

Quarterly Update Q4FY20 Prataap Snacks Ltd

Loses a bit of crunch, still a worthy bite

Prataap Snacks Ltd (PSL) results were impacted by 10 days lockdown in the month of March owing to Covid-19 pandemic. PSL reported 2.5% YoY growth in revenue in Q4FY20, below our estimates, mainly due to slower growth in standalone revenue (up 3.4% YoY). Though on a full year basis, PSL reported sales growth of 19% YoY in FY20, benefitted by Avadh acquisition and robust performance from Rings portfolio (40% of overall sales). PSL has been facing challenges on the margin front, owing to sharp rise in Palm oil prices (up by 33% y-o-y), which is a key raw material for savoury products. With increase in Avadh snacks capacity (+50%), start of new line of sweet snacks, rising share of contract manufacturing revenue (11% in FY19 to 18% in FY20), we believe PSL is poised to report healthy double-digit growth rate in FY22E. We maintain our 'Buy' rating.

PSL revenue growth to return to healthy double digit rate by FY22E

PSL revenue grew by 2.5% YoY to INR 314cr in Q4FY20 impacted by lower growth from its standalone revenues (up 3.4% y-o-y) and de-growth in subsidiary business (Avadh snacks) by 3.7% y-o-y. On a full year basis, PSL revenue grew by 19% y-o-y to INR 1,394cr. We expect PSL revenues to witness a much slower growth of 3.9% in FY21E impacted by lockdown effect resulting in lower capacity utilization throughout Q1FY21E and even beyond. However, we expect PSL to report strong FY22E revenue growth of 18% led by increase in Avadh snacks capacity, start of new line of sweet snacks and rising share of contract manufacturing revenue.

Consolidated margins impacted with inflation in raw material prices and higher employee costs

PSL gross margin came in at 26.6% contracted by 240bps YoY, majorly due to contraction in subsidiary's gross margin (contracted by 430bps YoY) and standalone gross margin contracted by 40bps YoY. The contraction in gross margin was due to elevated palm oil prices (up 33% y-o-y). EBITDA margins contracted by 290bps YoY and this was mainly due to the sharp increase in the employee expenses (up 33% YoY on the back of salary revision), in line with the employee expenses in the last three quarters. However, the company managed to partially offset decline in EBITDA margins, as its overhead expenses declined by 60 bps on a y-o-y basis. Going ahead, we believe the company would be able to enhance its operating margins to 7%+ by FY22E driven by favourable change in product-mix due to rising share of high margin sweet snacks product, reduction in freight cost due to sourcing of product near to end consumers, gradual change in distribution structure from 3-tier (super stockist-distributor-retailer) to 2-tier (distributor-retailer), which would result in savings of margin provided to super-stockists and implementing cost optimization initiatives like reducing packaging dimensions.

RoCE to improve from 4.8% in FY20 to 11-12%+ over the next five years

PSL has a strong balance sheet with net cash of ~INR 54cr as on March-2020. Despite liquidity issues at the wholesaler level and disruption in supply chain on account of Covid-19 lockdown in March, company has managed to maintain its operating cycle at similar levels in FY20 at 19 days. PSL consolidated RoCE fell from 8% in FY19 to 4.8% in FY20 due to contraction in consolidated EBIT margin (2.3% in FY20 vs 4.0% in FY19) with change in accounting, increase in employee expenses and underutilization of new sweet snacks facility (generated revenue of around INR 36 crore in FY20 vs capex cost of around INR 48 crore). PSL RoCE is expected to gradually improve from 4.8% in FY20 to 11%+ over the next five years on completion of its capex cycle (would only incur maintenance capex over medium term), improvement in operating margins, further increase in share of contract manufacturing revenue, better sweating of sweet snacks facility (annualized revenue to go up from INR 36 crore in FY20 to around INR 50 crore in FY21E and higher contribution from high margin Avadh business).

Valuation & outlook: Positive outlook; Maintain 'BUY' rating

We expect PSL to report slower growth of 4% in FY21E as company's capacity utilization has been much lower in Q1FY20 impacted by lockdown, operated at 25% and 50% capacity on an overall basis in the months of April and May-2020, respectively. However, we expect PSL to bounce back in FY22E with 18% topline growth driven by increase in Avadh snacks capacity (+50%), start of new line of sweet snacks, rising share of contract manufacturing revenue (11% in FY19 to 18% in FY20) and increasing focus on deeper penetration strategy across the country. The elevated RM prices, mainly palm oil prices, witnessed sharp inflation (up ~33% y-o-y) impacted gross margin. However, palm oil prices have cooled off from the peak of Rs.92/kg to Rs.79/kg, which should support margins in the near term. We maintain our 'BUY' rating on the stock as we believe PSL is one of the best plays to ride the high growth snacks category in India, given huge opportunity size, strong execution track record and high quality of earnings. We have downward revised our earnings estimates by 50/32% for FY21/FY22, respectively, to account for the slowdown. The company is currently trading at 45/27x FY21/FY22E earnings, respectively. We maintain our BUY rating with a revised target price of INR 801 per share.

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CMP INR: 593

Rating: BUY

Target Price INR 801

Upside: 35%

Bloomberg:	DIAMOND:IN
52-week range (INR):	435 / 989
Share in issue (cr):	2.3
M cap (INR cr):	1,401
Avg. Daily Vol. BSE/NSE (':000):	2/101
Promoter Holding (%)	71.44

Year to March	Q4FY20	Q4FY19	% chg	Q3FY20	% chg	FY20	FY21E	FY22E
Revenues (INR cr)	314	307	2.5	361	-12.9	1,394	1,448	1,709
Rev growth (%)						19.1	3.9	18.0
EBITDA (INR cr)	14	22	-38.4	22	-36.3	94	96	122
EBITDA Margin (%)	4.4	7.3		6.0		6.7	6.6	7.2
Net Profit (INR cr)	20	14	44.4	5	261.1	47	32	52
Net Profit Margin (%)	6.3	4.5		1.5		3.4	2.2	3.1
EPS (INR)						20.0	13.5	22.3
EPS Growth (%)						5.1	-32.8	65.4
P/E (x)						30.0	44.6	27.0
EV/EBITDA (x)						14.5	12.8	9.5
RoACE (%)						4.8	4.6	7.4

Date: 19th June, 2020

Prataap Snacks Ltd

Q4FY20 Result Highlights

Particulars (INR cr)	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY19	% change
Net Revenues	314	307	2.5	361	-12.9	1394	1171	19.1
Cost of goods sold	231	218	5.9	259	-10.9	995	879	13.1
Gross Profit	84	89	-5.9	102	-17.8	399	291	37.0
Employee expenses	14	11	33.5	16	-7.8	58	42	38.9
Other expenses	55	56	-0.6	65	-14.1	248	165	49.8
Total operating expenses	70	67	4.9	80	-12.9	305	207	47.6
EBITDA	14	22	-38.4	22	-36.3	94	84	11.0
EBITDA margin	4.4	7.3	-290	6.0	-161	6.7	7.2	-49
Depreciation and amortization	15	11	39.5	15	0.8	62	38	64.0
EBIT	-2	11		6		32	47	-31.7
Interest expenses	2	1	198.0	2	-11.9	7	1	769.8
Other income	2	2	28.7	3	-11.9	9	11	-15.8
PBT	-1	12		7		34	56	-39.5
Provision for tax	-21	-1		2		-13	11	
Core profit	20	14	44.4	5	261.1	47	45	5.1
As % of net revenues								
COGS	73.4	71.0		71.8		71.4	75.1	
Operating expenses	22.2	21.7		22.2		21.9	17.7	
EBITDA	4.4	7.3		6.0		6.7	7.2	
Reported net profit	6.3	4.5		1.5		3.4	3.8	
Tax rate (%)	-2161.5	-9.8		22.5		-39.3	19.8	

Change in Estimates

(INR cr)	FY21E			FY22E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	1,718	1,448	-15.7	2,024	1,709	-15.6
Other income	14	14		18	20	
Total Income	1,732	1,462		2,042	1,729	
EBITDA	143	96	-32.7	167	122	-27.0
EBITDA margin (%)	8.3	6.6		8.3	7.2	
PBT	81	38	-53.1	103	64	-38.2
PBT margin	4.7	2.6		5.0	3.7	
Net profit	64	32	-50.8	77	52	-32.4
Adj EPS (Rs)	27.4	13.5	-50.8	32.9	22.3	-32.4

Previous Result Outlook

In Q3FY20: PSL has reported as expected number, major deviation is in subsidiary due to higher RM costs. The elevated RM prices, mainly palm oil prices - which witnessed sharp inflation since Oct-2019 (up ~50%) impacted gross margin. PSL has also reduced chips contribution in quarter due to unavailability of potato mainly in central India (usually new crop of potato available by 15th Dec but this time due to heavy rain potato crop impacted), however, now situation has normalized. As per management, the unusual spike in plam oil will also cool off in the near term, which should restore their profitability going forward. We believe Prataap is one of the best plays to ride the high growth snacks category in India, given huge opportunity size, strong execution track record and high quality of earnings. At CMP, the stock is trading at 40x/30x on FY20/FY21 EPS estimates.

In Q2FY20: We maintain our 'BUY' rating on the stock as we believe PSL is one of the best plays to ride the high growth snacks category in India, given huge opportunity size, strong execution track record and high quality of earnings. With increase in Avadh snacks capacity (+50%), start of new line of sweet snacks, rising share of contract manufacturing revenue (11-12% in Q2FY19 to 16-17% in Q2FY20) and weak H2FY20 base effect, we believe PSL is poised to report healthy double-digit growth rate over the medium-term. At CMP, the stock is trading at 45.5x/34.8x on FY20/FY21 EPS estimates.

In Q1FY20: We have revised down our estimates to account for slower-than-anticipated ramp-up of sweet snacks, higher employee costs, higher capital charge due to IND-AS adj, and lower tax outgo. While earnings growth looks weak for FY20 (mainly due to IND AS adjustments), it is likely to substantially improve from FY21 onwards. We have revised down our target price to INR 1,050 per share (from 1,250 earlier) due to downward revision in earnings estimates. We have also changed our valuation methodology from DCF to P/E. Our TP is valued at 40x on FY21 EPS estimates. However, we maintain our 'BUY' rating on the stock as we believe PSL is one of the best plays to ride the high growth snacks category in India, given huge opportunity size, strong execution track record and high quality of earnings.

Q3FY20

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Q2FY20

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Q1FY20

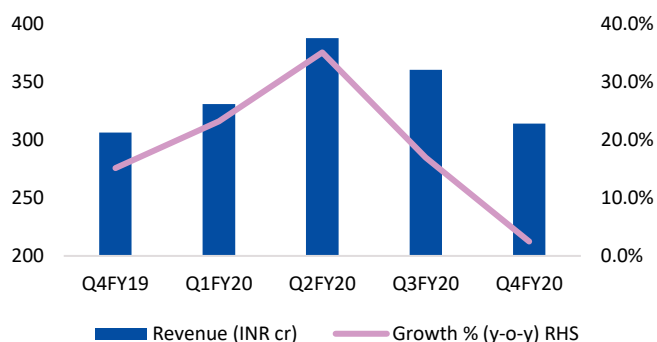
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Financials

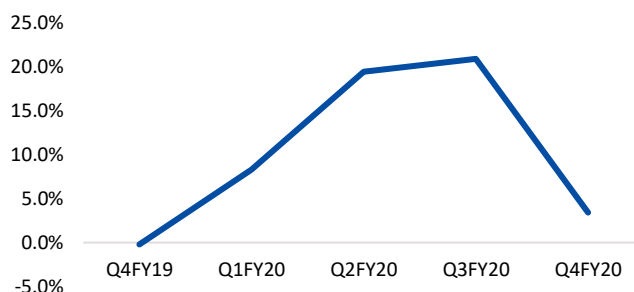
Financials in Charts

PSL consol revenue grew by 2.5% y-o-y in Q4FY20 due to...



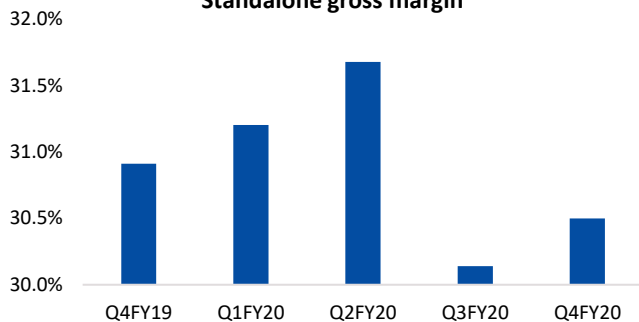
...slowdown in SA operations

Standalone revenue growth



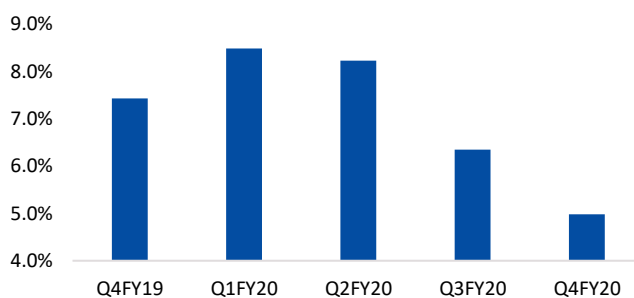
SA Gross margin contracted due to RM cost (increase in Palm oil price)

Standalone gross margin



SA EBITDA margin contracted with increase in RM cost and employee expenses

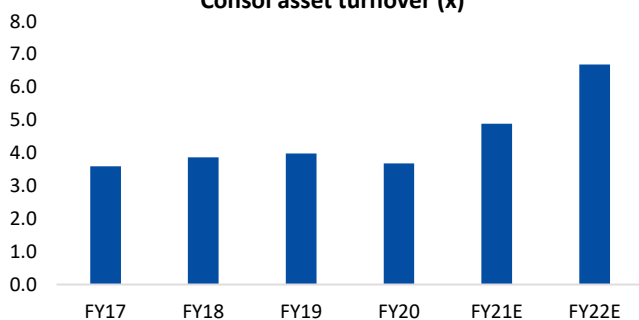
Standalone EBITDA margin



Source: Edelweiss Professional Investor Research

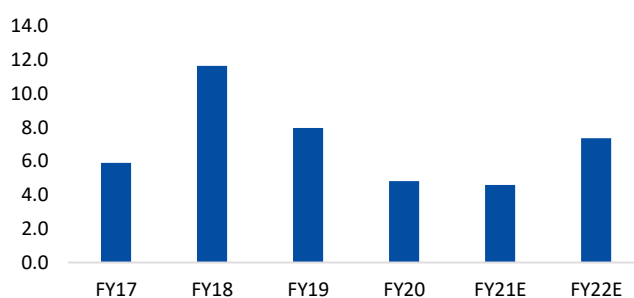
Continue improvement in fixed asset turnover

Consol asset turnover (x)



Long term RoCE to improve (%)

ROCE trend (%)



Source: Edelweiss Professional Investor Research

Prataap Snacks Ltd

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Income statement

(INR Cr)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Income from operations	1,029	1,171	1,394	1,448	1,709
Direct costs	735	879	995	1,072	1,265
Employee costs	37	42	58	72	80
Other expenses	214	207	248	208	242
Total operating expenses	949	1,086	1,300	1,352	1,587
EBITDA	80	84	94	96	122
Depreciation and amortisation	30	38	62	64	69
EBIT	49	47	32	32	53
Interest expenses	3	1	7	8	9
Other income	15	10	9	14	20
Profit before tax	62	56	34	38	64
Provision for tax	17	11	-13	6	11
Core profit	44	45	47	32	52
Extraordinary items	0	0	0	0	0
Profit after tax	44	45	47	32	52
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	44	45	47	32	52
Equity shares outstanding (mn)	2.3	2.3	2.3	2.3	2.3
EPS (INR) basic	18.8	19.0	20.0	13.5	22.3
Diluted shares (Cr)	2.3	2.3	2.3	2.3	2.3
EPS (INR) fully diluted	18.8	19.0	20.0	13.5	22.3
Dividend per share	0.0	1.0	2.0	2.0	4.5
Dividend payout (%)	0.0	5.0	10.0	15.0	20.0

Common size metrics- as % of net revenues

Year to March	FY18	FY19	FY20	FY21E	FY22E
Operating expenses	92.3	92.8	93.3	93.4	92.8
Depreciation	3.0	3.2	4.4	4.4	4.0
Interest expenditure	0.3	0.1	0.5	0.6	0.6
EBITDA margins	7.7	7.2	6.7	6.6	7.2
Net profit margins	4.3	3.8	3.4	2.2	3.1

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Revenues	15.1	13.8	19.1	3.9	18.0
EBITDA	87.1	6.0	11.0	2.4	27.5
PBT	315.0	(9.7)	(39.5)	12.8	67.5
Net profit	114.7	1.1	5.1	(32.8)	65.4
EPS	(81.9)	1.1	5.1	(32.8)	65.4

Prataap Snacks Ltd

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Balance sheet

(INR Cr)

As on 31st March	FY18	FY19	FY20	FY21E	FY22E
Equity share capital	12	12	12	12	12
Preference Share Capital	0	0	0	0	0
Reserves & surplus	508	550	596	622	662
Shareholders funds	520	561	608	634	673
Secured loans	7	18	3	3	4
Unsecured loans	0	69	69	69	69
Borrowings	7	86	72	72	72
Minority interest	0	0	0	0	0
Net Deferred tax	0	62	40	40	40
Sources of funds	527	710	720	746	786
Gross block	313	367	472	502	530
Depreciation	48	80	142	206	275
Net block	265	287	359	296	255
Capital work in progress	2	7	20	0	0
Intangible assets	4	239	229	229	229
Total fixed assets	271	533	607	525	484
Investments	0	0	0	0	0
Other non-current assets	26	34	71	71	71
Inventories	90	119	132	131	154
Sundry debtors	20	31	33	32	38
Cash and equivalents	214	82	54	179	252
Loans and advances	1	1	1	1	1
Other current assets	35	25	22	24	36
Total current assets	360	258	242	367	481
Sundry creditors and others	100	86	87	87	102
Provisions	3	3	63	78	86
Other liabilities	33	27	51	53	62
Total CL & provisions	136	115	201	218	251
Net current assets	225	143	41	149	230
Deferred tax assets	6	0	0	0	0
Misc expenditure					
Uses of funds	527	710	720	746	786
Book value per share (INR)	226	245	249	262	281

Cash flow statement

Year to March	FY18	FY19	FY20	FY21E	FY22E
Net profit	44	45	47	32	52
Add: Depreciation	30	38	62	64	69
Add: Deferred tax	2	-3	-22	0	0
Add: Others					
Gross cash flow	77	79	86	96	121
Less: Changes in W. C.	-11	-77	-15	-16	8
Operating cash flow	88	157	101	112	113
Less: Capex	40	26	117	15	20
Free cash flow	47	131	-16	97	93

Prataap Snacks Ltd

Financials

Ratios

Year to March	FY18	FY19	FY20	FY21E	FY22E
ROAE (%)	11.7	8.3	8.0	5.1	8.0
ROACE (%)	11.6	8.0	4.8	4.6	7.4
Debtors (days)	7	9	8	8	8
Inventory (days)	32	35	33	33	33
Payable (days)	35	25	22	22	22
Cash conversion cycle (days)	4	19	19	19	19
Current ratio	2.5	1.9	1.2	1.7	1.9
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Debt/EBITDA	0.1	0.2	0.0	0.0	0.0

Valuation parameters

Year to March	FY18	FY19	FY20	FY21E	FY22E
Diluted EPS (INR)	18.8	19.0	20.0	13.5	22.3
Y-o-Y growth (%)	NM	1.1	5.1	(32.8)	65.4
CEPS (INR)	31.8	35.1	46.3	40.8	51.6
Diluted P/E (x)	31.9	31.5	30.0	44.6	27.0
Price/BV(x)	2.7	2.5	2.3	2.2	2.1
EV/Sales (x)	1.2	1.1	1.0	0.9	0.7
EV/EBITDA (x)	15.1	15.9	14.5	12.8	9.5
Diluted shares O/S	2.3	2.3	2.3	2.3	2.3
Basic EPS	18.8	19.0	20.0	13.5	22.3
Basic PE (x)	31.9	31.5	30.0	44.6	27.0
Dividend yield (%)	0.0	0.2	0.2	0.3	0.7

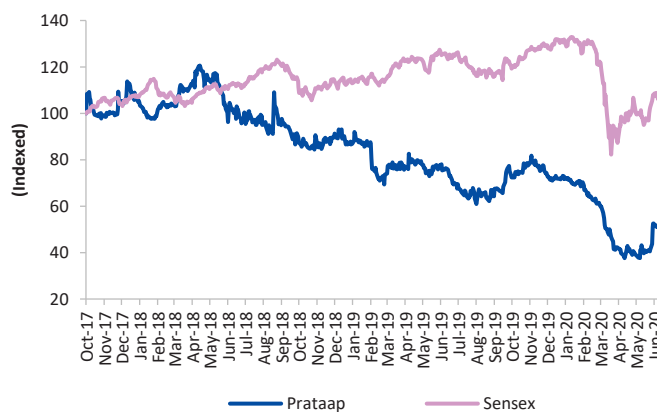
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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