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Prataap Snacks Limited

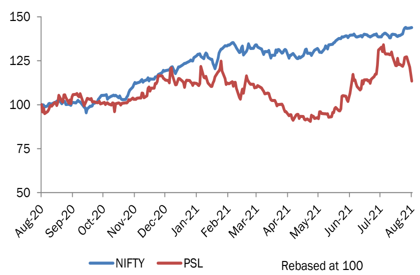
16 August 2021

Low visibility arising from a difficult near-term operating environment

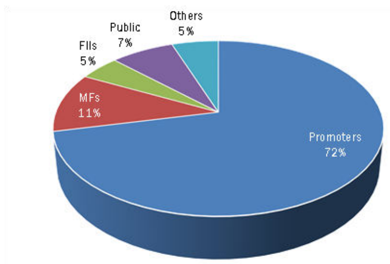
HOLD

Sector	: FMCG – Food
Target Price	: Rs 725
Last Closing Price	: Rs 693
Market Cap	: Rs 1,624 crore
52-week High/Low	: Rs 827/522
Daily Avg Vol (12M)	: 35,056
Face Value	: Rs 5
Beta	: 0.67
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 540724
NSE Scrip Code	: DIAMONDYD
Bloomberg Code	: DIAMOND IN
Reuters Code	: PRAT.NS
Nifty	: 16,529
BSE Sensex	: 55,437
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



1Q FY22 Update

Outlook & Valuation

Prataap Snacks Limited (PSL) is contending with significant pressures on two fronts – the failure of the topline to recover to pre-covid levels with the company reporting y-o-y declines over each of the last five quarters (compared to pre-covid numbers), and margin stress exacerbated by unprecedented inflation in palm oil prices, leading to inconsistent profitability performance. With a large part of PSL's sales originating in catchment areas around schools and colleges, and the travel segment, as educational institutions stay shut and travel activities remain sluggish, strong growth revival looks still some distance away. Notwithstanding the fresh lockdown measures and restrictions imposed across states during 1Q FY22 in the wake of covid 2.0, the company's performance reflects strong headwinds with limited visibility of their abatement. PSL has undertaken a number of initiatives, which are ongoing, including the compression of the distribution structure to increase direct reach to distributors, setting up a distributed manufacturing model comprising regional hubs across the country, tele-calling support to distributors to deepen their distribution reach, and discontinuation of some low-margin products that were hurting overall profitability. That said, visibility regarding sales revival, return to average profitability levels and consistency in operating performance is obscured at the moment. Based on the continued modest performance in a tough operating environment and uncertainty surrounding the horizon for revival, we revise our profitability expectations downwards in the absence of visible drivers for recovery in the near term. The PSL stock has appreciated by 16% since we initiated coverage on 22 October 2020. Based on an unchanged P/E multiple of 32.0x, we revise our price target down to Rs 725 with an upside of 5%, leading to a HOLD rating. We shall continue to monitor key data-points to update our outlook and rating as and when the operating environment for the company changes.

Key Financial Metrics (Consolidated)

Rs crore	FY19A	FY20A	FY21A	FY22E	FY23E
Operating revenue	1,170.6	1,393.8	1,171.1	1,316.2	1,561.1
Growth		*19.1%*	*-16.0%*	*12.4%*	*18.6%*
EBITDA	83.2	93.7	63.1	67.8	104.6
EBITDA margin	*7.1%*	*6.7%*	*5.4%*	*5.1%*	*6.7%*
PAT	44.6	46.9	14.2	15.8	53.1
PAT margin	*3.8%*	*3.4%*	*1.2%*	*1.2%*	*3.4%*
Diluted EPS (Rs)	19.03	20.01	6.04	6.74	22.65

Source: Company data; Khambatta Research

Result Analysis

Although PSL's 1Q FY22 performance displays strong y-o-y growth, sales came in at sub-1Q FY20 levels. While the topline performance was significantly improved from 1Q FY21 in spite of the covid second wave and consequent lockdowns of varying degrees across the country, the q-o-q decline in sales, which was off pre-covid levels by a substantial degree, does not offer much confidence. Added to the absence of recovery to pre-covid levels was the sharp decline in margins, which led to the company reporting a loss at the PAT level. Profitability further worsened from 4Q FY21 owing to continued high raw material (primarily palm oil) prices.

Financial Performance (Consolidated)

Rs crore	1Q FY21	4Q FY21	1Q FY22	Y-o-y	Q-o-q
Operating revenue	195.7	309.5	279.6	42.9%	-9.7%
EBITDA	8.2	13.9	11.1	34.5%	-20.4%
EBITDA margin	*4.2%*	*4.5%*	*4.0%*	*-25 bps*	*-54 bps*
PAT	(6.0)	7.1	(1.6)	73.3%	-122.3%
PAT margin	*-3.0%*	*2.3%*	*-0.6%*	*248 bps*	*-287 bps*
EPS (Rs)	(2.54)	3.04	(0.68)	73.2%	-122.4%

Source: Company data; Khambatta Research

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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