NALANDA RESEARCH

PRATAAP SNACKS

Live to Eat!

Initiating Coverage **Date: July 12, 2018**

Initiating Coverage

NALANDA RESEARCH

BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	1190	1522 27.9% ▲	

July 12, 2018

Prataap Snacks Ltd

Prataap Snacks, an emerging player in the packaged snacks category, has established a sizeable presence over the last few years, primarily driven by its laser focus on product innovation, distribution, marketing and branding. Prataap has quintupled its market share (1% to 5.3% from 2010 to 2018) in just eight years. Strong top-line growth, improving margins and stronger balance sheet prompts us to initiate coverage on Prataap Snacks with a BUY rating at a target price of INR 1522, implying an upside of ~27.9% from current levels.

Revenue growth driven by scalability

Over the last few years, the company has established a strong presence in the North, West and East markets with a strong focus on Tier B, C and D class outlets. We are positive on the company's future growth due to 1) increasing presence in the South markets as well as neighbouring countries and 2) improving visibility, efficiencies and in turn, market share in existing markets.

Scaling up products of new business segments

The company has forayed into sweet snacks (relatively higher gross margin than salty snacks) which is a high margin segment. Scaling up these products, through existing distribution network followed by an entry into hitherto untapped modern-trade channels will further enhance margins and maintain the high revenue growth trajectory.

Continuous product innovation at its core

Prataap has been able to consistently innovate its product portfolio through new flavours, unique variants as well as new product segments. Since the company's start in 2009, it has been able to launch at least two innovations in terms of flavours or products every year. In FY19, the company aims to launch three to four new products, including Yum Cake and other variants.

Higher penetration through contract manufacturing

The company has been consistently entering into contracts with manufacturing facilities at strategic locations to improve distribution efficiencies. This helps the company expand at a rapid pace without significant outlay as the company gets similar margins as its in-house manufacturing facilities.

Margins to expand further post scaling up

Prataap already has the structure in place to register a high teens revenue growth trajectory from FY18-20E. Margins are expected to remain in the 8-10% range from FY18-20E with further improvement due to increasing economies of scale (leading to lower distribution costs) and tighter control of raw material costs.

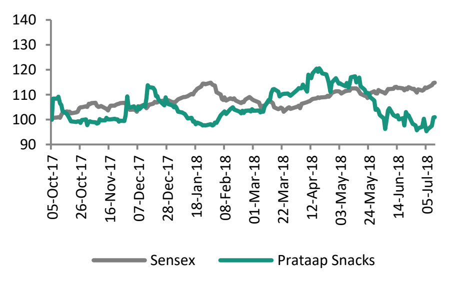
Experienced management with strong track record

Mr. Arvind Mehta, Mr. Amit Kumat and Mr. Apoorva Kumat are the key promoters of the company, who are backed by 21 years of experience in the snacks industry. Sequoia Capital India (SCI), a private equity firm which has historically owned famous growth companies, owns 48.4% stake in the firm.

Stock Details	
Industry	FMCG
Sensex	36266
Nifty	10948
Bloomberg Code	DIAMOND:IN
Eq. Cap. (Rs. Crs.)	11.73
Face Value (Rs.)	5
52-w H/L	1103/1459
Market Cap (Cr.)	2795
Book Value (Cr.)	516

Valuation Data	FY18	FY19E	FY20E
OPM%	8.4	7.8	9.1
NPM%	4.3	4.0	4.9
P/E (x)	61.2	56.1	39.6
EV/EBITDA (x)	30.5	26.8	19.8
EV/Sales(x)	2.6	2.1	1.8

Prataap Snacks Ltd vs SENSEX



Shareholding Pattern	Q4FY18	Q3FY18
Promoters	71.4	71.4
FII	10.1	7.8
DII	14.0	11.5
Retail	4.5	9.2

Revenue Growth CAGR FY18-FY20E : **17.2%**

EBITDA Growth CAGR FY18-FY20E : **21.8%**

PAT Growth CAGR FY18-FY20E : **26.2%**

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Valuation

The company is expected to grow at a revenue CAGR of ~17.2% between FY18-20E on the back of 1) consistent product innovation and entry into sweet snacks, 2) spurt in volumes due to higher penetration in rural and semi-urban areas through contract manufacturing and logistics efficiencies and 3) the industry projected to grow at a healthy CAGR of 11.8%. At a CMP of 1190, the stock is trading at a EV/EBITDA of 19.8 FY20 EBITDA of Rs 129 cr. We initiate coverage on Prataap Snacks with a BUY rating at a target price of Rs 1522/share. We have arrived at the price using an average of prices derived by using DCF methodology as well as relative valuation using the EV/EBITDA multiple.

Key Snapshot

INR Crore	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenue	757	904	1037	1237	1423	1588
Growth	*35.5%*	*19.4%*	*14.7%*	*19.3%*	*15.1%*	*11.6%*
EBITDA	57	41	87	96	129	156
Growth	*66.9%*	*-27.7%*	*112.7%*	*10.8%*	*33.7%*	*20.7%*
PAT	27	10	44	50	70	89
Growth	*176.4%*	*-63.9%*	*346.6%*	*12.7%*	*41.4%*	*26.3%*
EPS	14.6	5.2	19.9	21.2	30.0	37.9
Operating Margin (in %)	7.5%	4.5%	8.4%	7.8%	9.1%	9.8%
NPM (in %)	3.6%	1.1%	4.3%	4.0%	4.9%	5.6%
P/E (x)	89.1	233.0	61.2	56.1	39.6	31.4
EV/EBITDA (x)	43.9	57.7	30.5	26.8	19.8	15.8

Source: NSPL Research

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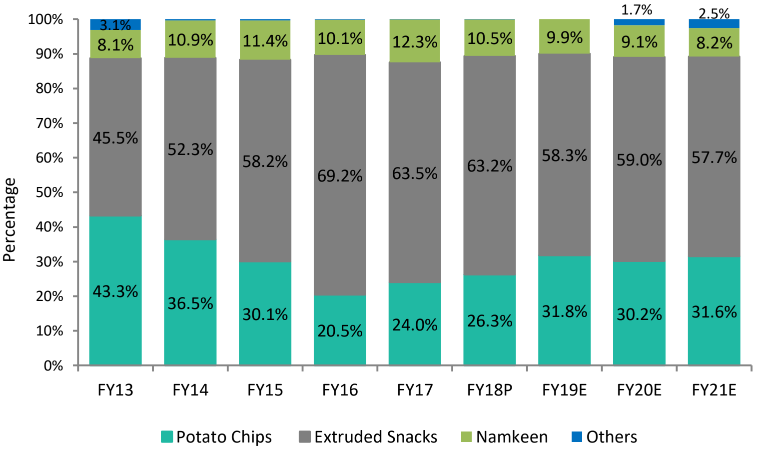
Investment Rationale

Revenue breakup : Potato chips improving in sales mix

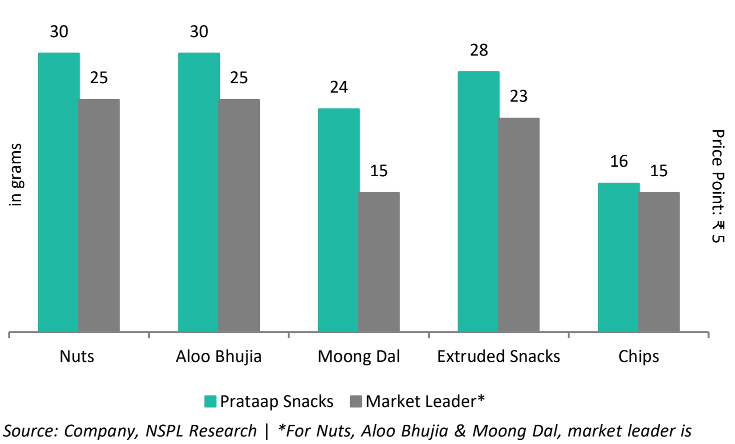


Source: Company, NSPL Research

Aggressive expansion & execution to continue

- Historically, the company's revenue grew at CAGR of 24.7% from FY13-18. The major contributor to the growth was the Extruded Snacks segment where revenues grew 3.6x from Rs 154.2 crore (45.5% of revenues) in FY13 to Rs 667 crore in FY18 (63.2% of revenues).
- The company has constantly innovated products to add to their portfolio. This is evident from the fact that their initial product offering, Potato Chips has reduced its contribution to revenues from 43.3% in FY13 to 26.3% in FY18.
- The company's primary focus was on Tier B,C,D sales outlets as well as semi-urban and rural areas where the purchasing power is relatively low. Since ~68% of India's population resides in semi-urban and rural areas, this strategy has bode well for the company's growth story.
- With the untapped modern-trade channel, the company has an opportunity to premiumize as well as experiment with their product portfolio. This will also strengthen their presence in Metro and Tier-1 cities where 45% of snacking consumption occurs (Source : Nielsen).
- The next stage of Prataap's growth will focus primarily on the southern region due to its relatively small presence in the region. The company also aims to enter select international markets to expand sales and enhance brand recognition internationally.
- With rapid expansion in mind, Prataap has also engaged in contract manufacturing with two plants each in strategic locations of Bangalore, Kolkata and Ahmedabad to boost its presence in the South, East and West regions.

Highest value offered in the industry (as of FY17)

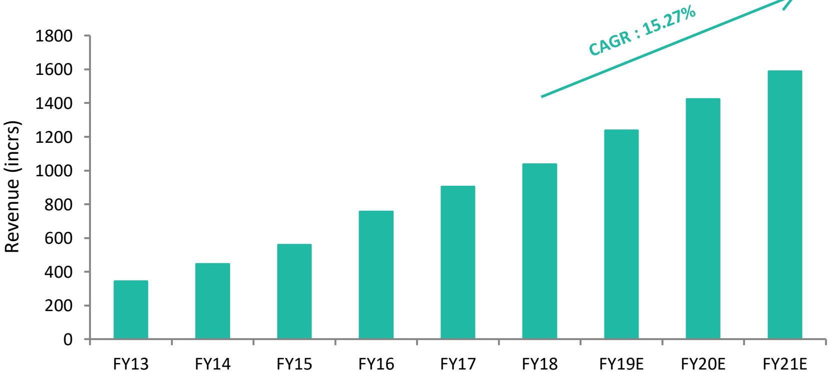


*Source: Company, NSPL Research | *For Nuts, Aloo Bhujia & Moong Dal, market leader is Haldirams. For Extruded Snacks and Chips, market leader is Pepsico*

Value leaders in all categories

- Prataap leads in the value/price metric but at the same time, is equivalent to its peers on the basis of maintaining the quality of ingredients, taste and packaging.
- At an overall level, the products of Prataap snacks at the Rs 5 price point contained more snacks than that of the market leader.
- Coinage tends to play an important role in the category. Historically, the Rs 5 and Rs 10 SKUs grew exponentially compared to those with higher price points in the industry and has more than 50% of the overall market share (Source : Nielsen)
- This has been critical for the price conscious middle-class Indian consumer and is one of the reasons of the company's proven success in semi-urban and rural markets. This is further confirmed by the fact that 80% of the company's sales is derived from the Rs. 5 packet.

Healthy revenue growth expected



Source: Company, NSPL Research

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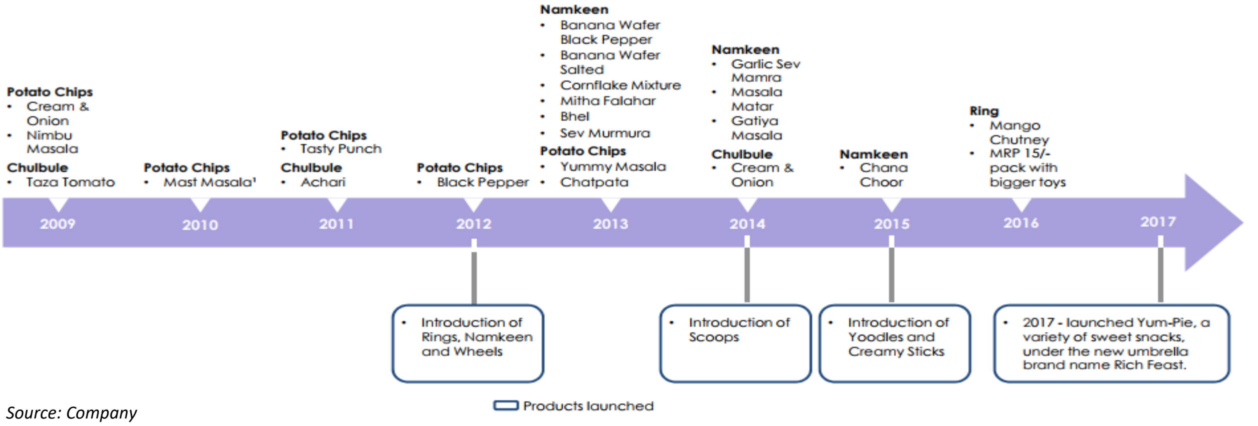
Innovation and premiumization : Key growth drivers

- Prataap has been able to constantly innovate with respect to bringing out new product offerings as seen in the timeline below. Though Rings and Namkeen were added only in FY13, the company is already the market leader of Rings (with 40% of revenues coming from the product) and derives ~10.5% of sales from Namkeen. The company also has been able to develop new flavours according to market trends and currently has 25 flavours of Chips and Extruded Snacks and 23 varieties of Namkeen in the market.
- Rising share of revenues from products in the premium portfolio will enhance margins.
- The company has further tried to attract the younger segment of population through its offering of Toys inside Rings packets. Prataap has tied up with producers of cartoons to include cartoon characters as Toys. This, combined with the regular promotional campaigns have fared well for the company.
- Prataap has also catered to regional tastes by changing certain flavours as seen in its mustard-based variants in the East, pepper-based variants (Ratlami) in the North and sweet variants in the West, which has garnered nation-wide acceptance for its products.
- The company aims to rapidly grow in the Southern states through various initiatives such as sale of Chulbule packets at a price point of Rs 2.

Consistent Product Innovation



Source: Company

- Prataap has newly launched a product called Yum-Pie through its new brand 'Rich Feast' whose target consumers are kids in the 4-15 age group. This is a chocolate jam-based snack with a cake-like base making it distinctly different from existing products in the market. The company has launched the products at a Rs 5 price point in three flavours in H2FY18 and has thus entered into the sweet snacks category. The company is also planning to launch two more products, Yum Cake and Cookie Cake in the future. Currently, no other player exists to serve at this price point.
- The company also launched Nachos in four flavours with a Rs 10 price point. This is aimed at disrupting the market as the current players don't serve at this price point (~37% discount to Doritos, the market leader) and provides less grammage per rupee.
- Prataap has also ventured into the healthy snacks category with its brand '7 Wonders'. These are made with healthy ingredients like hummus, lentils and quinoa. Although currently the company has no plans to launch the brand in the near term, it has the structure in place to remain relevant if there is a consumer shift towards healthier alternatives.

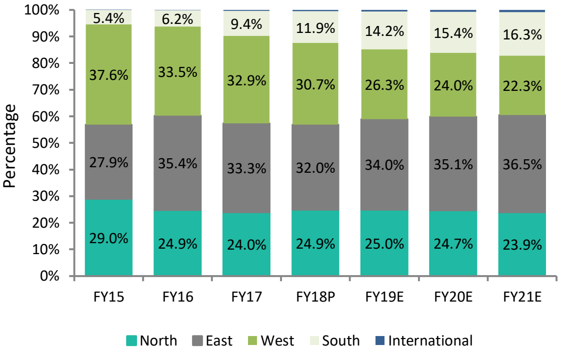
Despite a higher price, new launches are price leaders in their categories

Source: Company, NSPL Research

Prior investments on distribution to reap benefits

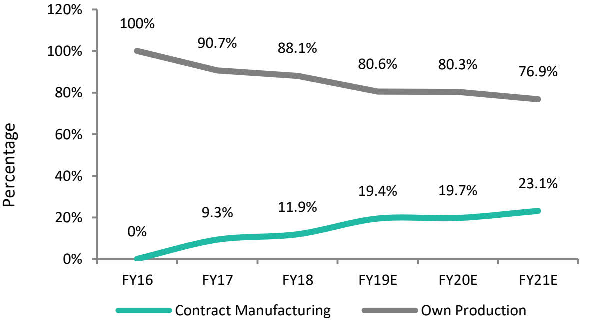
- The company has established a strong distribution network ahead of its time, and has focused on establishing a strong base in Tier B, C and D sales outlets, where the SKU at Rs 5 is sold the most.
- Distribution costs have further reduced through tying up with contract manufacturing facilities to reduce the lead distance to end markets as well as increase the efficiencies in procurement of raw materials. The company currently has entered into a contract with six manufacturing facilities, including two in Bangalore, two in Kolkata and two in Ahmedabad.
- Going forward, the contract manufacturing business model is expected to be more lucrative, as this enables Prataap to expand rapidly without significant outlay. Rapid innovation and in turn, rolling it out into the markets swiftly is also possible with this model. However, the company has also shown ability and willingness to expand in-house manufacturing facilities especially for new launches like Yum-Pie, due to protection of intellectual property as well as inability for contract manufacturers to manufacture the products satisfactorily.
- Prataap has used reverse logistics to cater to cities like Delhi and Mumbai at a relatively cheap rate from its manufacturing facilities in Indore. This enables the company to reach to most metros in a cost-efficient manner. Delhi and Mumbai together contributed 18-20% of overall sales in FY18.
- The company distributes its products through super stockists who are appointed to operate and maintain outlets/warehouses for sale to distributors and dealers. Most of the super stockists have entered into a formal agreement with the company to distribute its products for approximately three years. Currently, Prataap also has a network of 235 super stockists and 3800+ distributors.
- It has a total reach of 17 lakh outlets and currently serves 27 states. While direct distribution promises better control over execution, it may also be expensive and resource-intensive.
- The company is aiming to increase its penetration in its existing key markets i.e North and West as it believes it has white spaces in its distribution network. It also aims to establish a sizeable presence in Gujarat and the Southern markets where regional players have shown strong competitive intensity due to very high demand and a large presence of unorganised players. Also, we believe that the sweet snacks portfolio of Prataap can be a strong driver in the Gujarat market.
- Also even in distribution, quality trumps quantity - the quality of stores in which products are placed matter more than merely increasing the presence in a growing number of stores. This has been employed effectively by the company. Rings, Yum-pie, Wheels etc. which are popular among children, have seen a higher presence near schools and smaller SKUs of Namkeen are more prevalent near tobacco and liquor shops. This in effect, increases the per dealer off-take growth rate.
- The East and South markets have been rapidly growing in the last three years as shown in the figure. Extruded snacks, particularly Rings, and specific flavours (eg: Cream N Onion) have been a huge success in the East and the company is aiming to garner market share and brand loyalty in the Southern region through a similar strategy.
- A large opportunity lies in the "rurban" part of India – the urban part of rural areas. These markets are rural, yet have the influences of a more affluent urban lifestyle. These rurban clusters are of significant importance, as 33% of the total villages in India account for 80% of all rural FMCG sales (Source : Nielsen). These clusters may also act as feeder points for proximate markets.

Regional Sales Mix – Increasing South presence



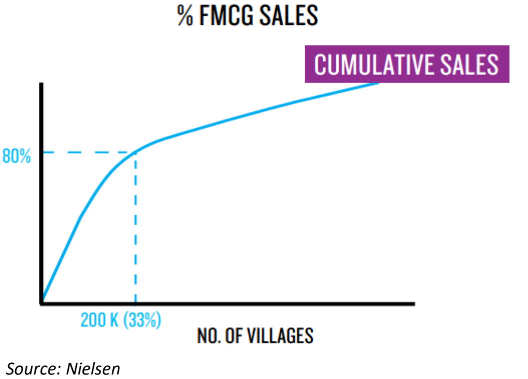
Source: NSPL Research

Contract manufacturing production as a % of total production



Source: NSPL Research

33% of villages contribute 80% of overall rural FMCG sales



Source: Nielsen

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Margins to improve in medium term

Volatility in margins have created pressure historically

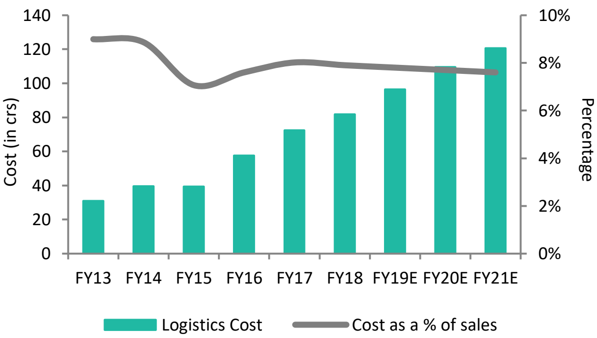
Operating margins have been under pressure in FY14 and FY17. The key factor is high volatility in input costs especially key raw material prices of potato and edible palm oil. This was coupled with high inflation in employee costs and increased freight due to servicing of Southern markets from Indore in FY17, leading to an EBITDA Margin of 4.5%. However, these issues have cleared in FY18, and raw material cost volatility have been kept in check to register a margin of 8.4% for FY18.

Economies of scale and premiumization to be tailwinds

We expect margins to stabilize in the 8-10% range from FY18-FY20E. This is due to multiple tailwinds which are as follows:

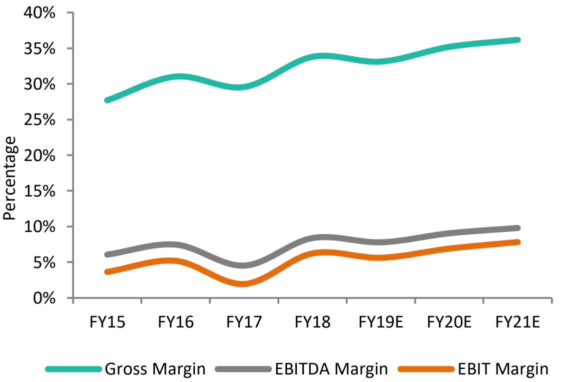
- With deeper penetration in existing markets and increasing presence in markets such as South and East, the company is expected to achieve significant economies of scale. With most of the distribution network already in place, coupled with more lines being added to contract manufacturing facilities, logistics cost as a per cent of sales, is expected to come down and stabilise from 8% to about 7.5%.
- Raw Material costs, especially prices of agri-commodities are highly volatile and dependent on the monsoon cycle. Historically, the company had engaged in spot purchases. However, from FY18, the company has started entering into long-term forward contracts, which is expected to keep the raw material costs at check. Moreover, the company has improved its infrastructure of cold storage, which enables it to procure only once in February or March and have a shelf life of about 8-9 months.
- A change in revenue mix towards higher gross margin products, such as Namkeen and sweet snacks will augur well for the company going forward. The older product offerings of the company, are relatively low margin products due to its high value/price leadership positioning. With continued product innovation, the company is expected to launch more products which command a high margin and in turn push EBITDA margins up.
- The company aims to increase brand recall through higher advertisement and promotional activities. Currently, TVCs are shown in kids' entertainment channels for Yum-pie as well as Rings. The company has also appointed Salman Khan as brand ambassador which improves nation-wide visibility. Although, this might create some pressure on margins in the near term, the fruits of this is expected to bear in the next 2-3 years through a spurt in volumes.

Logistics cost as a % of sales to fall over time



Source: NSPL Research

Margins to improve and stabilise over time



Source: NSPL Research

Experienced management at the helm

One of the key strengths of Prataap is the high quality of management with a strong track record. Prataap Snacks' founders are Mr. Arvind Mehta, Mr. Apoorva Kumat and Mr. Amit Kumat. Mr. Amit Kumat, is the Managing Director and CEO and has with him more than two decades of experience in the snacks industry. Other key management personnel includes Mr. Sumit Sharma (CFO) and Mr. Subhashis Basu (COO) who have a collective experience of several decades in the snack food industry. Having a keen understanding of consumer tastes and preferences, Mr. Amit is instrumental in deciding the flavours and tastes of different product categories.

Prataap is also backed by high quality private equity investors, such as Sequoia Capital India and Faering Capital. We believe that Prataap will have access to Sequoia's network, functional capabilities, industry experience as well as board representation. Currently, Sequoia owns 48.4%, Faering owns 2.1% and promoters own 23.0% of the company.

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Robust free cash flow and strong ROIC justifies premium valuation

Prior capex provides high operating leverage

The company had expensed a significant outlay of Rs 368 crores between FY13-18 on capital expenditure. This provides significant operating leverage and paves the way for the company to expand its volumes and outreach. Also, its contract manufacturing facilities enables the company to cater to the market demand of the products without significant capital expenditure. The company further has unutilized IPO proceeds of Rs 67 crores, which had been earmarked for funding capital expenditure requirements.

Limited capex in near term to drive FCF generation

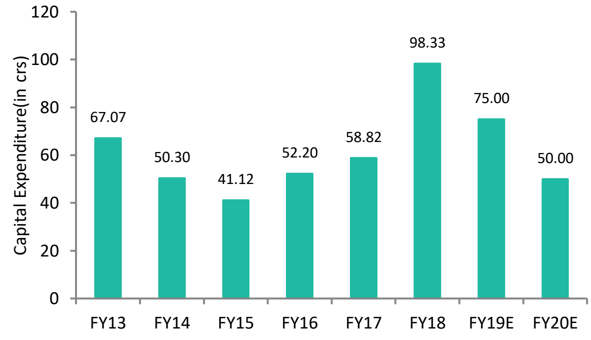
With heavy capital expenditure over the last five years, the company's free cash flow had been historically negative. Going ahead, with the absence of significant capital expenditure, we expect the company to generate strong positive cash flow and have taken this into account for our DCF valuation. Free cash flow is expected to increase from Rs -20 crores in FY18 to Rs 109 crores by FY21E.

We expect ROIC to touch 21% by FY20

ROIC has been historically low due to volatility in profitability and has varied between 3.5-16% in between FY13-18. However, we believe that the future looks promising and expect ROIC to hover around early twenties due to various factors:

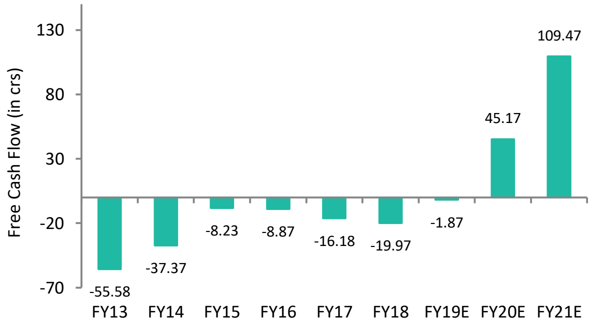
- Operational efficiencies have increased substantially over time. Working capital days have been steadily improving and has reduced from 32 in FY13 to 2 in FY18.
- A portion of the IPO proceeds have been used to repay debt. Debt levels were at Rs 80 crore at the end of FY17 and is currently at Rs 7.48 crores as of FY18. The company is expected to be debt-free by the end of FY19.

Capex to decline over time



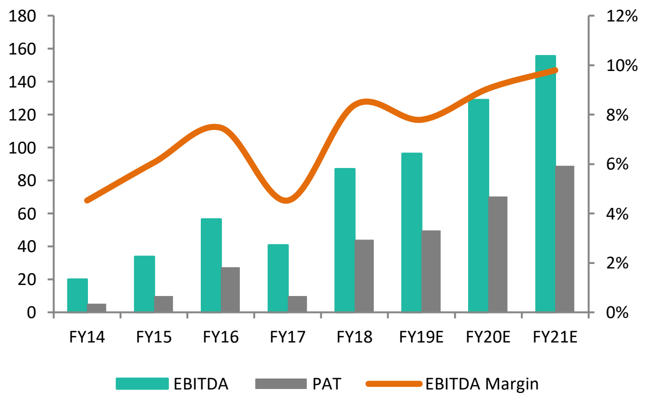
Source: NSPL Research

Strong free cash flow generated by FY21E



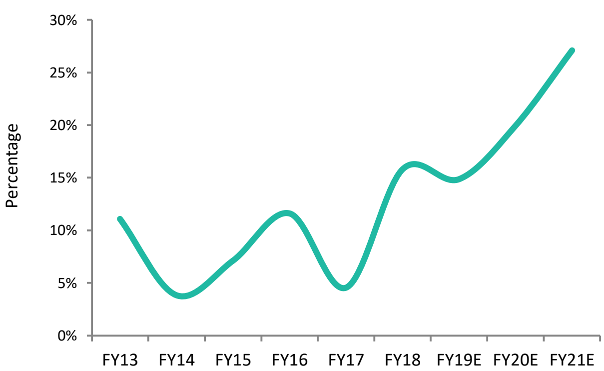
Source: NSPL Research

Improvement in EBITDA to drive profitability



Source: NSPL Research

ROIC to improve in near term



Source: NSPL Research

Utilization of IPO Proceeds as of March 31st, 2018

Particulars (INR crore)	Planned Utilization	Utilized up to Q4FY18	Unutilized as of Q4FY18
Repayment/pre-payment of borrowings	51.0	37	14.0
Funding capital expenditure requirements	67.00	0	67.00
Investment in subsidiary for repayment/prepayment of borrowings	29.4	29.4	0
Marketing and brand building activities	40	0	40
General corporate purposes	50.3	32	18.3
Total	237.6	98.4	139.2

Source: Company

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Valuation

We initiate coverage on Prataap Snacks with a Buy rating and a target price of Rs 1522/share . We believe that Prataap offers a high revenue growth opportunity and has great potential in improving its profitability metrics. We have valued the company based on the average of EV/EBITDA multiple and DCF valuation.

We resort to DCF valuation methodology as we believe that near-term earnings multiples do not capture the growth potential of Prataap. Valuations based on these multiples may undervalue the business as long term growth is the true value accretion for businesses in this industry and at this growth stage. We believe that through revenue growth, the company will achieve scale and will also show improvement in asset-turns as has been visible historically. Our DCF methodology helps us to arrive at a target price of Rs 1567/ share. Our methodology may be divided into two phases:

- Forecasting explicitly for a period of 10 years where we forecast at a FCFF growth rate of 20.3 % over FY19E-FY29E
- A terminal growth rate of 5.4 % which helps us arrive at a terminal value
- WACC has been calculated as 10.1%

Also, we use the EV/EBITDA multiple to understand its relative value vis-à-vis peers. We believe a higher competitive positioning in the industry, deeper penetration in markets, product innovation and innovative marketing techniques command a premium in the multiple. We have currently assumed a multiple of 25 to arrive at a target price of Rs 1477/share.

DCF Valuation

Particulars (INR crore)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
CFO	11.4	12.9	32.9	43.3	42.6	78.3	73.1	95.1	119.4	116.5	125.5
Purchase of Fixed Assets	-67.0	-50.3	-41.1	-52.2	-58.8	-98.3	-75.0	-50.0	-10.0	-10.0	-10.0
FCFF	-55.6	-37.4	-8.2	-8.9	-16.2	-20	-1.9	45.1	109.4	106.5	115.5

DCF Assumptions	
Perpetual Growth	5.4%
No. of Shares (in cr)	2.35
Equity Value	2791
Weight of Equity	99.7%
Risk Free Rate	7.2%
Mkt Return (5 Yr CAGR)	12.9%
Risk Premium	5.2%
Beta	0.51
Cost Of Equity	10.1%
Debt	7.5
Weight of Debt	0.3%
Before Tax Cost of Debt	5.6%
After Tax cost of debt	4.0%
WACC	**10.1%**

Value of Firm	3469
Debt (FY18)	7.5
Cash (FY18)	214
Value of Equity	3676
No. of shares	2.35
DCF Target Price	**1567**

Forecasting using EV/EBITDA Multiple	
FY20 EBITDA	129
Multiple	25
Target EV	3221
Debt (FY20)	0
Cash (FY20)	242
Equity Value	3463
Share OS	2.35
EV/EBITDA Target price	**1477**

Final Valuation	
Average Target price	**1522**
Upside/downside	**27.9%**
CMP	1190

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Key Risks

Volatility in raw material supply and prices

The bulk of raw materials in the business are agri-commodities, which are subject to volatility in prices, consistency in quality and supply. Pricing is dependent on the demand-supply scenario and Government has recently imposed import duty on palm oil, which is a key material for all products of the company. Partial hedging is done by the company through forward contracts and investments in cold storage facilities. Major competitors such as Pepsico and ITC have undertaken initiatives like contract farming and e-Choupal to keep their raw material prices at check.

Heightened competitive intensity

New competitors, backed by private equity investors are entering the market leading to further market fragmentation and increasing competitive intensity. Moreover, regional players are also formalizing, leading to higher competition in the branded space. This, combined with increasing reliance on E-commerce (lower margins for brands) could cause margin pressure for the sector.

Stringent food and safety laws and regulations

Food businesses are generally subject to a higher scrutiny on safety and quality as its products are meant for human consumption. Government may also impose higher taxes on the company's products as these are unhealthy and are witnessing higher consumption (as seen in higher taxes on carbonated drinks). Any changes in these laws could result in higher costs and liabilities and could negatively impact the profitability of the company.

Consumer preference towards healthier food products

With urban lifestyles, consumers are looking for products that are readily available (such as packaged snacks and ready-to-eat meals). However, with this lifestyle, there is also an increased risk of unhealthy lifestyle diseases. This has led to an increasing proportion of people becoming health conscious and opting for healthier snacks. They completely ignore the type of snacks provided by Prataap, due to a higher fat content in these products. However, we believe Prataap is well prepared for this consumer shift, with the launch of its 7 Wonders healthy product portfolio.

Expansion of super stockists

The inability to expand or effectively manage the growing super stockists and distribution network or any disruptions in the supply or distribution infrastructure may have an adverse effect on the business, results of operations and financial condition.

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Market Dynamics

India is the second most populous nation in the world whose population is expected to grow by 1.1% in the next five years. The per capita food consumption in India is three to four times lower than that of developed economies. The low per capita consumption coupled with shortage of food in select areas presents a tremendous potential for the food industry in India.

Apart from India's strong macroeconomic indicators, there are seven factors that have led to the country becoming one of the fastest growing food and beverage segments in the world.

Source: MOFPI

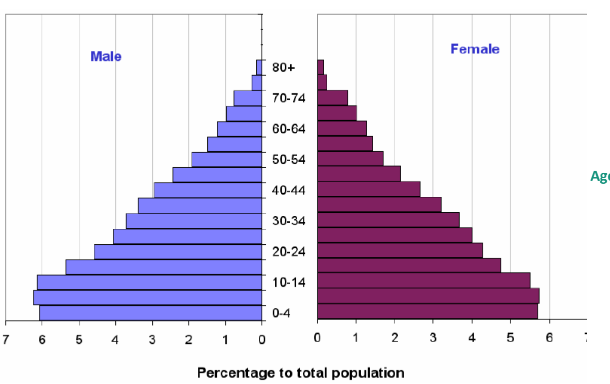
Affluence

With the changing trend of the demographics, the disposable income is set to rise due to a higher proportion of participating workforce (growth rate of working population would exceed that of the overall population as seen in graph below). This in turn, leads to increased domestic production, higher savings as well as enhanced labour productivity which augurs well for the overall food industry of India.

Urbanization

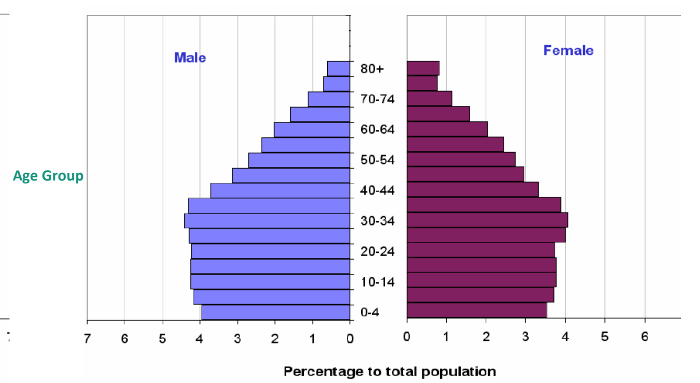
With the rise in working class population, the proportion of population in emerging as well as developed cities is also increasing. This leads to an decrease in the size of families, higher participation of women in the workforce, resulting in a higher preference for convenience in food consumption. This has fared well for restaurants, food joints etc. as well as the F&B industry, especially ready-to-eat meals, processed foods, snacks etc.

Projected population pyramid : India - 2001



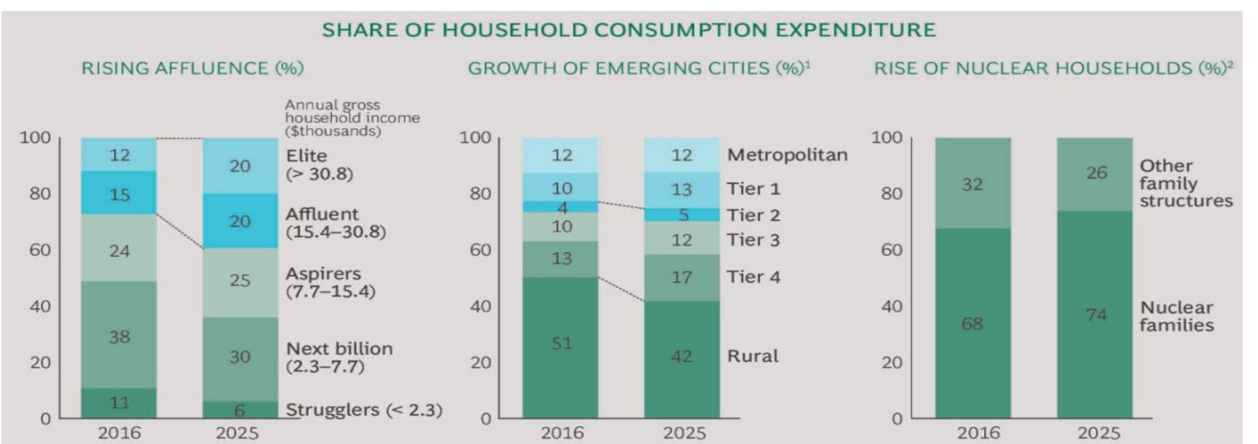
Source: Census of India projections

Projected population pyramid : India - 2026



Source: Census of India projections

Three Aspects of India's changing shape of consumption



Source: BCG CCI consumption survey, BCG analysis

Dietary Habits

The per capita consumption of sugar and salt intake is rising with an increased consumption of packaged food. As per the report of the working group on Addressing Consumption of Foods High in Fat, Salt and Sugar– 2015, per capita consumption of sugar has risen from 22 g/day in 2000 to 55.3 g/day in 2010; salt intake ranged between 9 and 12 g/per capita/day; and total fat consumption increased from 21.2 g/day in 2000 to 54 g/day in 2010. The report also highlights that the sale of packaged food is highest in northern India (38%), followed by west (36%), south (28%) and east and northeast (21%). However, with rising health awareness, the industry is bringing out constant product innovations highlighting features such as no added sugar, all natural ingredients, no preservatives etc.

Tourism: Increasing tourism in India and international travel

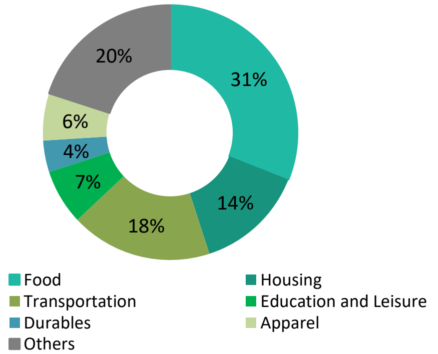
A higher tourism rate in India fares well for the industry. Food tourism, which has been growing popularity over the years, is a high potential driver for the country due to the diverse tastes and preferences observed in the country. Also, majority of the Indian consumers would prefer to carry packaged food such as confectionaries, snacks, biscuits etc. while travelling. Since the rise in Indians travelling abroad makes them aware of international cuisines, it offers an opportunity for the food industry to launch international products at a premium price.

Awareness and Accessibility

The Indian consumer's awareness has been growing through the rise of social media as well as innovative advertisements. These marketing activities highlights the product's USP. The products are also readily available through the rise of modern trade channels such as supermarkets and hypermarkets. These channels are highly preferred among families, due to the constant offers and promotions offered by these retailers.

With the launch of Jio and increased Internet penetration, the e-commerce revolution has become a reality. Almost all the major food and beverages companies have made their products available online through e-commerce sites such as Amazon, Big Basket, Grofers etc. Websites such as Big Basket, processes over 50, 000 orders per day and has crossed the 5 million customer market (as of 2017).

Indian Middle Class Consumer Expenditure



Source: Company, NSPL Research

Health and Wellness products charged at a premium

CATEGORIES	AVG PRICE PER KG/L: BASE	AVG PRICE PER KG/L: H&W	PREMIUM CHARGED(%)
PACKAGED ATTA	33	48	44
REFINED OIL	106	127	22
TEA	301	518	72
NOODLES	150	273	82
BISCUITS	106	131	24

Source: Nielsen

Acceptability and Trust

The growing awareness has also shifted perception towards leading a healthier lifestyle. Indian consumers, especially in urban areas are increasingly consuming healthy snacks, organic food etc. although it may be at a premium to ordinary products. These products may have added health and wellness attributes such as all natural, high in fiber, high in protein etc. and are marketed accordingly.

Festivals and Occasions

India has a variety of festivals throughout the year and has traditionally consumed sweets, snacks and beverages. The last quarter of the year, is generally considered the festive season, with Diwali, Dussehra and Christmas falling in these months. This is also when the food and beverage companies launch new product offering, offer lucrative discounts and also launch innovative advertisements. Further, special occasions are not limited to festivals, but also include marriages, birthdays etc.

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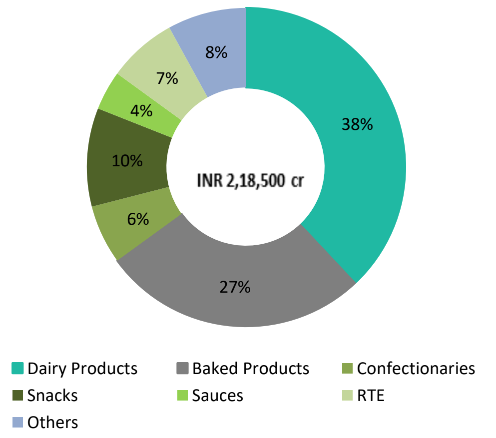
Indian Snacks Market

Packaged snacks constitute 10% to the overall packaged foods segment. The Indian packaged snacks market is estimated at Rs 55,000 crores and is dominated by unorganized players across all categories. This is because traditionally snacks are specific to a region, and many small companies cater to that market. These companies typically only have one or two products in their portfolio and are limited to one or two geographical regions. However, there is a gradual shift from unorganised to organised segment due to large product portfolios of organised players, aggressive promotions and expansions, brand awareness through internet and social media, active R&D etc. This shift has exacerbated due to factors like demonetization and GST. It is estimated that the market share between organized and the unorganized segment will be equal in the next five to seven years.

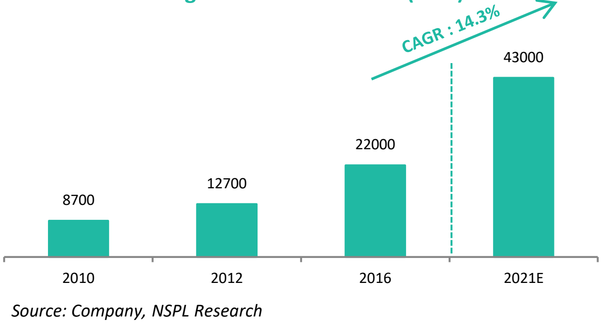
In the organised segment, demand for snack foods is expected to grow at a CAGR of 14.3% from FY16-21E. Availability of a variety of snacks, ease of access and a wide range of SKUs are key factors for the growth in the segment. Pepsico India and Haldirams are the biggest players in the segment with mid-sized companies such as Prataap Snacks and Balaji Wafers gaining sizeable presence. In terms of regional demand, the demand for snacks is high in North and West India with only moderate consumption in South and East India. The South Indian market may experience a rise in market share due to increasing penetration in the industry.

India Organised Packaged Food Market



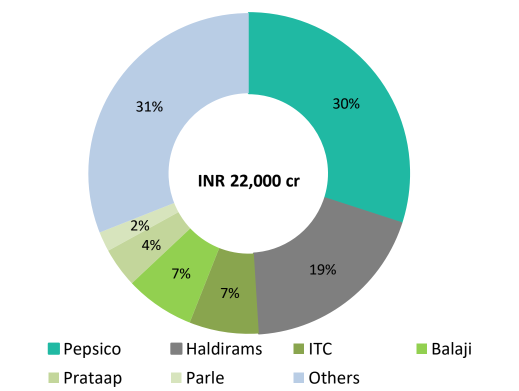
Source: Company, NSPL Research

Indian organised snack market (in cr)



Source: Company, NSPL Research

Indian Organized Snacks Market: Market Share 2016

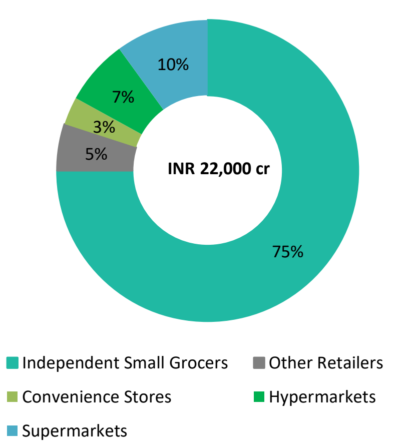


Source: Company, NSPL Research

Distribution Channels

- About 75% of the entire sales channels is dominated by independent and small grocers. They are widespread across the country and are most popular near residential areas. These players generally stock the smallest SKUs and has the maximum reach among consumers.
- There is a considerable shift towards the modern trade (supermarkets & hypermarkets) channel in the recent years. This is because it creates value propositions to both consumers as well as businesses. Modern trade benefits businesses as they have the opportunity to innovate, experiment and premiumize their products and also because they don't have to shed margins throughout the whole supply chain (Distributor, wholesaler, retailer). Consumers, especially in urban India have a heavy preference towards modern trade as these shops offer huge discounts, provides an avenue for experimentation and in turn, indulgence. Modern Trade contributed 9.2% of overall sales in FY11, which has increased to 17% in FY16.
- Other retailers such as kiosks selling tobacco, food and beverages as well as convenience stores near petrol pumps contribute 8% to the market.

Indian organised snack market (in cr)



Source: Company, NSPL Research

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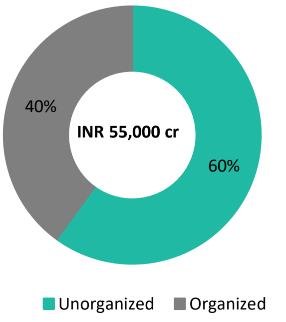
Potato Chips

Chips are one of the largest segments in the Indian snacks market. There are a large number of players in this segment in the regional level, as well as the national level. The chips market is pegged at Rs 13760 crores, with potato chips accounting for 90% of the chips market, and tapioca, banana and soya chips being popular alternatives. 52% of this market belongs to the unorganised segment and regional sales mix for the organised segment include 32% for North, 15% for South, 22% for East and 31% for West.

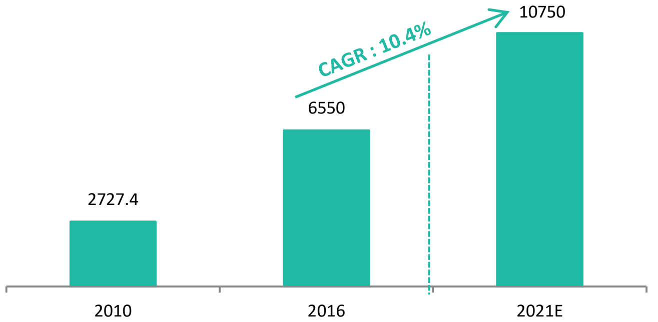
The market for overall chips witnessed a growth of 9% CAGR between 2012 and 2016. Some of the reasons for the continued success of this segment, especially for the organised players, is the large variety of SKUs available, targeting traditional as well as global flavours, and aggressive promotions through celebrities and sporting events.

Indian overall snacks market (in cr)



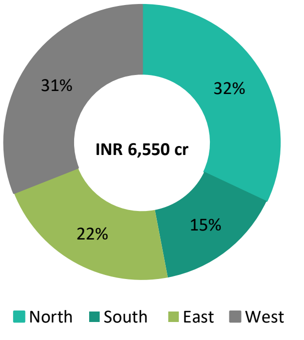
Source: Company, NSPL Research

Indian Organized Potato Chips Market : Demand Forecast (in crs)



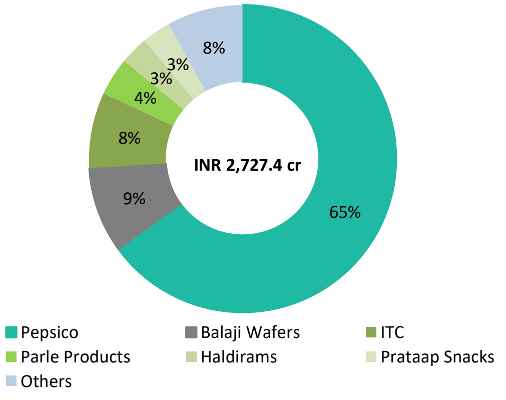
Source: Company, NSPL Research

Indian Organised Chips Market : Split by Region



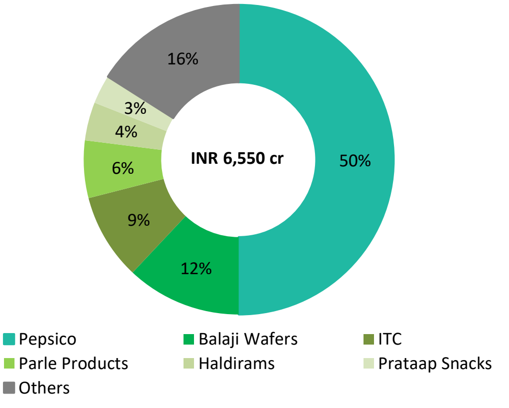
Source: Company, NSPL Research

Indian Organised Chips Market : Market Share, 2010



Source: Company, NSPL Research

Indian Organised Chips Market : Market Share, 2016



Source: Company, NSPL Research

Although, the organised segment for potato chips has been growing at a rate of about 17-19% over the last five years, it has been losing market share to traditional snacks like Namkeen in the overall snacks market, especially in the last two years. The organised chips segment is expected to grow at a CAGR of 10.4%. Manufacturers are increasingly looking at extruded snacks and Namkeen to optimize margins and save costs as the effort and costs involved in procuring and processing potatoes is making this segment relatively less viable.

Currently, the market leader in this segment is Pepsico India with their flagship product, Lays. However, its market share has eroded over the last few years with mid-sized companies such as Prataap Snacks and Balaji Wafers chipping away market share from Pepsico India. Aggressive pricing , more value (grammage) for the same price and increasing availability across various types of outlets have aided these companies' challenge to Pepsico India.

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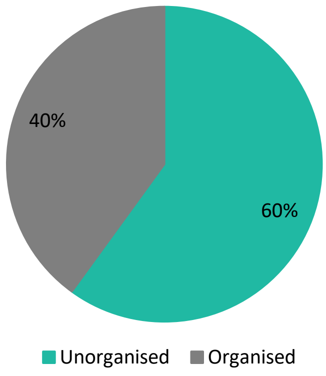
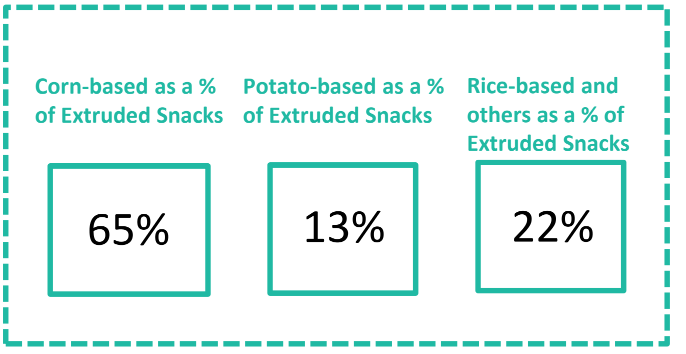
Indian Extruded Snacks Market



Source: Company, NSPL Research

Brief Snapshot of Extruded Snacks



Source: Company, NSPL Research

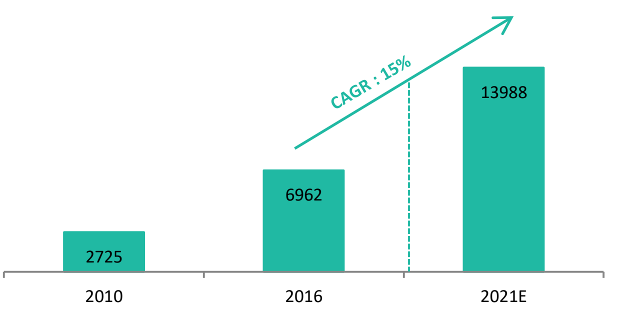
Extruded Snacks

Extruded Snacks involve reconstituted, processed or shaped snacks and may be flavoured or non-flavoured. They are mainly manufactured using corn flour and potato-based flour but a combination of flours may also be used. The total extruded snacks market is estimated at Rs 17462 crores (Source : DRHP).

High disposable income, rising urbanisation and transforming food culture augurs well for the demand growth of extruded snacks. These snacks are most popular among the younger age group due to different colours, shapes and aroma as well as promotional toys offered by manufacturers. With the advancements in extrusion technology, more innovative products are being provided to consumers and the market is flourishing.

The market for organised extruded snacks witnessed a CAGR growth of 17% from Rs 2725 cr in 2010 to Rs 6962cr in 2016 and demand is expected to increase at a CAGR of 15% over the next five years. As with most packaged snacks, the products sold across various regions vary according to what is native to the region and the typical flavours which are popular.

Indian Organized Extruded Snacks Market : Demand Forecast (in crs)



Source: Company, NSPL Research

One of the most important varieties of extruded snacks is rings. This includes corn rings and accounts for 8%-10% of the total extruded snacks market. Corn-based extruded snacks may be of various types but the most popular ones (especially among children) are cheese balls, spicy corn puffs and cheese puffs. Fryums are also a popular item in the category, with a high number of unorganised players.

Pepsico is the market leader with a 44% market share with their 15 year old brand – Kurkure. However, with more value being provided, mid-sized players such as SM Foods, Balaji Wafers and Prataap Snacks along with Pepsico India has captured market share from unorganised players over the years. Prataap Snacks is currently the market leader in the rings category, followed by DFM Foods' Crax. Players such as SM Foods (Peppy) and Prataap Snacks, have been eyeing a nationwide presence to challenge the large companies. Currently, mid-sized companies are generally confined to a few regions such as DFM Foods (Delhi – NCR) and Balaji Wafers (West and recently North India)

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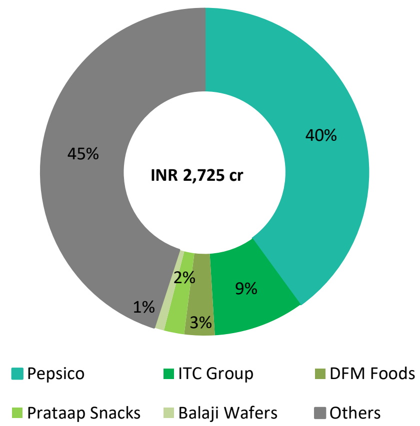
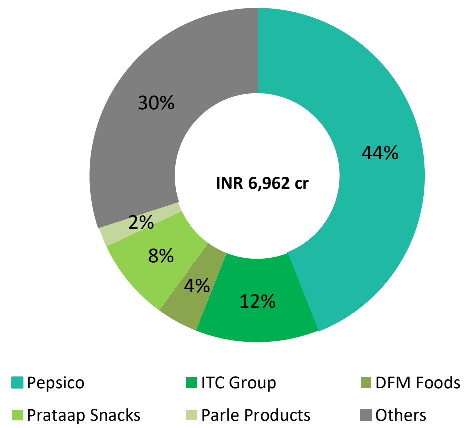
Indian Extruded Snacks Market : Market Share, 2010



Source: Company, NSPL Research

Indian Extruded Snacks Market : Market Share, 2016



Source: Company, NSPL Research

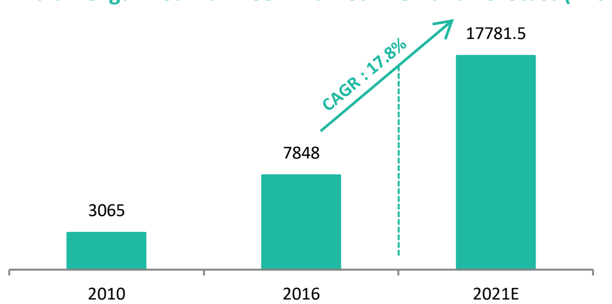
Namkeen

Namkeen includes a large variety of snacks that has been historically, traditionally consumed in India. They were mainly cooked at home and consumed. However, with change in lifestyles and an increasing need for convenience, packaged Namkeen have risen in popularity. A large variety of products, higher margins as well as an easier procurement of raw materials have been key drivers in the growth of this segment. However, a large diversity in traditional snacks in different parts of India may require more product innovation, although the younger segment are more accepting of snacks from different parts of India. Moong Dal and Aloo Bhujia are the most popular items in the category.

As most namkeen was traditionally cooked at home, there is a large number of unorganised players in this segment with a market share of 65%. Namkeen is more popular in North and West India, especially in Rajasthan and Gujarat as it forms an integral part of their cuisine. Namkeen, although prevalent in South and East India, are relatively less consumed and are markedly different in comparison. This is evident with the regional sales mix comprising of North having 29% of sales, West having 32%, South with 20% and East with 19% of sales. As Namkeen is enjoyed by the entire family (unlike chips and extruded, which are popular among younger population), family-sized packs are seeing more movement, particularly in supermarkets and hypermarkets.

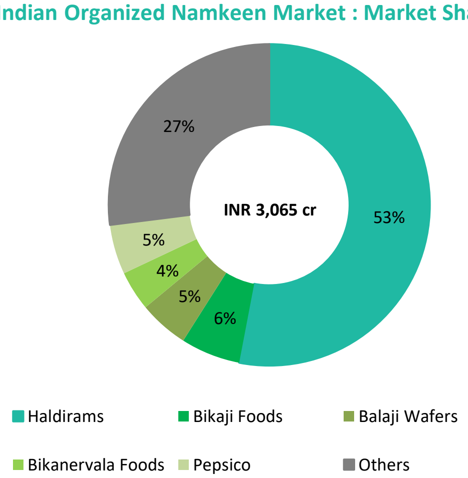
The market for Namkeen has grown at a CAGR of 14% between 2012 and 2016. With manufacturers receiving higher margins, competition is cut-throat, and companies are trying to differentiate themselves with new tastes and new variations of traditional products along with attractive packaging and flexible price points. A high growth of 17.8% is forecasted in the next four to five years especially because of a large segment of unorganised players.

Indian Organized Namkeen Market : Demand Forecast (in crs)



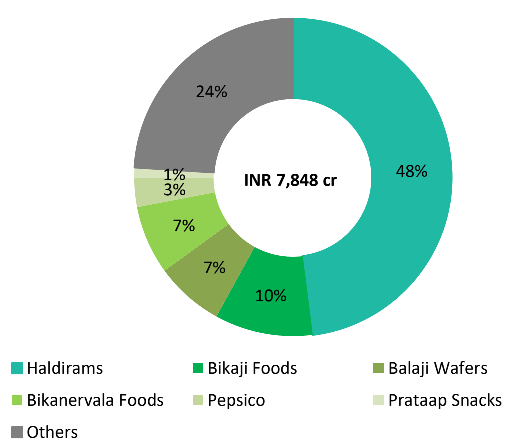
Source: Company, NSPL Research

Indian Organized Namkeen Market : Market Share, 2010



Source: Company, NSPL Research

Indian Organized Namkeen Market : Market Share, 2016



Source: Company, NSPL Research

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Haldirams is the undisputed market leader in the segment as they had a significant first mover advantage. With a long heritage, it is expected to dominate the market for at least the next four to five years. Bikaji Food and Bikanervala Foods have also been associated with Namkeen for a long time and have a sizeable presence. Balaji Wafers, although a relatively new entrant, have been able to leverage their existing supply chain and understanding of consumer tastes. Prataap Snacks, also a new entrant, have been growing at 40% in the Western and Eastern markets. Since the tastes in the Southern region are considerably different, regional players such as MTR and Maiyas have a strong presence in the region.

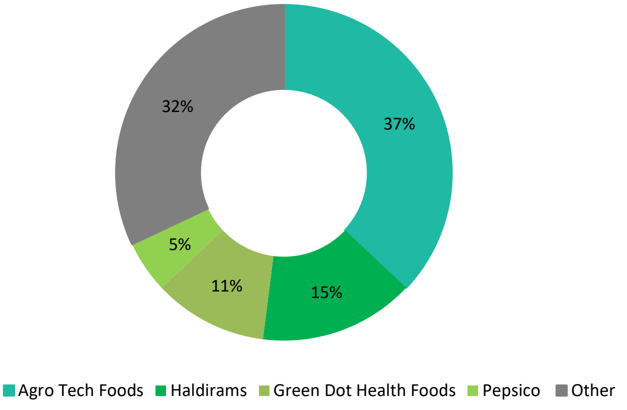
Other Snacks

Other Snacks include snacks like nuts, popcorn and tortilla chips. Although nuts and popcorn have been consumed in India for a long time, tortilla chips and nachos are a relatively new entrant. Increasing exposure to Western culture and social media have been the key factor in the entry of this product. A growth of 8% was recorded between 2012 and 2016 and is expected to grow at a rate of 9.2% between 2016 and 2021.

The overall market share for the unorganised segment stands at 60% although the unorganised segment only serves nuts (and nut-based snacks) and popcorn, and not tortilla chips, primarily due to its non-Indian origins. In terms of regional sales, as with other snacks, Northern and Western India are the largest consumers although Southern India consumes a large amount of popcorn as compared to nut-based snacks. Demand for tortilla chips is highest in North India followed by South India with demand concentrated in urban markets.

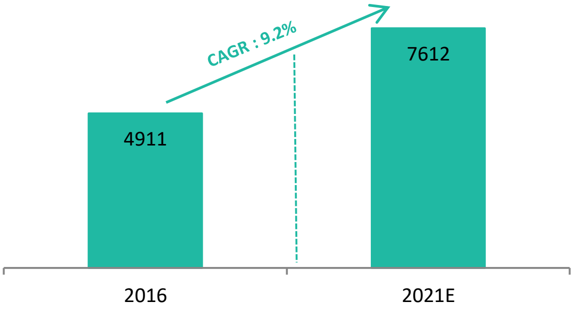
Due to large-scale consumption, nuts and to a certain extent, popcorn are available across most independent grocery stores. Larger packs are available in supermarkets and hypermarkets. Tortilla chips, is still considered as a premium product, and are mainly available only in the modern trade outlets. Demand for tortilla chips is expected to rise, as the product is still in its nascent stage. However, price points will be critical for penetrating semi-urban and rural areas.

Indian Organized Other Snacks Market : Market Share, 2016



Source: Company, NSPL Research

Indian Organized Other Snacks Market : Demand Forecast (in crs)



Source: Company, NSPL Research

Agrotech Foods dominates the organised popcorn market with more than 80% market share with its ACT II brand of ready-to-eat and ready-to-cook popcorn. Haldirams is the second largest player, with close to 50% market share in the nuts market. Green Dot Health Foods is the third largest player, which dominates over 90% of the tortilla chips market with its Cornitos brand. The market share is expected to stay similar, except for Green Dot Health Foods, whose market share is expected to be challenged by incumbent players.

Product Portfolio

Potato Chips

Potato chips is one of the most popular chips in the market and include standard chips, thick-cut and crinkle-cut and may be flavoured or unflavoured. The chips segment of the company grew at a CAGR of 10.09% which was faster than the overall market's growth of 9% between 2013 and 2017. This is the oldest product of the company and was launched in FY05 (originally manufactured by Prakash Snacks which was later acquired by Prataap Snacks). It has 4 SKUs of Rs 5,10,20 and 50 and is available in nine flavours. Currently production of chips occurs in the in-house manufacturing facility at Indore and four other contract manufacturing facilities at Bangalore, Ahmedabad and Kolkata (2 facilities).

Product Category	Launched in year	Flavours	SKUs
Potato Chips	FY05	Plain Salted, Cream 'n' Onion, Tom-Chi, Nimbu Masala, Yummy Masala, Tangy Tomato, Plain Upvas, Black Pepper and Magic Masala	₹ 5, ₹ 10, ₹ 20 and ₹ 50

Source: Company, NSPL Research

Extruded Snacks

Extruded snacks include processed, reconstituted, shaped, potato or cereal-based snacks, which may be flavoured or unflavoured. Prataap's extruded snack portfolio consists of Shaped Extruded Snacks which includes Rings, Puffs, Nachos, Pellets (which include Wheels, Scoops, Krunchy Sticks, Fungroo and Seven Wonders) as well as Random Extruded Snacks which include Chulbule. Between 2013 to 2017, Puffs and Rings, Pellets and Chulbule grew at a CAGR of 53.2%, 50.3% and 12.4% with the overall extruded snacks market growing at a CAGR of 37.02%. Currently, manufacturing occurs at the in-house facilities at Indore and Guwahati, as well as in the Bangalore contract manufacturing facility.

Product Category	Launched in year	Flavours	SKUs
Chulbule	FY06	Tangy Tomato, Teekha Tadka, Noodle Masala, Taza Tomato, Achari Chatka, Tango Mango and Cream 'N' Onion	₹ 5, ₹ 10, ₹ 20 and ₹ 50
Rings	FY12	Masala, Tomato, Mango Chutney, and Chilli Cheese	₹ 5, ₹ 10 and ₹ 15
Puffs	FY11	Cocktail, Tomato, Pudina and Punjabi Tadka	₹ 5
Wheels	FY10	Chatpata Masala and Tomato Ketchup	₹ 5
Scoops	FY10	Masala and Tomato	₹ 5
Seven Wonders	FY18	Lentil Crackers – Cumin & Black pepper, Lentil Crackers – Cream & Onion, Lentil Crackers – Sweet Mango Chutney, Veggie Straws - Masala Tikka, Veggie Straws – Peri Peri, Quinoa Chips - Cheese Garlic	₹ 30
Kurves	FY18	Four Flavours	₹ 5

Source: Company, NSPL Research

Namkeen

Namkeen is available in a variety of flavours and is made with a variety of ingredients depending on the type of Namkeen manufactured. This may include gram, potato, pulses, lentils and peanuts. Namkeen is available in 4 SKUs and has 23 varieties. In 2016, the organised market of Namkeen in India was estimated at Rs 7848 cr and is expected to grow at a CAGR of 17.8% between 2016-21. The Namkeen segment of the company grew at a CAGR of 41.55% far ahead of the 14% growth in the overall Namkeen market (due to low base). Namkeen is only manufactured at the in-house production facility at Indore.

Product Category	Launched in year	Products	SKUs
Namkeen	FY12	Moong Dal, Chhana Dal, Chana Masala – Heeng Jeera flavour, All- in-One, Aloo Bhujiya, Bhujia Sev, Punjabi Tadka, Ratlami Sev, Tasty Shing Bhujia, Mixture, Falahari Chivda – Meetha and sweet and salty flavours, Khatta Meetha, Banana Wafers –Black Pepper and Mamra, Garlic Sev Mamra, Masala Matar, Chana Choor and Salted flavours, Cornflake Mixture, Bhel, Plain Sev Peanuts – Classic and Black Pepper flavours.	₹ 5, ₹ 10, ₹ 30 and ₹ 70

Source: Company, NSPL Research

Others

Other products manufactured include sweet snacks, popcorn and creamy sticks. Prataap has ventured into sweet snacks under the 'Rich-Feast' brand. It has launched Yum-Pie, which will be followed by the launches of Yum Cake and other variants in FY19. Various seasonal items are also manufactured and sold including festive gift boxes and traditional sweet snacks like soan papdi.

Prataap's Brands and Key Competitors

Categories	Prataap's Brands	Key Competitors
Potato Chips	Yellow Diamond	Lays (Pepsico), Bingo (ITC), Balaji, Parle's Wafers, Haldirams
Extruded Snacks	Chulbule, Rings, Wheels, Puffs, Kurves, Scoops	Kurkure (Pepsico), Balaji, Crax (DFM Foods), Bingo (ITC)
Namkeen	Yellow Diamond	Haldirams, Lehar (Pepsico), Balaji, Bikaji Foods
Nachos	Yellow Diamond	Doritos (Pepsico), Cornitos (Green Dot Health), Act II (Agro Tech)
Sweet Snacks	Rich Feast (Yum-Pie)	Britannia, Lotte

Peer Comparison

Product Pricing

Price Point	Prataap Snacks	DFM Foods	Balaji Wafers	Pepsico India	ITC (Bingo)	Haldirams
						
₹5	**Extruded Snacks** Rings : 15g Wheels: 25g Scoops:25g Fungroo: 25g Krunchy Sticks: 25g Kurves:24g Puffs: 28g Chulbule: 28g	**Extruded Snacks** Natkhat(₹2): 10g Crax Corn Rings: 15g	**Extruded Snacks** Wheelos: 30g Chataka Pataka: 30g Pop Rings : 30g	**Extruded Snacks** Kurkure Masala: 20g Cheetos Balls: 22g	**Extruded Snacks** Mad Angles:23g Tedhe Medhe:27g Tangles: 20g No Rulz: 25g	**Extruded Snacks** Taka Tak: 24g Panga: 24g Whoopies Balls: 22g
	Potato Chips: 16g		**Potato Chips: 18g**	**Potato Chips: 12.5g**	**Potato Chips:13g**	**Potato Chips : 17g**
		**No Potato Chips**				
	Namkeen (Aloo Bhujia): 30g	**Namkeen (Aloo Bhujia*): 28g**	**Namkeen(Aloo Bhujia) : 25g**	**Namkeen(Aloo Bhujia): 25g**		**Namkeen(Aloo Bhujia): 25 g**
					**No Namkeen Products**	

Source: NSPL Research

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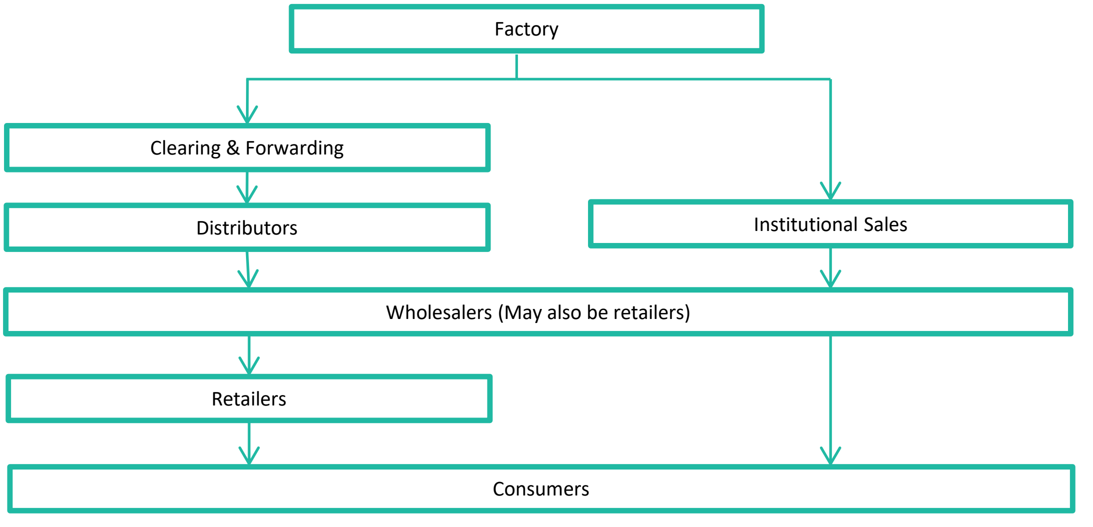
Product Distribution

Prataap Snacks

Prataap has a strong distribution network in place with a reach of 17 lakh stores (with a direct:indirect mix of ~55:45). It also has contract manufacturing facilities at strategic locations to reduce the effective lead distance. Going forward, it aims to cover states such as Gujarat, Punjab, UP and the Southern regions as it currently only covers 40% of India. Currently, the company has 235 super stockists and 3800+ distributors. It is one of the only companies which has a higher direct over indirect distribution reach in India.

Industry Distribution Network



Source: NSPL Research

DFM Foods

DFM Foods' revenue from North India is 75% of sales, which was 85% about three years back. Though they are expanding to other areas in India, north India remains their primary focus and are modernising and upgrading their current plant at Ghaziabad. Currently, the company has a direct reach of 2.9 lakh stores and has about 150 super stockists. The company, in a bid to boost its geographic reach, provides a distributor margin of ~12% in non-north regions as compared to ~7% distributor margins offered in the north.

ITC (Bingo)

ITC's Bingo has leveraged the company's existing distribution network, which was in place for its other FMCG businesses, to expand distribution nationally. It currently has a reach of about 43 lakh stores, of which 20 lakh stores are under ITC's direct distribution network. With a new distribution strategy launched in 2015, the company has removed as many stocking points in the supply chain as possible, in order to prevent degradation of products due to handling. The company is in the process of automating all its warehouses, as well as using analytics based on real-time feeds to obtain insights for over 1000 SKUs. After a timeline of 11 years, the company has pipped Pepsico's Kurkure to be the market leader in the bridges segment (sticks and triangles) and has emerged as a leader in the South markets with its potato chips portfolio.

Balaji Wafers

Balaji has been relatively weak in expanding its distribution outside West India. This is due to the company's strategy of running its own logistics within a radius of 100-200kms of its manufacturing plants. This coupled with unavailability of large funds (Unlike PE-backed companies which has large funds), has made expansion of its brand slow. The company has four manufacturing plants in India.

Pepsico India

Pepsico entered the potato chips segment, with its Lays brand in 1995. Its products reach the customer through the following three channels: Direct Store Delivery (DSD), Customer Warehouse and Distribution networks. DSD, which was the oldest method employed by Pepsico, uses its employees to take orders and deliver products. This method is more responsive, as it quickly meets the demand of consumers, and also helps the company to understand the changing tastes and preferences of the consumers. The relatively cheaper channel of customer warehouse, is used for perishable products, which has a lower turnover and are not purchased impulsively. Through its distributor networks, the company distributes F&B products to restaurants, businesses, schools and stadiums through third party food service and vending distributors and operators.

Haldirams

One of the major problems with the company is that there is very limited direct and permanent contact with the retailers due to which there is also a big communication gap. Visibility of products is also poor due to lack of incentives provided by the company to retailers (unlike Pepsico and ITC). However, the strong brand identity of the company continues to drive revenues.

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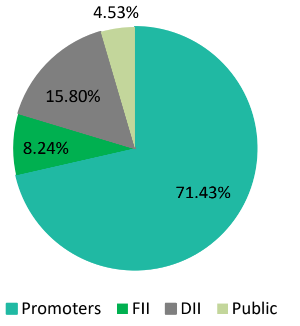
Fund Holding Pattern

Fund Holding	% of Holding
SBI Mutual Fund	5.51
Malabar India Fund Limited	4.25
Small Cap World Fund, Inc	3.35
Faering Capital India Evolving Fund II	2.05
BNP Paribas Mutual Fund	1.45
Kotak Mahindra Mutual Fund	1.1

Source: NSPL Research

Shareholding Pattern



Source: NSPL Research

Management Team

Name	Designation
Arvind Mehta	Chairman and Executive Director
Amit Kumat	Managing Director and Chief Executive Officer
G.V.Ravishankar	Nominee Director
V.T.Bharadwaj	Nominee Director
Anisha Motwani	Independent Director
Vineet Kumar Kapila	Independent Director
Dr. Om Prakash Manchanda	Independent Director
Haresh Chawla	Independent Director

Source: Company

Company Background

- Prataap Snacks Ltd. (PSL) is a leading Indian Snack Foods Company. It offers multiple variants of products across categories of Potato Chips, Extruded Snacks, Namkeen (traditional Indian snacks) under the popular and vibrant Yellow Diamond brand. It has recently launched a range of sweet snacks under the distinctive Rich Feast brand.
- Prataap Snacks began under the name of Prakash Snacks which was incorporated in 2002. The company initially began trading cheese balls. The company then ventured into manufacturing potato chips by investing in a production line in 2005 and manufacturing extruded snacks (Chulbule) in 2006.
- By 2011, Prakash Snacks had reached a turnover of Rs 150 crores. A separate entity, Prataap Snacks was establied by Prakash's founder which was followed by a $30 million investment by Sequoia for an undisclosed stake. Prataap Snacks then went on to acquire Prakash Snacks by 2012.
- PSL is focused on offering deep value to consumers through a variety of pack sizes at attractive price points. Its products are present across 27 states in India and it is one of the fastest growing companies in the organised snacks industry.

Manufacturing Plants

- Headquartered in Indore, India; PSL operates 9 manufacturing facilities of which 3 facilities (Indore, Assam-1 and Assam-2) are owned and 6 facilities (located in Ahmedabad, Kolkata and Bangalore) are on contract manufacturing basis.
- The three facilities owned have a combined capacity of 80,500 MT (17.8% dedicated to Potato Chips, 69% to Extruded Snacks and 13.2% to Namkeen; 66.2% capacity in Indore and 33.8% capacity in Guwahati)
- The entire contract capacity of the Bengaluru facility (4260 MT) is now exclusively dedicated towards the manufacture of Prataap's products with effect from August 1, 2016 while the Kolkata and Ahmedabad facility is non-exclusive (although prior approval is required for plants to manufacture other companies' products except Kolkata.
- The company has a distribution network of about 235 super stockists and 3800+ distributors and caters to 26 states and one UT.

Raw Materials Used

- The highest component of raw material is the packaging material film which constituted of 23.1% of total raw materials purchased. Packaged snacks are covered in film packaging and then shipped in bulk using cardboard boxes.
- The second highest component is crude palm oil. This is used for the manufacturing of all products produced by Prataap and accounts for 16.6% of raw materials. Oil is sourced through local suppliers. The company also spends 13.1% of raw material cost in the purchase of toys for its Rings product.
- The other main raw materials are potatoes and corn. Potatoes were sourced through short term or spot purchase arrangements at variable prices from Indore and nearby areas which are known for their quality potatoes and were stored in cold storage facilities leased by the company. Potatoes were also procured from Maharashtra and Gujarat largely for immediate consumption. Due to historical volatility in raw material prices, the company has now hedged the variability in prices by engaging in forward contracts and investing in cold storage facilities.

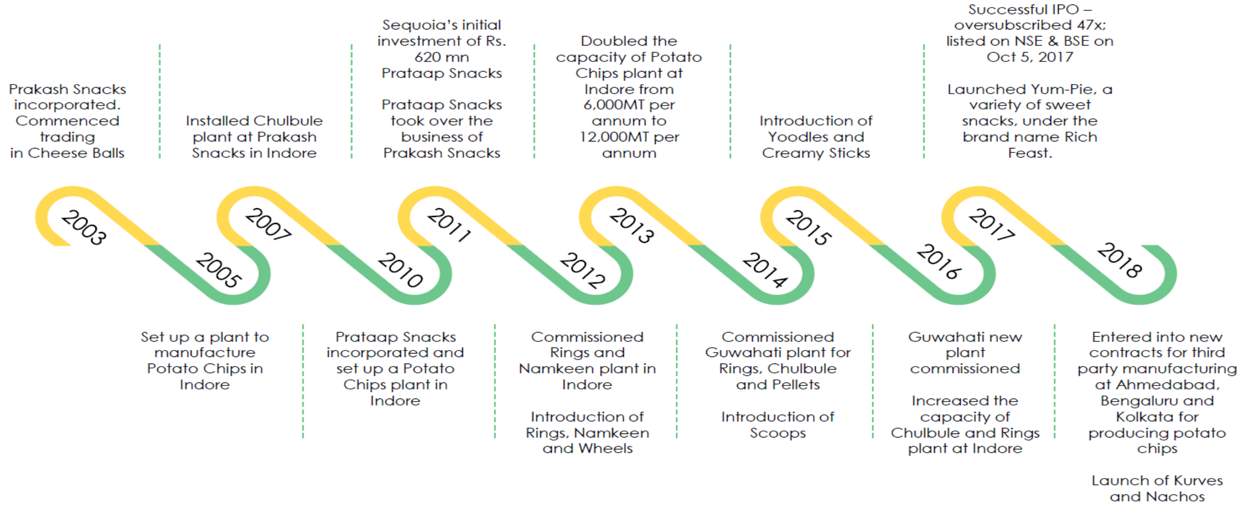
Key Raw Materials	% of COGS (as of FY17)
Packaging Film	23.1%
Box	8.3%
Oil	16.6%
Potato	7.8%
Corn	5.8%
Toys	13.1%

Innovative marketing initiatives have grabbed user base

Several successful campaigns have been carried out in the past like using "Chhota Bheem" (a popular Indian cartoon) and related characters on Rings packaging, using characters of "Ben 10", a popular animated series amongst children, for promotion of its products on Cartoon Network etc. This was targeted at children, as they are the biggest consumers of Rings. The company currently has a tie-up with Viacom 18 Media Private Limited, the entity that operates the popular children's entertainment channel 'Nickelodeon', to use the cartoon characters 'Motu Patlu' on its Rings packaging. The company adds toys to its Rings packets to attract children.

Further, Prataap has launched its sweet snacks brand, Rich Feast through its tag-line, '*Itna yum, share karna toh banta hai*'. The company has chosen Salman Khan, as its brand ambassador. The company also sells Potato Chips, Chulbule (Extruded Snacks) and Namkeen, to both adults and youth with the *'Dildaar Hai Hum'* campaign through television. Some of the net proceeds from the IPO will be used to further engage in advertising and direct promotional activities to increase the brand awareness of Yellow Diamond.

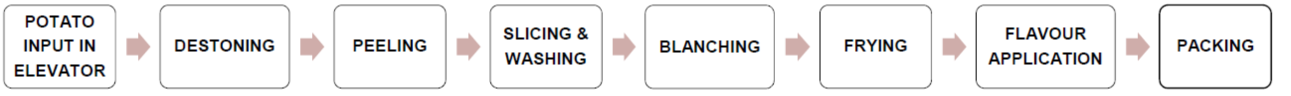
Company Timeline



Source: Company, NSPL Research

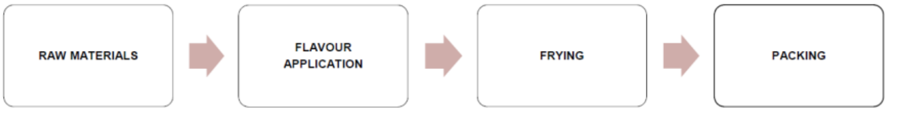
Production Process

Potato Chips



First, the potatoes are cleaned by removing foreign particles like stones, clay etc. through a de-stoning process. A smooth spherical shape is then achieved by removing the outer skin of the potato. To obtain crispiness, a consistent thickness is required which is obtained by using slicers with standardised settings. To remove the starch (to prevent stickiness and carbonisation), the slices are then gently washed. The resultant potato slices are gelatinised and fried. This is followed by the setting of temperature and time so as to get the desired crispiness. Finally, the flavouring powder and salt are applied to the potato chips post cooking. This takes place when the product is hot in order to assist the flavour to adhere to the chips. Finally, the packaging machines are used to pack the chips in film packs. These machines are fitted with sensitive weighing heads and are made to operate at optimum speed so as to get variable quantity packs as and when required.

Namkeen



The raw material is uniformly mixed with flavour as per the desired recipe. The resultant mixture is then fried. Finally, the packaging machines are used to pack the namkeen in film packs. These machines are fitted with sensitive weighing heads and are made to operate at optimum speed so as to get variable quantity packs as and when required.

Extruded Snacks

The meal mixer is filled with a mix of the raw materials according to the desired recipe. A homogenizer containing the mixed material is placed on the top of the extruder from where it is continuously discharged. The mechanical fraction inside a stainless steel silo is responsible for the extrusion. Post this process, the undesired small particles are removed from the extruded material through a stainless steel sieve. Through a vibratory feeder, the desired extruded material is fitted in to the fryer. To maintain the oil quality, a batch type filter with a hot oil circulation pump is fitted onto the fryer. For our Rings and Puffs products, an oven is used instead of a fryer. The product is fried/baked on a submerging conveyor and taken out by the same belt on an inclined plane. The excess surface oil is then removed when the material is passed onto the flavouring drum and after it is cooled down.. The desired flavour is applied on the extruded product by pouring or spraying slurry from overhead pipe equipped with a spraying head. The tumbling action of the drum ensures thorough and even application of flavour to the entire product. Finally, the packaging machines are used to pack the extruded snacks in film packs. These machines are fitted with sensitive weighing heads and are made to operate at optimum speed so as to get variable quantity packs as and when required.

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Financials

Profit And Loss Statement (INR crore)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net revenue from operations	**757.2**	**903.9**	**1036.7**	**1237.1**	**1423.4**	**1588.0**
Cost of Goods Sold	522.2	636.6	686.2	827.2	922.3	1013.3
Employee benefits expense	18.7	25.3	36.5	38.4	41.1	44.0
Other expenses	159.8	201.2	227.0	275.3	331.2	375.2
Total Expenses	700.7	863.0	949.7	1140.8	1294.6	1432.5
EBITDA	**56.5**	**40.9**	**86.9**	**96.4**	**128.9**	**155.5**
Other income	0.7	1.5	8.0	6.0	6.0	6.0
EBITDA (incl. Other Income)	57.2	42.4	95.0	102.4	134.9	161.5
Depreciation and amortisation expenses	18.0	25.0	30.4	32.9	36.6	37.4
EBIT	**39.2**	**17.4**	**64.6**	**69.5**	**98.3**	**124.1**
Finance costs	5.9	4.5	2.9	0.0	0.0	0.0
PBT	33.36	12.94	61.66	69.5	98.3	124.1
Exceptional Items	5.802					
PBT (After Exceptional Items)	27.6	12.9	61.7	69.5	98.3	124.1
Tax expenses	0.2	3.0	17.5	19.7	27.9	35.2
PAT	**27.4**	**9.9**	**44.2**	**49.8**	**70.40**	**88.9**
No. of shares (in crores)	1.9	1.9	2.2	2.3	2.3	2.3
EPS	14.6	5.2	19.9	21.2	30.0	37.9
Dividend Payout	0.0	0.0	5%	10.4%	18.3%	25.4%
Dividend Payment	0.0	0.0	2.3	5.2	12.9	22.6
Retained Earnings	27.4	9.9	41.8	43.7	55.2	62.4

Balance Sheet (INR crore)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Share capital	1.5	3.1	11.7	11.7	11.7	11.7
Reserves and surplus	215.8	235.3	507.8	551.8	607.1	669.4
Total Shareholders' Equity	**217.2**	**238.3**	**519.5**	**563.6**	**618.8**	**681.2**
Long-term borrowings	21.0	38.9	0.0	0.0	0.0	0.0
Deferred tax liability (net)	5.5	8.6	3.3	3.3	3.2	3.1
Long-term provisions	1.0	1.7	2.3	2.7	3.2	3.5
Total Non-current liabilities	**27.6**	**49.1**	**5.6**	**6.0**	**6.4**	**6.7**
Short-term borrowings	26.4	26.8	7.5	0.0	0.0	0.0
Trade payables:	55.2	77.3	99.7	113.3	126.3	138.8
Other current liabilities	14.8	35.4	29.9	27.9	32.1	35.8
Short-term provisions	0.2	0.3	0.4	0.5	0.6	0.6
Total current liabilities	**96.6**	**139.7**	**137.5**	**141.7**	**159.0**	**175.2**
Total Equity and Liabilities	**341.4**	**427.2**	**662.6**	**711.3**	**784.2**	**863.1**
Property, plant and equipments	167.8	193.2	264.7	307.4	321.4	294.7
Intangible assets	0.4	7.7	3.5	3.1	2.5	1.9
Capital work-in-progress	30.3	51.8	1.6	1.7	1.6	1.4
Intangible assets under development	0.0	0.0	0.8	0.	0	0
Deferred tax assets (net)	0.0	0.1	5.8	5.8	5.8	5.8
Loans and advances	40.2	45.5	21.3	25.4	29.2	32.6
Other non current assets	0.2	1.3	4.4	5.3	6.1	6.8
Total Non Current Assets	**238.9**	**299.5**	**302.2**	**348.6**	**366.6**	**343.2**
Inventories	68.5	78.9	89.7	92.9	101.1	105.5
Trade receivables	18.3	19.7	20.4	23.7	27.3	30.5
Cash and bank balances	6.1	11.1	214.4	205.9	241.9	330.8
Loans and advances	8.0	12.0	15.8	16.2	19.7	22.3
Other current assets	1.6	6.1	20.1	24.0	27.6	30.8
Total Current Assets	**102.5**	**127.7**	**360.4**	**362.7**	**417.6**	**519.9**
Total Assets	**341.4**	**427.2**	**662.6**	**711.3**	**784.2**	**863.1**

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Financials

Cash Flow Statement (INR crore)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profit before tax and after exceptional item (as restated)	**27.6**	**12.9**	**61.7**	**69.5**	**98.3**	**124.1**
Depreciation and amortisation expenses	18.0	25.0	30.4	32.9	36.6	37.4
Other Non-cash Charges	11.0	4.3	-3.1	-6.0	-6.0	-6.0
Operating profit before Working Capital Changes	56.5	42.3	89.0	96.4	128.9	155.5
Changes in working capital	-6.0	5.0	8.9	-3.5	-5.8	-0.8
Direct taxes paid (net of refunds)	-7.2	-4.6	-17.5	-19.7	-27.9	-35.2
Net cash flow from operating activities (A)	**43.3**	**42.6**	**78.4**	**73.1**	**95.2**	**119.5**
Capex	-52.2	-58.8	-98.3	-75.0	-50.0	-10.0
Free Cash Flow	**-8.9**	**-16.2**	**-19.9**	**-1.9**	**45.2**	**109.5**
Net cash flow used in investing activities (B)	**-46.6**	**-69.8**	**-48.1**	**-69.0**	**-44.0**	**-4.0**
Net cash flow from financing activities (C)	**5.1**	**32.3**	**175.9**	**-12.6**	**-15.2**	**-26.6**
Cash and cash equivalent at the beginning of the year	1.4	3.2	8.3	214.4	205.9	241.9
Net increase/(decrease) in cash and cash equivalents (A + B + C)	1.8	5.1	206.1	-8.5	36.0	88.9
Cash and cash equivalent at the end of the year	**3.2**	**8.3**	**214.4**	**205.9**	**241.9**	**330.8**

Ratio Analysis

Growth Ratios (%)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Sales	35.5%	19.4%	14.7%	19.3%	15.1%	11.6%
EBITDA	66.9%	-27.7%	112.7%	10.8%	33.7%	20.7%
APAT	176.4%	-63.9%	346.6%	12.7%	41.4%	26.3%
Margins (%)						
EBITDA Margin	7.5%	4.5%	8.4%	7.8%	9.1%	9.8%
NPM	3.6%	1.1%	4.3%	4.0%	4.9%	5.6%
Other Expenses as % of Revenue	21.1%	22.3%	21.9%	22.5%	22.7%	22.9%
Return Ratios (%)						
ROA	16%	5%	17%	16.2%	21.9%	30.2%
ROE	12.6%	4.2%	8.5%	8.8%	11.4%	13.1%
ROCE	14.8%	5.7%	12.3%	12.3%	15.9%	18.2%
ROIC	11.6%	4.5%	15.8%	14.9%	19.9%	27.1%
Per share data						
EPS	14.6	5.2	19.9	21.2	30.0	37.9
BPS	115.8	126.2	234.3	240.3	263.8	290.4
Valuations (x)						
P/E (x)	89.1	233.0	61.2	56.1	39.6	31.4
EV/Net Sales	3.3	2.6	2.6	2.1	1.8	1.5
EV/EBITDA	43.9	57.7	30.5	26.8	19.8	15.8
Debt Ratios (x)						
Net Debt/EBITDA	0.7	1.3	-2.4	-2.1	-1.9	-2.1
Net Debt/Equity	0.2	0.2	-0.4	-0.4	-0.4	-0.5
Interest Coverage	6.7	3.9	22.2	-	-	-

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