

Prataap Snacks Limited

IPO Note

Prataap Snacks is one of the top snack food companies in India and with 27% revenue CAGR between FY13-FY17, it is also one of the fastest growing companies in its sector. It has three product lines i.e. Extruded Snacks, Chips and Namkeen and has brands such as Chulbule and Yellow Diamond. It has 3 manufacturing facilities, 218 distributors and 3,500 super stockists.

Fastest growing organized snacks player: Prataap Snacks has seen a strong revenue growth since inception and from FY13-FY17 its revenue grew at a CAGR of 27% vs. organized snack food industry growth of 14% (2010-16). This has been due to its strong distribution network and acquisition of Yellow Diamond brand which is doing well. With the focus on growth, company has gained 8% and 3% market share in organized extruded snacks and chips market respectively. Company is foraying in chocolate-based confectionary products which will benefit Prataap to report above industry growth rate going ahead.

Inconsistent profitability: With the focus on gaining the market share, its profitability has remained inconsistent. The gross margins (GM) during FY13-17 have been between 26-31% which is weak compared to its peer DFM Foods' which made GM of ~40% in FY17. With weak GM and higher depreciation, company's EBITDA margins have been consistently weak and have come down from 8% in FY13 to 4.5% in FY17. PAT margins have also shrunk to just 1% in FY17 from 4.3% in FY13 due to the potato crop related issues.

Weak return ratios: With the poor profitability, company has also seen poor set of return ratios. The highest of RoE in the last five years has been 12.6% in FY16 which declined to just 4.2% in FY17. This is weaker than its peer DFM Foods (20% in FY17). Its ROCE has also been lower than cost of capital during this period.

Valuations and outlook: At 202x of its FY17 earnings, the issue is richly valued at upper end of its price band i.e. `938. Ignoring its lower profitability in FY17 and valuating the issue on FY16 EPS still yields a high P/E of 73.0x. FMCG companies commanding such high P/Es have a very strong profitability and returns profile such as Britannia (which is not an exact peer due to size and product portfolio). Its peer in exactly same industry i.e. DFM Foods, also has good margins (10% in FY17) and handsome return profile (~20%). For Prataap to justify this high valuation, remarkable improvement in profitability is required which may come at the cost of lower growth. Considering this, we rate Prataap Snacks as Neutral.

Key Financials

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017
Net Sales	445.6	558.8	757.2	903.9
% chg	29.6	25.4	35.5	19.4
Net Profit	5.4	9.9	27.4	9.9
% chg	(63.8)	84.1	176.4	(63.9)
OPM (%)	4.5	6.1	7.5	4.5
EPS (Rs)	2.5	4.6	12.8	4.6
P/E (x)	371.8	202.0	73.1	202.2
P/BV (x)	11.3	10.5	9.2	8.4
RoE (%)	3.0	5.2	12.6	4.2
RoCE (%)	3.9	8.4	14.6	5.2
EV/Sales (x)	5.0	4.0	3.0	2.5
EV/EBITDA (x)	110.0	65.8	39.7	55.2

Source: Company, Angel Research

NEUTRAL

Issue Open: September 22, 2017

Issue Close: September 26, 2017

Issue Details

Face Value: `5

Present Eq. Paid up Capital: `10.7cr

Offer for Sale: 30lakh Shares (*`279-
**282cr)

Fresh issue: *`21.5 lakh -**21.3 lakh shares
(`200cr)

Post Eq. Paid up Capital: `11.7cr

Issue size (amount): *`479.5cr -**481.9 cr

Price Band: `930-938

Lot Size: 15 shares and in multiple thereafter

Post-issue implied mkt. cap: *`2,183cr -
**`2,200cr

Promoters holding Pre-Issue: 92.7%

Promoters holding Post-Issue: 71.4%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters Group	71.4
DII's/FII's/Public & Others	28.6

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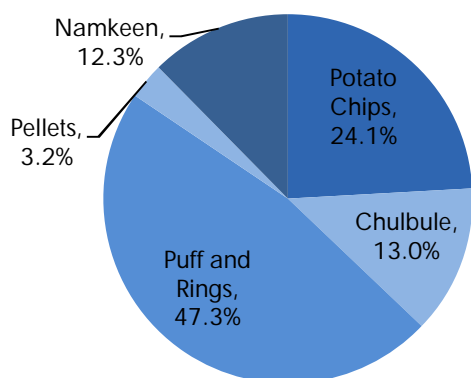
Company background

Prataap Snacks is one of the top six Indian snack food companies in terms of revenues in 2016, and features among the fastest growing companies in the Indian organized snack market between 2010 and 2016. Company has three product lines i.e. Extruded Snacks (potato or cereal based snacks) Chips (fried, sliced chips or crisps made from potatoes, hummus, lentils etc) and Namkeen (traditional savoury Indian snack such as moong dal, masala or fried nuts, sev and bhujia). Company operates brands such as Chulbule, Yellow Diamond, etc. Extruded snacks, Potato Chips and Namkeen represented 63%, 24%, and 12%, of its total revenue in FY17.

Company owns and operates 3 manufacturing facilities, one located at Indore, and two in Assam. The total capacity of these three facilities is 80,500 MTPA. It has also engaged in two facilities on contract manufacturing basis, located at Bengaluru, and at Kolkata. Its distribution network included 218 super stockists and over 3,500 distributors. Prataap is one of the leading players in the East Zone with a strong presence in the North and West Zones and it is also increasing penetration in the South Zone. Company has appointed Salman Khan, a popular Hindi movie actor, as its brand ambassador.

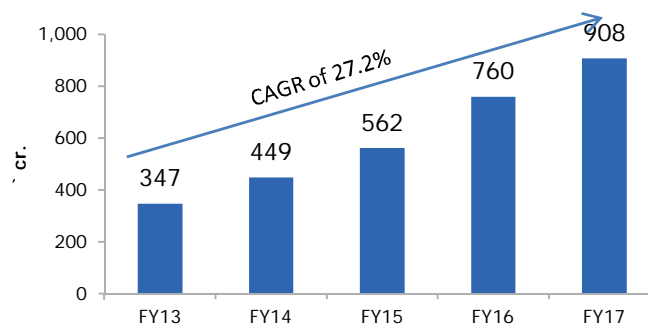
Its Potato Chips, Rings, Chulbule and Namkeen products currently generate revenues of over ₹100cr each. Company also has a subsidiary named Pure N Sure which intends to foray in chocolate-based confectionary snacks by setting up a manufacturing facility.

Exhibit 1: Revenue mix FY17



Source: Company, Angel Research

Exhibit 2: FY13-FY17 revenue CAGR at 27%



Source: Company, Angel Research

Issue details

The IPO consists of OFS (~`282cr) and a fresh issue (`200cr). Through this IPO, Sequoia Capital as well as some founders are selling some part of their shares from the company. Before the IPO, Sequoia Capital held majority i.e. ~62% stake in the company, this was bought by Sequoia in 2011. After the IPO, Sequoia Capital's stake would come down to 48.4%. The founders of the company hold the 31.1% stake in the company which will also come down to 23%. The company has raised `50cr before the IPO at the price of `938 per share.

Exhibit 3: Selling shareholders and pre and post IPO shareholding pattern

Shareholder	Percentage of pre-issue capital	Shares sold	Percentage of post- issue capital
Sequoia Capital	61.6%	1,780,810	48.4%
Rajesh Mehta	4.9%	361,920	2.9%
Naveen Mehta	4.9%	139,200	3.9%
Arvind Mehta	3.5%	183,740	2.4%
Arun Mehta	3.3%	139,200	2.4%
Kanta Mehta	1.4%	66,820	1.0%
Rita Mehta	1.5%	0	1.4%
Premlata Kumat	3.0%	77,950	2.4%
Swati Bapna	1.1%	22,270	0.9%
Apoorva Kumat	3.1%	116,930	2.3%
Amit Kumat	3.3%	116,930	2.5%
Sandhya Kumat	0.6%	0	0.6%
Rakhi Kumat	0.5%	0	0.5%
Public	7.3%		28.6%
Total shares	100.0%	3,005,770	100.0%

Source: Company, Angel Research, **Sequoia Capital** = Sequoia Capital GFIV Mauritius Investments + SCI Growth Investments II + Sequoia Capital India Growth Investment Holdings I

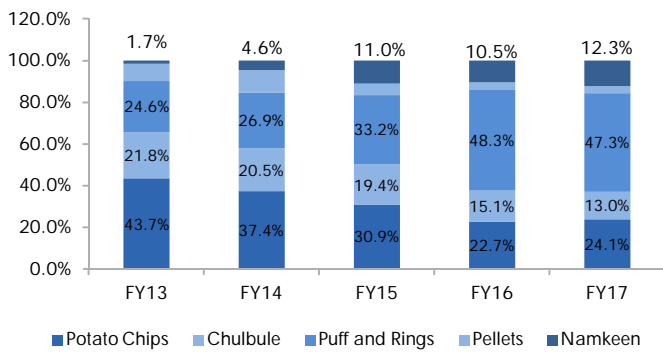
Objects of the offer

- Partial / full repayment/pre-payment, of certain borrowings
- Modernization of existing facilities and setting up of a new production line and construction of a building
- Investment in its subsidiary, Pure N Sure, towards enabling the repayment/pre-payment of certain borrowings
- Marketing and brand-building activities
- General corporate purposes

Investment Rationale

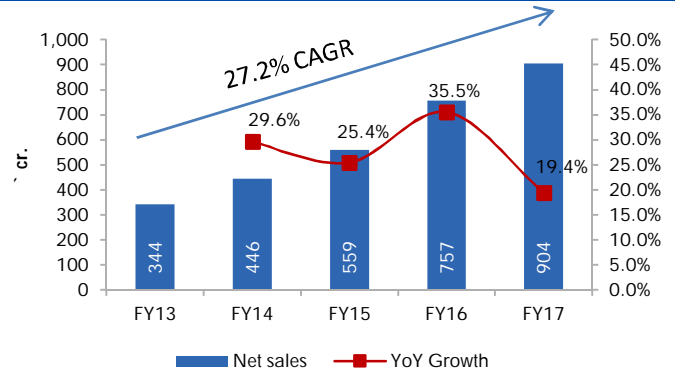
Fastest growing organized snacks player: Prataap Snacks has seen a strong revenue growth since inception and from FY13-FY17 its revenue grew at a CAGR of 27% vs. organized snack food industry growth of 14% (2010-16). This has been due to its strong distribution network and acquisition of Yellow Diamond brand which is doing well. With the focus on growth, company has gained 8% and 3% market share in organized extruded snacks and chips market respectively. Company is foraying in chocolate-based confectionary products which will benefit Prataap to report above industry growth rate going ahead.

Exhibit 4: Evolution of its business mix



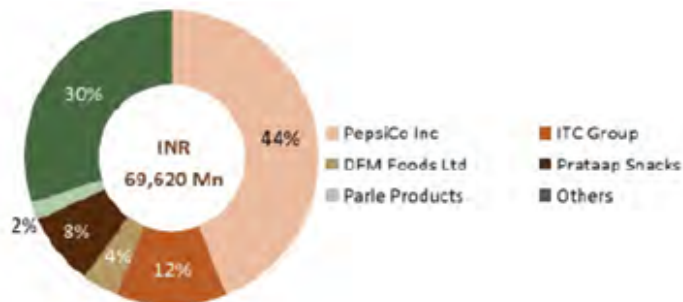
Source: DRHP, Angel Research

Exhibit 5: 27% CAGR in revenue between FY13-FY17



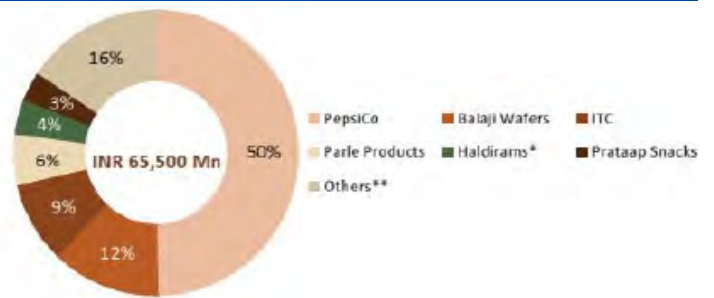
Source: DRHP, Angel Research

Exhibit 6: 8% market share in organized extruded snacks



Source: DRHP, Angel Research

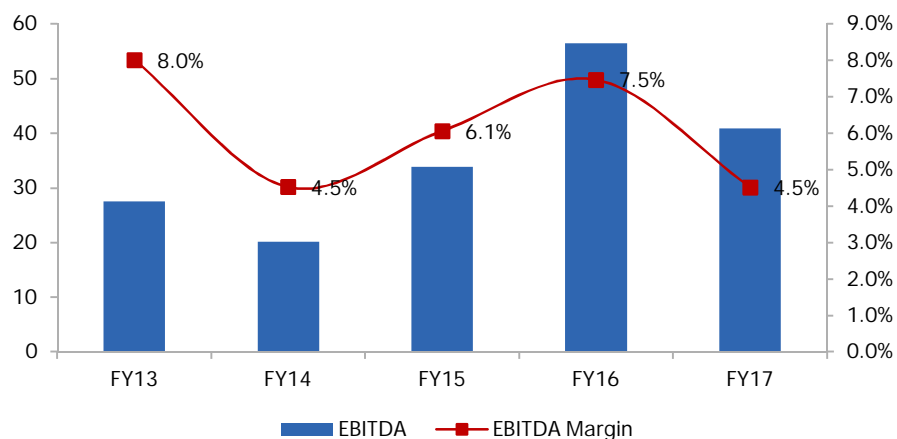
Exhibit 7: 3% in market share in organized chips



Source: DRHP, Angel Research

Inconsistent profitability: With the focus on gaining the market share, its profitability has remained inconsistent. The gross margins (GM) during FY13-17 have been between 26-31% which is weak compared to its peer DFM Foods' which made GM of ~40% in FY17. With weak GM and higher depreciation, company's EBITDA margins have been consistently weak and have come down from 8% in FY13 to 4.5% in FY17. PAT margins have also shrunk to just 1% in FY17 from 4.3% in FY13 due to the potato crop related issues.

Exhibit 8: Inconsistent EBITDA margins

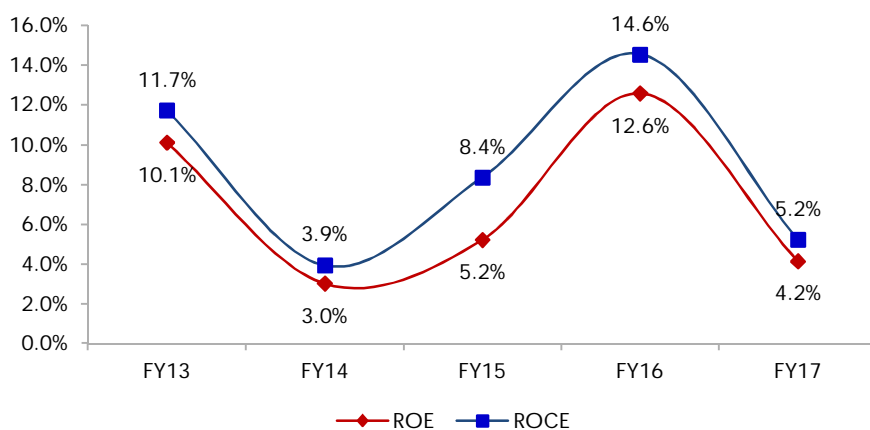


Source: DRHP, Angel Research

Weak return ratios: Due to the poor profitability, company has seen weak return ratios. The higher RoE that company has seen was 12.6% in FY16 which declined to just 4.2% in FY17 vs. DFM Foods’ RoE of ~20% in FY17.

Its ROCE has also been weak during FY13-FY17. The return on capital has been significantly less than cost of capital for the last five years in row, while cost of capital has been ~16-17%; the ROCE in the last five years has averaged at 8.8% indicating that the company is not generating enough returns.

Exhibit 9: Inconsistent return ratios and ROCE below cost of capital



Source: DRHP, Angel Research

Outlook and Valuation:

At 202x of its FY17 earnings, the issue is richly valued at upper end of its price band i.e. ₹938. Ignoring its lower profitability in FY17 and valuing the issue on FY16 EPS still yields a high P/E of 73.0x. FMCG companies commanding such high P/Es have a very strong profitability and returns profile such as Britannia (which is not an exact peer due to size and product portfolio). Its peer in exactly same industry i.e. DFM Foods, also has good margins (10% in FY17) and handsome return profile (~20%). For Prataap to justify this high valuation, remarkable improvement in profitability is required which may come at the cost of lower growth. Considering this, we rate Prataap Snacks as Neutral.

Exhibit 10: Valuation matrix

Parameter	DFM foods	Britannia Industries	Prataap Snacks
EBITDA margins	9.9%	14.1%	4.5%
RoE	19.6%	32.9%	4.2%
ROCE	14.9%	41.1%	5.2%
P/E	86	59	202
EV/EBITDA	43	41	50

Source: Capitaline, Angel Research, Comparison based on latest reported annual numbers

Upside risks

Faster growth in the sales: The company has grown as a CAGR of >30% between FY13-16 however in FY17, growth rate slowed to below 20% on yoy basis. With the funds raised through fresh issue in the IPO company intends to invest in the new manufacturing facilities to foray in the new range of products which may lead to increase in the growth rates and this can take the growth rate back to ~30% yoy.

Improvement in the margins: Prataap has seen an inconsistent profitability over the last five years which has also impacted its return ratios. Improvement in the profitability would improve its return ratios.

Income statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Total operating income	344	446	559	757	904
% chg		29.6	25.4	35.5	19.4
Total Expenditure	316	425	525	701	863
Raw Material Consumed	241	328	404	522	637
Personnel Expenses	5	9	14	19	25
Others Expenses	70	88	107	160	201
EBITDA	28	20	34	57	41
% chg					
(% of Net Sales)	8.0	4.5	6.1	7.5	4.5
Depreciation & Amortisation	7	12	15	18	25
EBIT	21	8	19	39	16
% chg					
(% of Net Sales)	6.0	1.9	3.3	5.1	1.8
Interest & other Charges	3	3	6	11	3
Recurring PBT	18	5	13	28	13
% chg					
Extraordinary Expense/(Inc.)	-	-	-	-	-
PBT (reported)	18	5	13	28	13
Tax	3	(0)	3	0	3
(% of PBT)	16.6	(7.9)	23.8	0.7	23.5
PAT before MI	15	5	10	27	10
Minority Interest (after tax)	-	-	-	-	-
Profit/Loss of Associate Company	-	-	-	-	-
PAT after MI (reported)	15	5	10	27	10
Exceptional Items	-	-	-	-	-
Reported PAT	15	5	10	27	10
% chg		(63.8)	84.1	176.4	(63.9)
(% of Net Sales)	4.3	1.2	1.8	3.6	1.1
Basic EPS (₹)	7	3	5	13	5
Fully Diluted EPS (₹)	7	3	5	13	5
% chg		(63.8)	84.1	176.4	(63.9)

Source: DRHP, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
SOURCES OF FUNDS					
Equity Share Capital	1	1	1	1	3
Reserves & Surplus	146	176	188	216	235
Shareholders' Funds	147	177	190	217	238
Minority Interest	0	0	-	-	-
Total Loans	30	38	32	47	66
Other long term liabilities					
Long-term provisions	0	0	1	1	2
Deferred Tax Liability	3	3	6	6	9
Total Liabilities	180	219	228	271	314
APPLICATION OF FUNDS					
Gross Block	136	165	194	221	267
Less: Acc. Depreciation	11	22	37	53	74
Net Block	125	143	157	168	193
Intangible assets	0	0	0	0	8
Capital Work in Progress	3	15	24	30	52
Other non current assets	12	28	31	40	47
Current Assets	82	93	86	102	128
Inventories	42	52	58	69	79
Sundry Debtors	4	12	14	18	20
Cash	29	22	4	6	11
Loans & Advances	6	7	10	8	12
Other Assets	1	1	1	2	6
Current liabilities	42	61	71	70	113
Net Current Assets	40	32	15	32	15
Total Assets	180	219	228	271	314

Source: DRHP, Angel Research

Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Profit before tax	18	5	13	28	13
Depreciation	7	12	15	18	25
Change in Working Capital	(13)	(5)	(0)	(6)	5
Interest / Dividend (Net)	3	4	6	11	4
Direct taxes paid	(3)	(3)	(1)	(7)	(5)
Cash Flow from Operations	11	13	33	43	43
(Inc.)/ Dec. in Fixed Assets	(67)	(50)	(41)	(52)	(59)
(Inc.)/ Dec. in Investments	(25)	12	12	6	(11)
Cash Flow from Investing	(92)	(38)	(29)	(47)	(70)
Issue of Equity	30.0	25.0	2.4	-	11.2
Inc./(Dec.) in loans	42.0	8.4	(5.6)	9.3	26.1
Dividend Paid (Incl. Tax)	-	-	-	-	-
Interest / Dividend (Net)	(2.8)	(4.2)	(6.2)	(4.5)	(5.0)
Cash Flow from Financing	69	29	(9)	5	32
Inc./(Dec.) in Cash	(11)	4	(5)	2	5
Opening Cash balances	14	3	7	1	3
Closing Cash balances	3	7	1	3	8

Source: DRHP, Angel Research

Key Ratios

Key Ratios					
Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017
Valuation Ratio (x)					
P/E (on FDEPS)	134.5	371.8	202.0	73.1	202.2
P/CEPS	92.2	117.3	79.2	44.1	57.3
P/BV	13.6	11.3	10.5	9.2	8.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	6.4	5.0	4.0	3.0	2.5
EV/EBITDA	79.9	110.0	65.8	39.7	55.2
EV / Total Assets	9.9	7.9	7.4	6.6	5.3
Per Share Data (₹)					
EPS (Basic)	7.0	2.5	4.6	12.8	4.6
EPS (fully diluted)	7.0	2.5	4.6	12.8	4.6
Cash EPS	10.2	8.0	11.8	21.3	16.4
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	68.9	83.1	88.9	101.9	111.8
Returns (%)					
ROCE	11.7	3.9	8.4	14.6	5.2
Angel ROIC (Pre-tax)	14.3	4.7	9.6	16.9	6.8
ROE	10.1	3.0	5.2	12.6	4.2
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.5	2.7	2.9	3.4	3.4
Inventory / Sales (days)	45	43	38	33	32
Receivables (days)	4	9	9	9	8
Payables (days)	25	33	32	27	31
Working capital cycle (ex-cash) (days)	24	20	14	15	9
Solvency ratios (x)					
Net debt to equity	0.0	0.1	0.1	0.2	0.2
Net debt to EBITDA	0.0	0.8	0.8	0.7	1.3
Interest Coverage (EBIT / Interest)	7.2	2.4	3.4	3.5	5.4

Source: DRHP, Angel Research

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