Prataap Snacks Limited

16 November 2021

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.
Prataap Snacks Limited

16 November 2021

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)

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

Source: Company data; Khambatta Research

Financial Performance (Consolidated)

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

Source: Company data; Khambatta Research

This space has been intentionally left blank
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).

Analyst Certification
I/We, Research Analysts and authors, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and Other Disclosures:
Khambatta Securities Limited (Khambatta Securities) is a full-service, integrated merchant banking and is, inter alia, engaged in the business of stock broking and distribution of financial products.

Khambatta Securities is one of the merchant bankers. We and our associates might have investment banking and other business relationship with companies covered by our Investment Research Department. Khambatta Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by Khambatta Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Khambatta Securities. While we would endeavor to update the information herein on a reasonable basis, Khambatta Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Khambatta Securities from doing so.

This report is based on information obtained from public domain and is believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Khambatta Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Khambatta Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

Khambatta Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of investment banking or merchant banking, brokerage services or other advisory services.

Khambatta Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Khambatta Securities or its analysts do not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Khambatta Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.
It is confirmed that Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research Analysts engaged in preparation of this Report (a) may or may not have any financial interests in the subject company or companies mentioned in this report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any other material conflict of interest at the time of publication of the research report.

It is confirmed that Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

Neither the Research Analysts nor Khambatta Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Khambatta Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report has been prepared by Khambatta Securities. Khambatta Securities has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.