will further enhance margins and maintain the high revenue growth trajectory.

C) Raw material break-up: ¬**72% cost to total revenue includes (16-17% of packaging, 15-16% palm oil and 20% potato + toy & corrugated boxes).** To mitigate the risk, management has made some structural changes:

▪Historically, **palm oil** prices have hovered between INR60-65/kg. However, since Oct’2019, palm oil has been witnessing sharp inflation and reached as high as INR142/kg on 7th May, 2021 . Being an essential commodity, the company believes that the inflation is a short-term issue and prices are likely to correct soon. Currently, the edible palm oil price stands at ¬INR115/kg due to over-production and poor demand in Malaysia and Indonesia. Off-late, the prices on custom duty have declined 30.25% from 35.75% which will further keep the prices under check.

The company is mitigating the adverse impact of edible palm oil prices on margins through process re-engineering and cost optimization. If inflationary pressure still persists, then change in grammage will be the last resort.

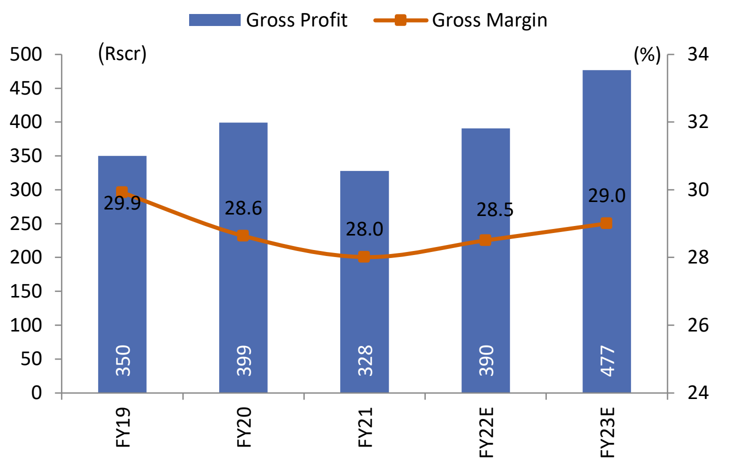
▪For instance, **Potato** crop season is December to March. Earlier the company used to have cold storage till August and 3 months open buying in the market which is highly volatile. Now, the company has cold storage till 15th Nov and is open for 1 month volatility. From mid-December new crop comes in the market. This would reduce volatility in gross margins going forward.

▪In terms of **packaging** costs, earlier the company used to enter into short term contracts for laminate. Now it enters long term contracts of around nine months to one year.

D) **In addition, PSL plans to deliver products directly from its factories to the distributors instead of taking the super-stockists route to save on the second leg of the logistics cost.** This change in distribution dynamics will also support the operating margin expansion going forward. In 2 years time, company will save 4% if channel optimization happened at 100% of sales. However, the company expects 2-2.5% margin improvement in 2 years time and will be visible from Q3FY22E onwards.

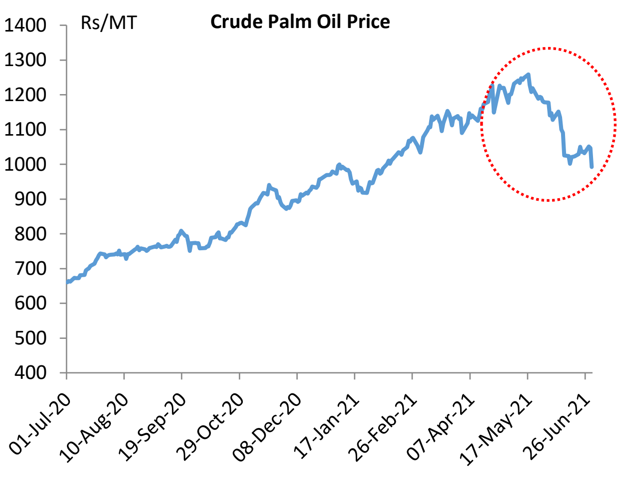
E) A&P spend is 1.1% of total revenue and is expected to remain same going forward. PSL had roped in Salman Khan as a brand ambassador to change the perception of the brand from regional to national, and company succeeded in the same. The agreement with Salman is over, which we believe will have a positive impact on the operating margins. In addition, the company spend some INR15-16cr on advertisements in kids channel, which will continue going forward.

Gross margin to improve from 28% in FY21 to 29% in FY23E



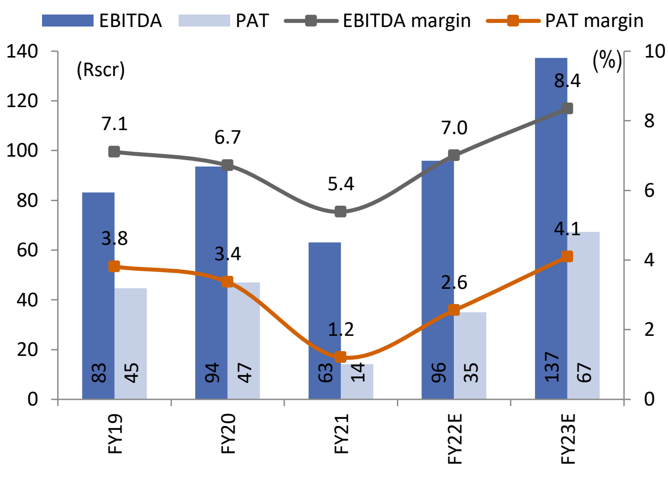
Source: Company & Arihant Capital Research

Crude Palm oil price on declining trend after government reduced ¬5% custom duty



Source: www.investing.com & Arihant Capital Research

EBITDA margin to improve from 5.4% in FY21 to 8.4% in FY23E



Source: Company & Arihant Capital Research

Robust cash flow generation and improving return profile justifies premium valuation

High operating leverage with no major capex in pipeline

The company had expensed significant capex of INR545cr between FY18-FY21 owing to the expanded product profile. The prior capex will provide high operating leverage and enough room for the company to expand its volume and reach with no major capex in the offing for the next two years. In addition, the company is also channelizing the usage of contract manufacturing which will enable the company to cater to the market demand of the products without any significant capex.

Limited capex will generate positive FCF over FY22E-FY23E

During FY18-FY21, the capex outlay was INR545cr, which in turn generated negative free cash flow (FCF) for the company to the tune of INR335cr over the same period. However, with the absence of any significant capex for the next two years, we expect the company to generate positive FCF of INR123cr over FY22E-FY23E.

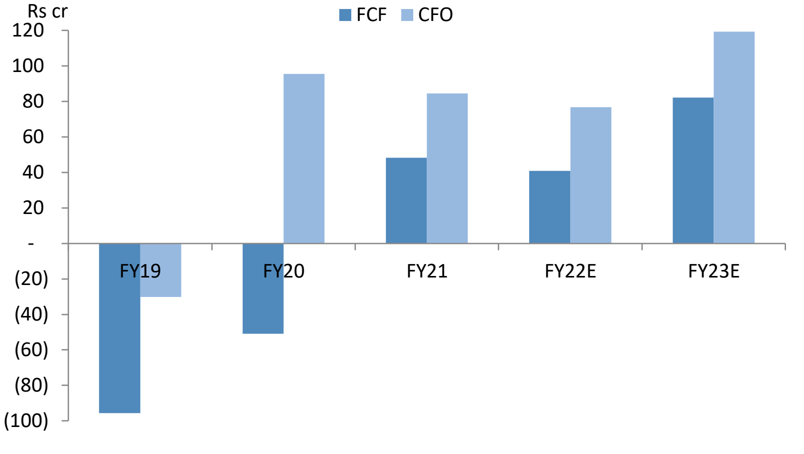
Robust Balance sheet, lean working capital cycle and high OCF

PSL had raised INR220cr from the IPO proceeds which was utilized by the company to retire its debt obligations, for Avadh acquisition and investments in the sweets segment. With no major capex in the offing, PSL is net cash surplus. With large capex already done, going forward with improving margins, lean working capital cycle, we expect PSL to generate operating cash flow (OCF) of INR196cr over FY22E-FY23E.

Improving margins + improving Asset turns = higher RoCE

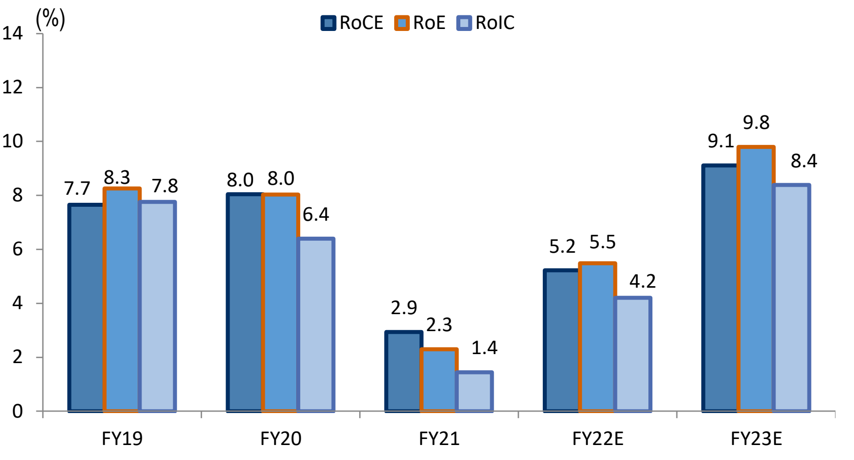
The improvement in margins along with increase in asset turns (as substantial capex is already behind) in the system plus higher contribution of contract manufacturing - the fixed asset turnover is expected to improve from 2.3x in FY21 to 2.8x in FY23E. This, along with improving margins, is expected to result in RoCE expansion. We estimate RoCE to expand from 2.9% in FY21 to 9.1% in FY23E. RoIC to improve from 1.4% in FY21 to 8.4% in FY23E and RoE to improve from 2.3% in FY21 to 9.8% in FY23E.

With no major capex, FCF and OCF to turn positive



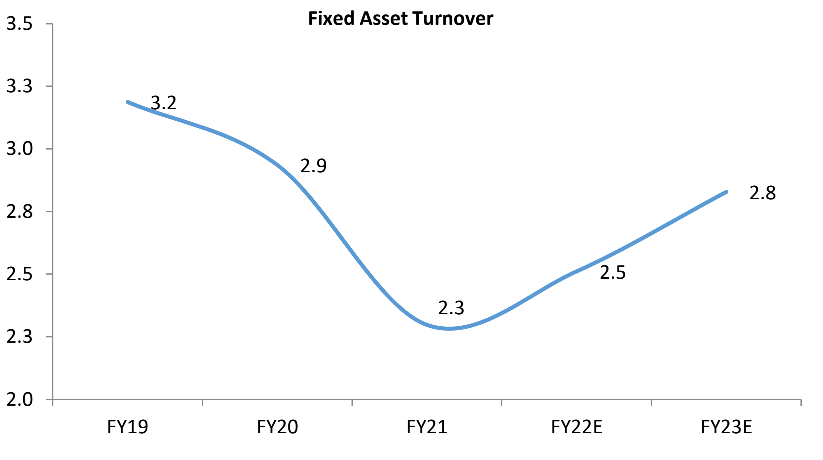
Source: Company & Arihant Capital Research

Improving Return Ratios



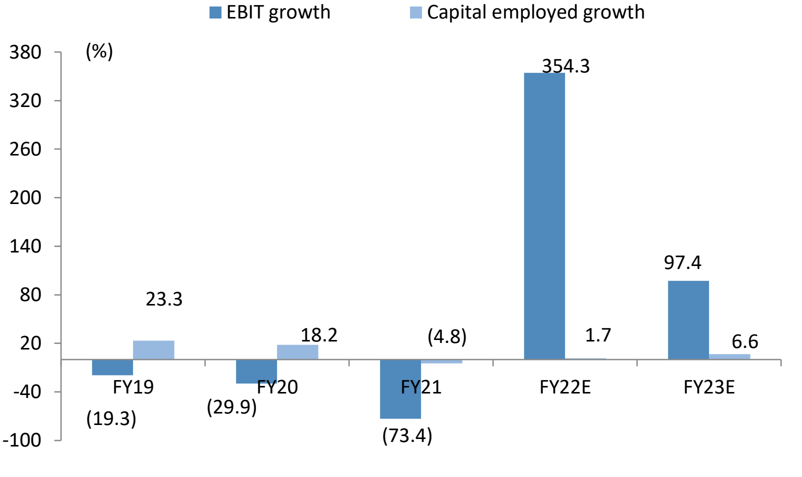
Source: Company & Arihant Capital Research

With rising outsourcing, fixed asset turnover to improve



Source: Company & Arihant Capital Research

EBIT Growth will be ¬200% vs Capital Employed Growth 4.1% over FY21-FY23E



Source: Company & Arihant Capital Research

Working capital intensity remains inherently low

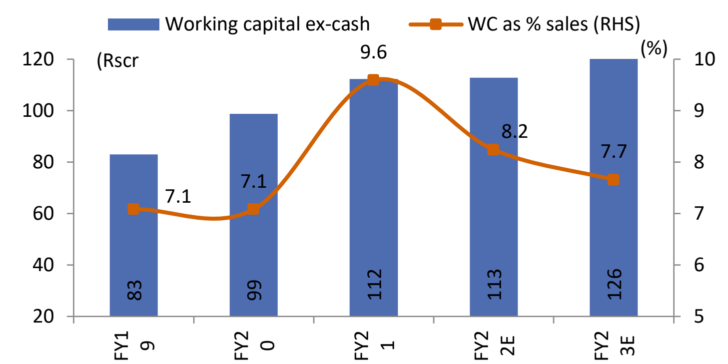
The inherent working capital intensity of the business continues to remain low at 7.1% in FY20. The inventory days are low due to the perishable nature of raw material and fast-moving finished goods. Strong market position allows the group to enjoy favorable terms with the distributors which are settled within a short duration of ~9 days. PSL also received credit of ~25 days from its suppliers.

Although, PSL is in the snack business which is a high quality cash generating business as it operates in a cash and carry format. The cash conversion cycle stands at 12days in FY19 which eventually increased to 23days in FY21. The major reason for this attributes to higher inventory days to convert into sales. Due to covid situation during FY21, the inventory days were shot at 56days which resulted into increase in ex-cash working capital as a % of sales to 9.6%.

Why the company was unable to convert inventory into sales?
Around 18-20% of total revenue comes from institutional sales which includes, bus depots, railways, schools, colleges, coaching centres, etc. Due to lockdown, and with restrictions in mobility, coupled with increasing consumption of <INR10 packet (INR5 packet forms 80-85% of total revenue), PSL witnessed heat in terms of converting inventory into sales. However, with vaccination drive and improving mobility, we expect cash conversion cycle to improve to 20days/19days in FY22E FY23E, respectively.

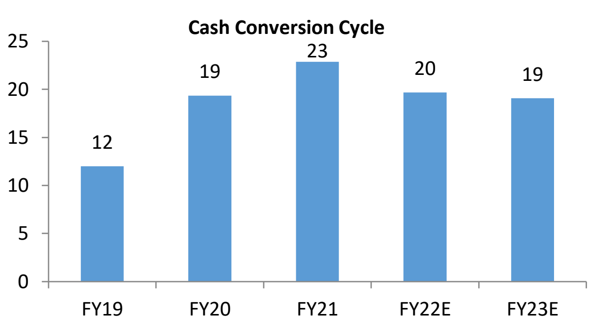
In the wake of increasing ratio of outsourcing model from current 24% to 30% in next 3 years and improving inventory days before selling it, we expect ex-cash working capital needs to reduce from 9.6% in FY21 to 8.2%/7.7% in FY22E/FY23E, respectively.

Improving Working Capital as a % of Sales

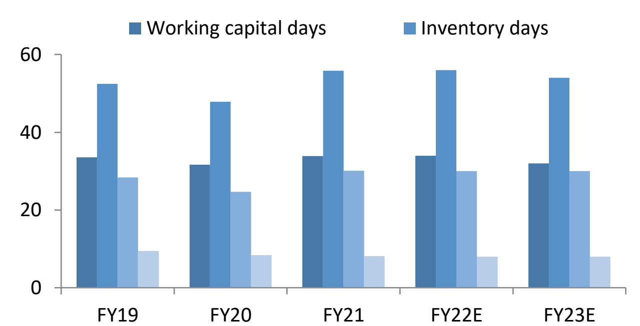


Source: Company & Arihant Capital Research

Cash Conversion Cycle to improve



Improving Working Capital efficiency



Source: Company & Arihant Capital Research

Snack Industry in India; promising and booming segment

Consumers always prefer healthier and flavorful options in the food market. Besides, snacks are more popular with the younger generation, and India has one of the world's highest numbers of the younger population. There is a rise in demand for snacks in India; it is driving the companies to grow and operate in this segment lucratively. As per industry sources, the snack market stands at INR55,000cr as on CY2020, of which organized is INR22-24,000cr and balance is unorganized. And the segments potato chips, extruded and namkeen each forms INR6,000-7,500cr and sweets is ¬INR3,000cr worth of market. As per industry sources, snacks market size is expected to grow CAGR of 13.24% from 2020 to 2026 and is expected to reach US$ 23.36bn by 2026.

The packed snacks such as instant and ready-to-cook snacking food items act as the primary growth drivers for the snacks industry in India. The consumption of package snacks is growing in India due to hygienic factors, easy availability, numerous choices, and a rise in the citizens' personal disposable income.

Millennial and Gen-Zs population are considered a big market by FMCG companies for its snacks segment. Since Millennial and Gen-Zs population are more inclined towards the junk food. However, this trend is also changing slowly with the introduction of organic nutrient snacks in the Indian market. These snacks are considered a bit healthier compared to regular snacks because of qualities like low calorie and constituting less oil; thus, huge Indian masses prefer them. The market of snack food in India is valued to US$ 11.08 bn in 2020.

Products such as Extruded Snacks, Chips, Namkeen are famous among different consumer’s base, age group, and monthly income. India has different types of traditions, culture and food; that’s why snacks tastes differ from region to region in India. For example, in western India, states like Gujarat & Maharashtra, snacks like Fafda, khakhra, Dhokla, Bhelpuri are popular. Similarly, banana chips are being loved in Southern India. In the middle and northern India, potato chips are popular.

Among many lifestyle changes, the COVID-19 induced lockdown also influenced snacking habits in India. As consumers were confined to homes and were anxious, so the ready-to-eat savouries became their instant companions, offering gratification as well as a sense of contentment to them. When most economic sectors were adversely hit, the lifestyle changes positively impacted the snacks market in India.

Brands like Prataap Snacks, Balaji Wafers, ITC-Bingo, DFM Foods, Bikanervala, Haldirams and PepsiCo in India are the key players in the India Snacks Market. Further, they are continuously capitalizing on the opportunity through their product offerings, bringing the goodness of healthy food items to Indian consumers in different formats suited to the lifestyle of the Indians as per their choice. Moreover, in India, many unorganised players working into the markets play a major role in the snacks market's growth.

Company Background

Prataap Snacks Ltd. (PSL) is a leading Indian Snack Foods Company. It offers multiple variants of products across categories of Potato Chips, Extruded Snacks, Namkeen (traditional Indian snacks) under the popular and vibrant Yellow Diamond brand. It has recently launched a range of sweet snacks under the distinctive Rich Feast brand. PSL is focused on offering deep value to consumers through a variety of pack sizes at attractive price points. Its products are present across 30 States and Union Territories in India.

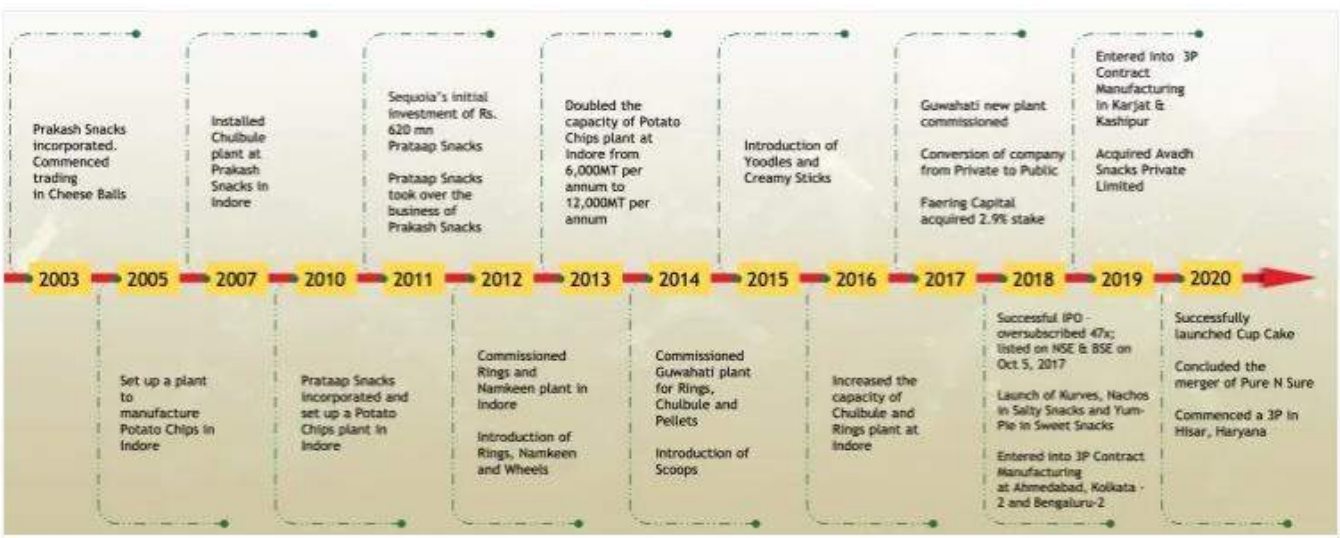
Headquartered in Indore, India; PSL operates 14 manufacturing facilities of which 6 facilities are in-house and 8 are on contract manufacturing basis. Its distribution network includes more than 240 super stockists and more than 4,300 distributors allowing it extensive reach across the country.

PSL has a wide presence that is equally spread in metro cities and urban clusters as well as in rural areas and Tier 2 and 3 cities and towns. Its products are available at independent grocers and small retail stores in the lanes and by-lanes of its key markets and it is now building up its presence in supermarkets, hypermarkets and modern trade outlets.

PSL continued to launch new products, new flavours and innovation in the market for its target consumers. Having started with potato chips, the Company today has a diversified product portfolio into various categories. It has more than 100 SKUs at strategic price points and pack sizes - starting from INR5 till INR100. Currently, it sells more than 11mn packets per day spread over 100 SKUs, which reflects its vibrant product offerings.

The wide product portfolio of Avadh Snacks is complementary to PSLs existing salty snack portfolio. Hence, the acquisition of Avadh Snacks has facilitated the Company in providing a varied mix of regional and national flavours and variants. Further, on the opportunity dynamics front, Gujarat has one of the highest per capita consumption of packaged snacks. All the products of Avadh Snacks are marketed under the brand Avadh.

Prataap Snacks Timeline



Source: Company & Arihant Capital Research

Sequoia Capital investments in PSL

Sequoia Captial an American venture capital firm. It has backed companies that now control $1.4 trillion of combined stock market value. Sequoia Capital has invested in over 250 companies since 1972, including Apple, Google, Oracle, PayPal, Stripe, YouTube, Instagram, Yahoo! and WhatsApp.

Sequoia Capital has made following investments in the company over the years:

❑In 2011 Sequoia Capital made investment aggregating to INR62 cr in the company.
❑In 2012 Sequoia Capital made additional investment of INR12 cr in the company.
❑In 2013 Sequoia Capital made further investment of INR30 cr in the company in 2013.
❑In 2014 Sequoia Capital made additional investment of INR25 cr in the company.
❑Thus at present Sequoia Capital holds around 48%+ stake in the company.

<u>Prataap Snacks + Avadh Product Portfolio</u>

Source: Company & Arihant Capital Research

Key Risks
❑ Rising Competitive Intensity
❑ Management's inability to respond to chnage in market dynamics with respect to new product introduction/expansion in new markets
❑ Failure of launch of new products
❑ Exit of key managerial personnel, lack of focus
❑ Rising cost of input cost
❑ Inability to optimize the distribution channel
❑ Limited brand recognition in new markets
❑ Geographical Concentration
❑ Limited scope of raising the prices as +95% of revenue comes from INR5 and INR10
❑ A Covid 19 third wave can impose a lockdown and reduce mobility which can impact the earnings of the company

Income Statement

Y/E March (INR cr)	FY19	FY20	FY21	FY22E	FY23E
Revenues	**1,171**	**1,394**	**1,171**	**1,370**	**1,644**
Change (%)	14.9	19.1	(16.0)	17.0	20.0
Cost of Goods Sold	820	995	843	980	1,167
% Sales	70.1	71.4	72.0	71.5	71.0
Employee costs	42	58	53	63	70
Other expenses	225	248	212	232	270
EBITDA	**83**	**94**	**63**	**96**	**137**
EBITDA (%)	*7.1*	*6.7*	*5.4*	*7.0*	*8.4*
Other Income	11	9	9	10	12
Depreciation	38	62	55	57	61
Interest	1	7	6	5	4
Exceptional Item	0	0	0	0	0
PBT	**56**	**34**	**11**	**44**	**84**
Tax	11	(13)	(3)	9	17
Rate (%)	*19.8*	*(39.3)*	*(27.9)*	*20.0*	*20.0*
PAT	**45**	**47**	**14**	**35**	**67**
PAT (%)	*3.8*	*3.4*	*1.2*	*2.6*	*4.1*
EPS (INR)	*19.0*	*20.0*	*6.0*	*14.9*	*28.7*

Balance Sheet

Y/E March (INR cr)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	12	12	12	12	12
Reserves & Surplus	550	596	611	644	708
Net Worth	**561**	**608**	**623**	**655**	**720**
Other Equity	0	0	0	0	0
Total Debt	92	165	113	93	78
Other non-current liab.	0	0	0	0	0
Deferred Tax liab. (net)	61	41	34	34	34
Total Liabilities	**714**	**814**	**771**	**783**	**832**
Application of Funds					
Net Block	287	359	339	318	293
Capital Work in Progress	7	20	21	21	22
Other intangible assets	193	182	173	173	173
Investments	0	0	0	0	0
Inventories	119	132	131	152	175
Sundry Debtors	31	33	27	30	37
Loans & Advances	17	19	19	19	19
Other Financial Assets	2	5	34	19	23
Sundry creditors	(86)	(87)	(93)	(106)	(126)
Other Current liab & prov	(24)	(19)	(22)	(21)	(25)
Cash & Cash equivalents	82	54	30	55	105
Miscellaneous exp	0	0	0	0	0
Total Assets	**714**	**814**	**771**	**783**	**832**

Key Ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Per share (INR)					
Cash EPS	35.1	46.3	29.3	39.4	54.8
BVPS	239.4	259.2	265.7	279.4	307.0
Valuation (x)					
P/E	36.6	34.8	115.4	46.6	24.2
P/BV	2.9	2.7	2.6	2.5	2.3
EV/EBITDA	19.8	18.6	27.2	17.4	11.7
Profitability Ratios (%)					
Gross Margin	29.9	28.6	28.0	28.5	29.0
EBIDTA Margin	7.1	6.7	5.4	7.0	8.4
PAT Margin	3.8	3.4	1.2	2.6	4.1
ROCE	7.7	8.0	2.9	5.2	9.1
ROE	8.3	8.0	2.3	5.5	9.8
RoIC	7.8	6.4	1.4	4.2	8.4
Leverage Ratio (%)					
Net debt/Op profit	0.1	1.2	1.3	0.4	(0.2)
Net D/E	0.0	0.2	0.1	0.1	(0.0)
Turnover Ratios					
Inventory Days	52.4	47.9	55.8	56.0	54.0
Debtor Days	9.5	8.4	8.2	8.0	8.0
Creditor days	28.4	24.2	30.1	30.0	30.0

Source: Company and Arihant Capital Research

Cash Flow Statement

Y/E March (INR cr)	FY19	FY20	FY21	FY22E	FY23E
PBT	**56**	**34**	**11**	**44**	**84**
Depreciation	38	62	55	57	61
Tax Paid	(11)	13	3	(9)	(17)
Working Capital ▲	(66)	(13)	16	(16)	(9)
Other Operating items	(46)	0	0	0	0
Operating Cash Flow	**(30)**	**95**	**84**	**77**	**119**
Capital Expenditure	(65)	(146)	(36)	(36)	(37)
Free Cash Flow	**(96)**	**(51)**	**48**	**41**	**82**
Equity change	0	3	4	0	0
Investments	0	0	0	0	0
Others	(182)	(30)	(14)	7	(15)
Debt financing/disposal	82	73	(52)	(20)	(15)
Dividend paid	(3)	(3)	(3)	(3)	(3)
Equity Buy back	0	0	0	0	0
Capital subsidy	0	0	0	0	0
Other items	66	(20)	(7)	0	0
Net ▲ Cash	**(132)**	**(28)**	**(24)**	**25**	**49**
Opening Cash Flow	**214**	**82**	**54**	**30**	**55**
Closing Cash Flow	**82**	**54**	**30**	**55**	**105**

Source: Company and Arihant Capital Research

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

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

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	research@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