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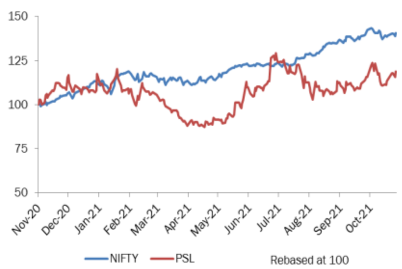
Prataap Snacks Limited

16 November 2021

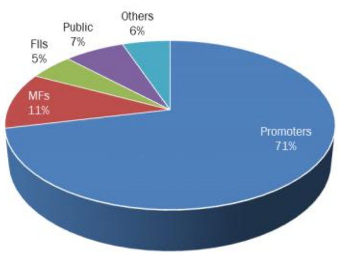
Tele calling initiatives and distribution expansion to drive growth — BUY

Sector	: FMCG - Food
Target Price	: ₹ 848
Current Market Price	: ₹ 737
Market Cap	: ₹ 1,740 crores
52-week High/Low	: ₹ 826.5/484.6
Daily Avg Vol (12M)	: 39,693
Face Value	: ₹ 5
Beta	: 0.65
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 540724
NSE Scrip Code	: DIAMONDYD
Bloomberg Code	: DIAMOND IN
Reuters Code	: PRAT.NS
Nifty	: 18,109
BSE Sensex	: 60,719
Analyst	: Research Team

Price Performance



Shareholding Pattern



Q2FY22 – Result Update

Result Analysis

- Prataap Snacks Limited (PSL) reported good results for the quarter. The company has witnessed recovery across several product categories with sales volume surpassing pre–covid levels (except the Rings) led by momentum in the economic activities.
- The Operating revenue has witnessed 13% y-o-y growth from ₹ 326.7 crores to ₹ 370.6 crores.
- EBITDA grew marginally by 3.5% y-o-y at ₹ 24.2 crores for 2QFY22; however, the margins declined by 62 bps to 6.5% due to rise in input prices and transportation costs. Sequentially EBITDA grew by 118% and margins have improved by 256 bps. Higher Palm oil prices (up 34% y-o-y in 2QFY22) and escalation in other materials such as packaging films and corrugated boxes have impacted the margins.
- The Net Profit for the quarter jumped by 74% y-o-y to ₹ 14.7 crore. The Net profit margin registered a growth of ~140 bps and 453 bps on a y-o-y and q-o-q basis respectively to 4% for 2QFY22.

Outlook & Valuation

The steady recovery in the overall macro environment and rebound in consumption following lifting of major restrictions (covid) has led to a healthy revenue growth in the quarter. Better coverage of territories and higher volumes has been possible due to tele-calling initiatives (increased sales by 35-40%) and efficiency of distribution network. As per the Management, the Tele-calling activity has been implemented across 60,000 outlets and the target is to cover around 2 lakh outlets by March 22. The recent fire accident at Kolkata plant might impact the margins; however, the sales remain intact. The demand is expected to grow once the primary schools reopen. The Sweet snacks portfolio currently contributes 3-3.5% of the revenues which is expected to reach 8% in the next three years. The rise in palm oil prices (by 34% y-o-y) was negated by higher volume growth, direct distribution model and process reengineering.

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We roll forward our valuation to FY24E earnings and value the stock at 25X FY24E EPS at ₹ 848, informing a BUY rating with an upside potential of 15% from the current levels.

Key Financial Metrics (Consolidated)

₹ Crore	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating revenue	1,170.6	1,393.8	1,171.1	1,347.1	1,580.1	1,880.3
Growth		*19.1%*	*-16.0%*	*15.0%*	*17.3%*	*19.0%*
EBITDA	83.2	93.7	63.1	80.6	99.5	122.2
EBITDA margin	*7.1%*	*6.7%*	*5.4%*	*6.0%*	*6.3%*	*6.5%*
PAT	44.6	46.9	14.2	36.0	56.3	79.6
PAT margin	*3.8%*	*3.4%*	*1.2%*	*2.7%*	*3.6%*	*4.2%*
Diluted EPS (₹)	19.0	20.0	6.0	15.4	24.0	33.9

Source: Company data; Khambatta Research

Financial Performance (Consolidated)

₹ Crore	2QFY21	1QFY22	2QFY22	Y-o-Y	Q-o-Q
Operating revenue	326.7	279.6	370.6	13.4%	32.5%
EBITDA	23.3	11.1	24.2	3.5%	118.2%
EBITDA margin	*7.1%*	*4.0%*	*6.5%*	*-62 bps*	*256 bps*
PAT	8.4	(1.6)	14.7	74.1%	1024.1%
PAT margin	*2.6%*	*-0.6%*	*4.0%*	*138 bps*	*453 bps*
EPS (₹)	3.60	(0.68)	6.26	73.9%	1020.6%

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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