Prataap Snacks

Namkeen market

- The ready-to-eat packaged food industry
  - High level of fragmentation
  - Low entry barriers
  - Relatively low capital requirement

Namkeen market 2 categories	
Indian & ethnic	60%
Western, Extruded	40%

- Market divided into 3 categories kids, teenagers, and adults
  - Kid's category calls for new packaging and products that are cheap, value for money
  - Teenagers and adults, some of them health conscious, healthier and high-grade products, don't mind paying little extra

Prataap positioning

- SEC C and D class
- Value for money positioning, strong brand image in lower & middle-income customer segments

Prataap's new products & categories

Started with chips, entered extruded snacks and namkeen, and then entered Yum Cake and Cookie Cake

2009

POTATO CHIPS
- Cream & Onion
- Nimbu Masala

CHULBULE
- Taza Tomato

2010-11

POTATO CHIPS
- Tasty Punch
- Mast Masala

CHULBULE
- Achari

2012

POTATO CHIPS
- Black Pepper

INTRODUCTION OF RINGS, NAMKEEN AND WHEELS

2013

NAMKEEN
- Banana Wafer with Black Pepper
- Banana Wafer Salted
- Cornflake Mixture
- Mitha Falahar
- Bhel
- Sev Murmura

POTATO CHIPS
- Yummy Masala
- Chatpata

2014

NAMKEEN
- Garlic Sev Mamra
- Masala Matar
- Gatiya Masala

CHULBULE
- Cream & Onion

INTRODUCTION OF SCOOPS

2015

NAMKEEN
- Chana Chor

INTRODUCTION OF YOODLES AND CREAMY STICKS

2016

RING
- Mango Chutney
- MRP 15 pack with bigger toys

2017

INTRODUCTION OF SEVEN WONDERS RANGE OF HEALTHIER SNACKS

2018

LAUNCHED NACHOS AND KURVES

LAUNCHED YUM-PIE, A VARIETY OF SWEET SNACKS, UNDER THE NEW UMBRELLA BRAND "RICH FEAST"

2019

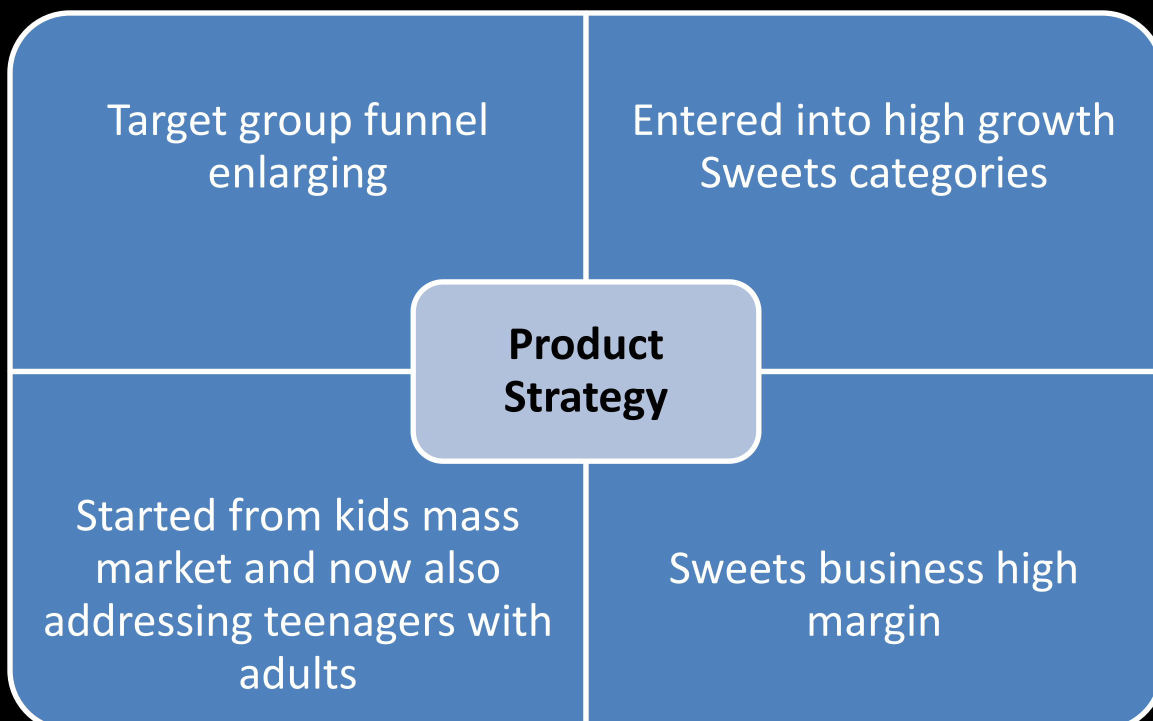
KURVES
- Cheese and masala variants

LAUNCHED YUM CAKE, COOKIE CAKE AND CHOCO VANILLA CAKE

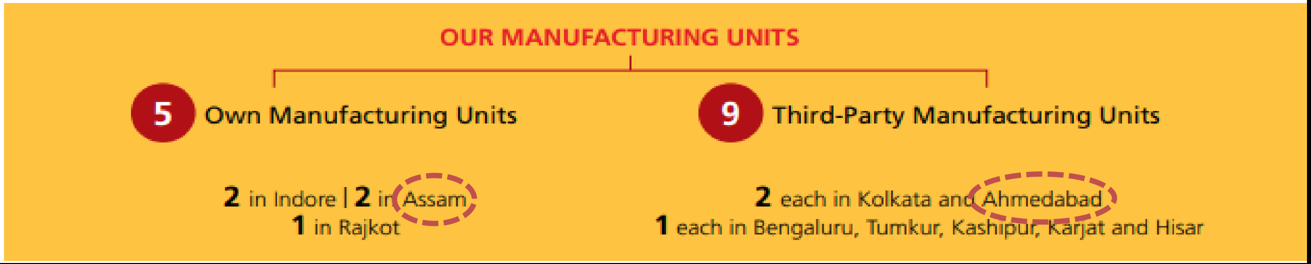
Prataap's complete product portfolio

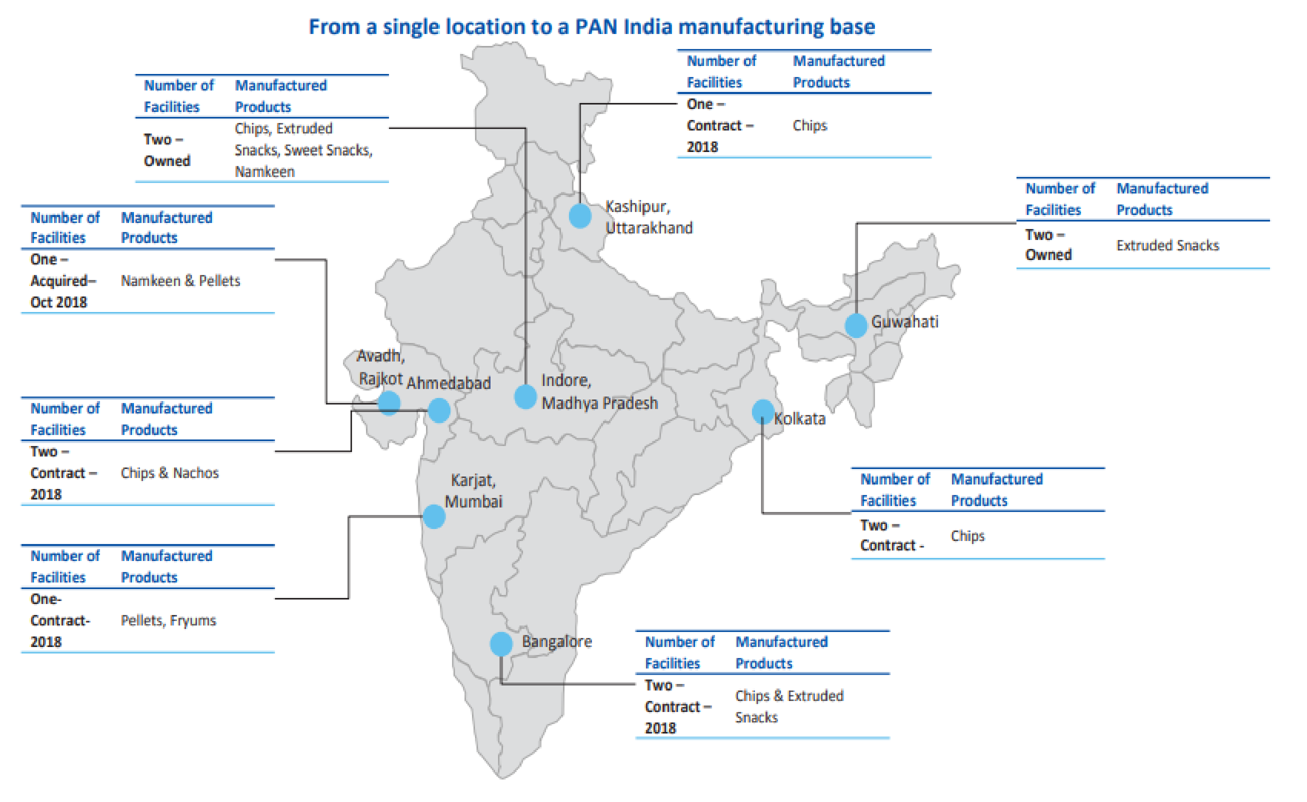
Product	No. of SKUs	Target Group	BASED ON / KEY INGREDIENT
Potato Chips	7 Flavours	All	Potato
Chulbule	8 Flavours	Youth and Children	Rice Grit & Corn Grit
Rings, Kurves and Puff	8 Flavours	Children	Corn Grit
Namkeen	22 Varieties	All	Gram # Based
Pellet Snacks	4 Flavours	Children	Wheat
Nachos	4 Flavours	All	Corn Tortillas
Yum Cake & Cookie Cake	4 Flavours	Youth and Children	Cake centre filled with cream and Cake with chocolate
Namkeen & Fryums (Avadh)	55 Varieties	All	Namkeen and Fryums catering to local tastes

Key component is Gram, however, based on the variants, multiple pulses and other condiments might be used



Production model – Mix of 3P and Own





- 6 3P in span of 27 months. Clear focus and execution on transforming business model
- Plan to expand to places where not strong – Punjab, Uttar Pradesh, Gujarat, Southern India, HP & JK

Trade offs of production model

Cost benefit analysis between 3P and own plant in terms of

- Gross margins (contractors cut?)
- Power and fuel (PL misguiding)
- Freight cost (lower due to proximity to consumer)

IPO boon or bane?

- Issue price of INR 930. Sep'17. 2 years with NIL returns
- Issue of Rs.480 crore. Split almost 50/50 between fresh and OFS

Purpose	Amount (Cr)
Debt repayment	50.98
Subsidiary (Pure N Sure) Debt repayment	29.37
Capex and facility upgradation	27.47
Marketing	40.00
General	50.12
Avadh Snacks	39.52
Total	**237.46**

- Bad decision?
  - Total debt repayment Rs.80 crore. 33% of proceeds. Debt free
  - Due to interest reduction added 120 crore to Mcap (assumes 30 PE, 21% tax rate). Means by paying 72 cr got benefit of 120 crore
- Rest all the money towards growth

Avadh acquisition

- Sep’18. Strategic acquisition. 4th largest namkeen player in Gujarat
- Paid Rs.138 crore. Deferred contingent consideration of Rs.68 crore
- Gujarat important market
  - Has only 4% of the country’s population but it has 13% market share in namkeen
- Avadh has sales of Rs.80 crore for FY19
- Acquired at P/S 2.24x. Valued Avadh at Rs.206 crore
- Avadh running at 100% CU. New plant by?
- 2-tier supply system. Lower distribution cost

Thesis to pick the stock

Shave portfolio

- Abandon low sale contributing products

To stay ahead in product delivery

- Bring new products in all categories i.e. chips, extruded, sweets

Above factors with favorable macro variables

- Deliver 15-18% topline growth over next 4-5 years

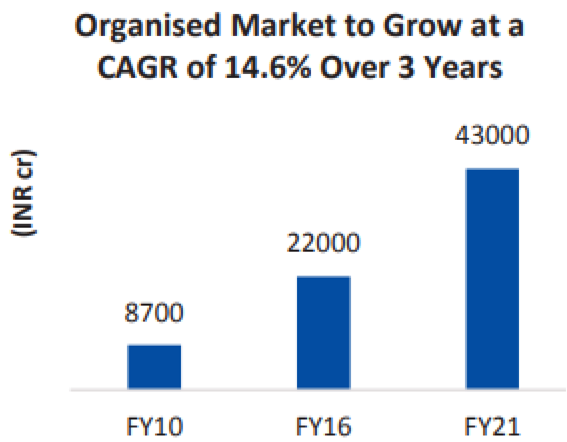
Unable to forecast

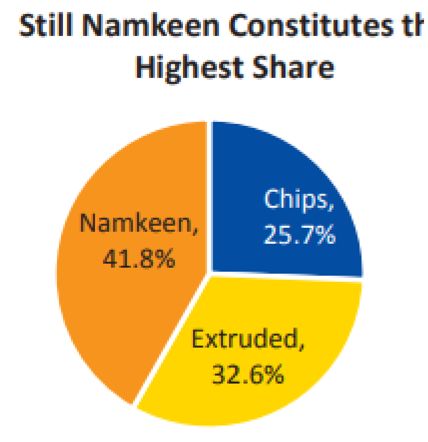
- Margin expansion (mainly at gross level, 150 bps)

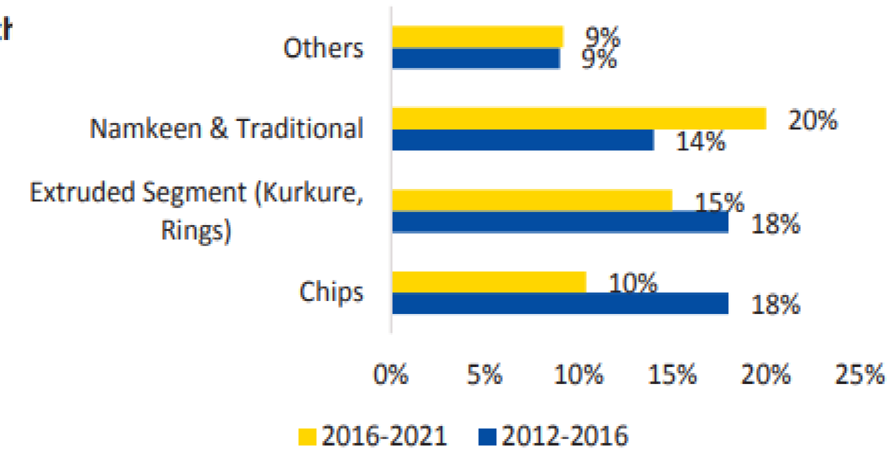
WC management

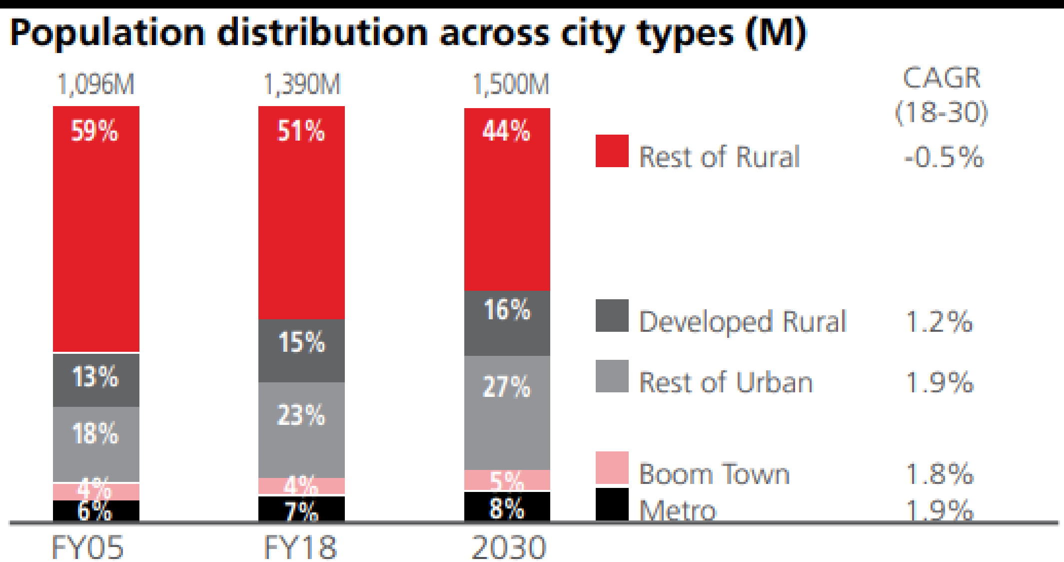
- Debtors under control (7-8 days), inventory is pain which needs efficiency

Tracking macro variables

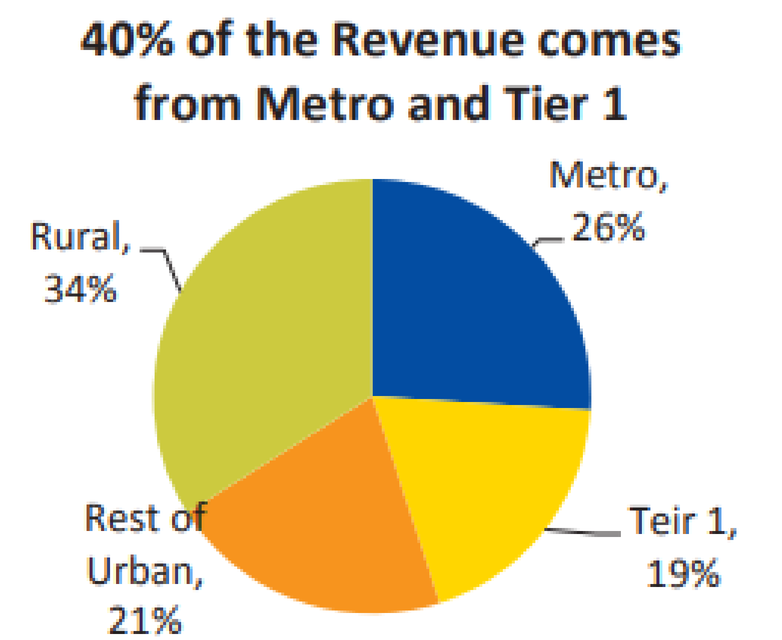








Source: World Economic Forum Report: Future of Consumption in Fast-Growth Consumer Markets – India



Everybody is making a killing

Sales	FY13	FY14	FY15	FY16	FY17	FY18
Lays ,Kurkure Pepsi	2,550	2,719	3,109	3,076	3,214	3,612
Haldiram	2,237	2,895	3,187	3,595	4,564	5,039
Balaji Waffers	914	1,044	1,246	1,415	1,635	1,840
Bikanerwala	350	421	493	532	663	763
Bikaji Foods	326	400	468	554	611	800
DFM Foods	225	263	289	390	345	425
Agrotech Foods	128	139	161	173	175	195
Prataap	344	446	559	757	904	1,037

- Prataap and DFM only listed players in Namkeen space
- DFM small and limited product portfolio
- If investor to play the theme then bet only on Prataap
- Prataap deserves premium valuation by being large listed Namkeen player?

15% topline CAGR achievable?

Growth Rate (%)	FY13	FY14	FY15	FY16	FY17	FY18
Lays, Kurkure Pepsi		7%	14%	-1%	4%	12%
Haldiram		29%	10%	13%	27%	10%
Balaji Waffers		14%	19%	14%	16%	13%
Bikanerwala		20%	17%	8%	25%	15%
Bikaji Foods		23%	17%	18%	10%	31%
DFM Foods		17%	10%	35%	-12%	23%
Agrotech Foods		9%	16%	7%	1%	11%
Prataap		30%	25%	35%	19%	15%

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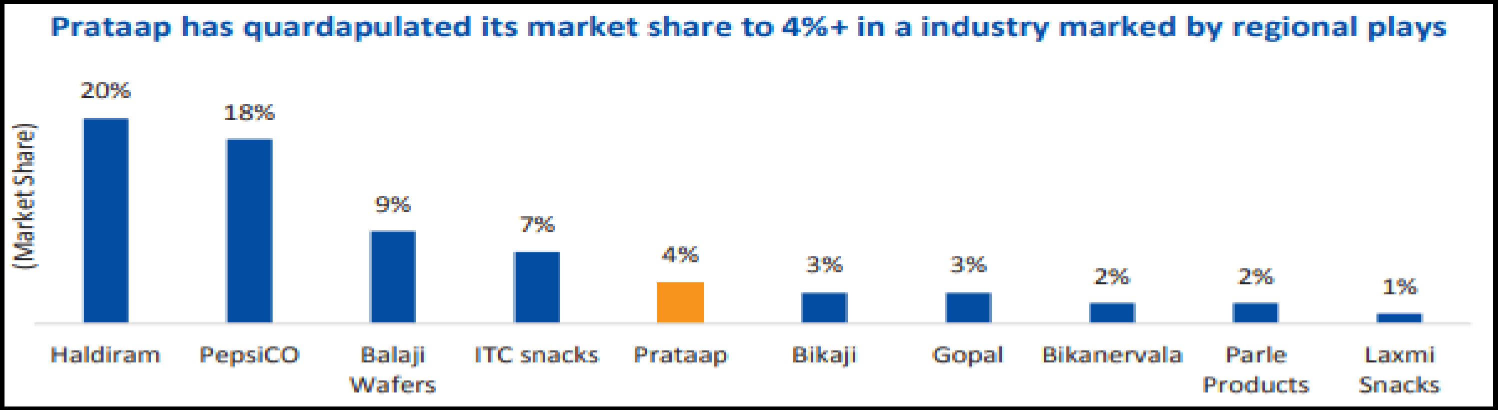
DFM Foods		17%	10%	35%	-12%	23%
Agrotech Foods		9%	16%	7%	1%	11%
Prataap		30%	25%	35%	19%	15%

Market share game - Running 2nd



Share within pack	FY13	FY14	FY15	FY16	FY17	FY18
Lays, Kurkure Pepsi	36.0%	32.7%	32.7%	29.3%	26.5%	26.3%
Haldiram	31.6%	34.8%	33.5%	34.3%	37.7%	36.8%
Balaji Waffers	12.9%	12.5%	13.1%	13.5%	13.5%	13.4%
Bikanerwala	4.9%	5.1%	5.2%	5.1%	5.5%	5.6%
Bikaji Foods	4.6%	4.8%	4.9%	5.3%	5.0%	5.8%
DFM Foods	3.2%	3.2%	3.0%	3.7%	2.8%	3.1%
Agrotech Foods	1.8%	1.7%	1.7%	1.6%	1.4%	1.4%
Prataap	4.9%	5.4%	5.9%	7.2%	7.5%	7.6%

Margin expansion possibility

Gross margin levers

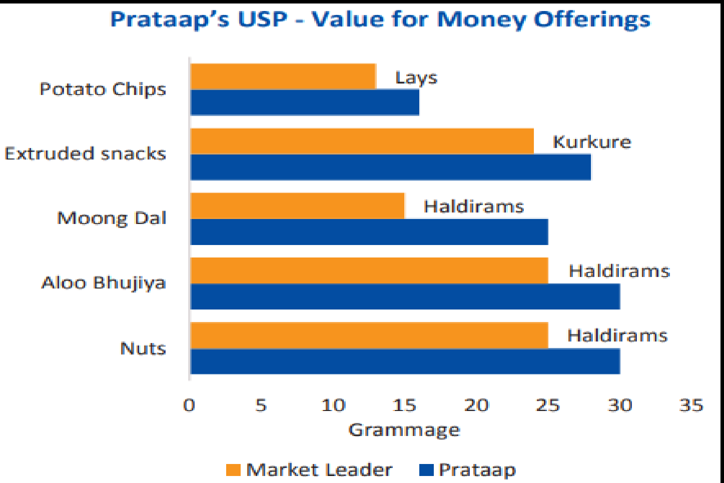
- Rising share of high margin namkeen, sweets & premium offerings in the portfolio
- Enhanced brand strength by shifting from toy-led push to taste & brand-led pull
- Increasing scale via higher sales, from 1,000 cr to 2,000 cr

Operating margin levers

- lower freight cost on account of 3P model
- Increased flexibility by harnessing direct distribution network vs 3-tier distribution network will lead to savings in distribution cost

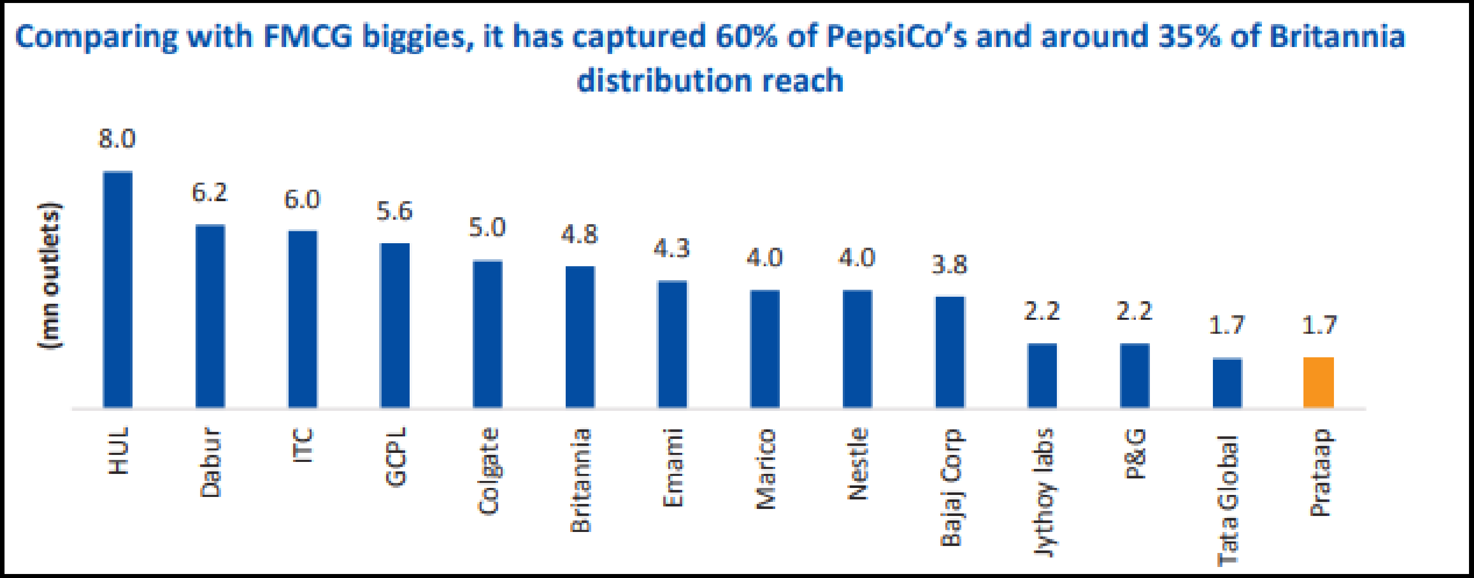
Grammage rationalization

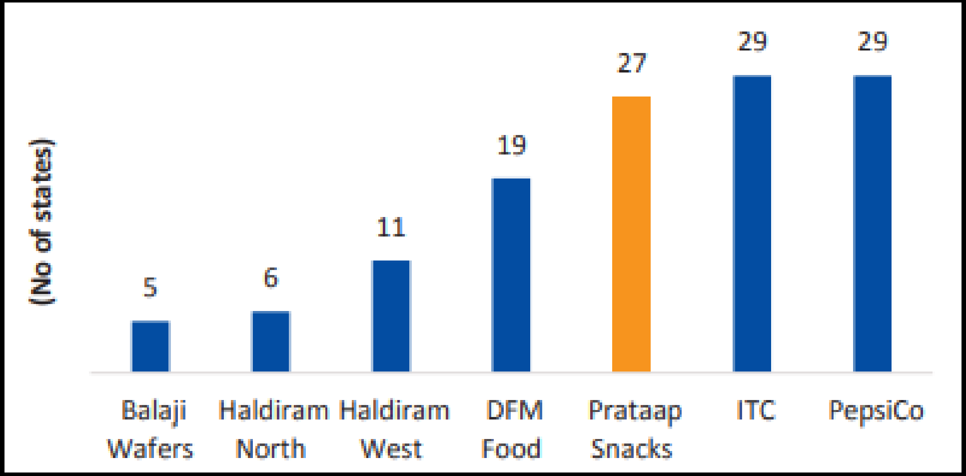
- Delivering value products
- Frito-Lay was offering 22 grams in a Rs 5 pack, Prataap Snacks offered 30 grams. Its pricing strategy pushed several bigger companies to also offer value packs to be competitive

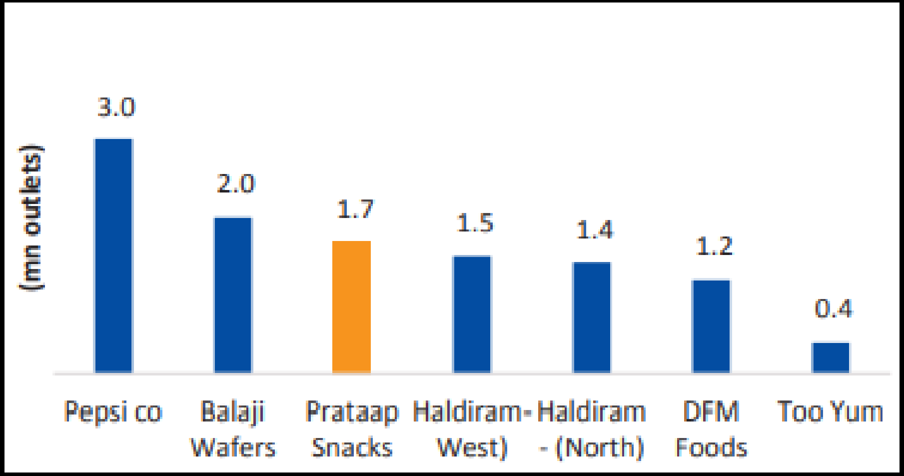


Rings	Leader	Prataap	Extra
Price per packet	5.0	5.0	
Weight	11.0	13.0	**18%**
GPM	**39%**	**31%**	
Material Cost %	61%	69%	
Material cost (INR)	3.05	3.45	
Weight revised	11.0	12.4	**13%**
Rationalized material cost	3.05	3.29	
GPM revised	**39.00%**	**34.22%**	

Spreading quick







Growth strategy

Four pronged approach

1. Continued growth in established portfolio of salty snacks by better penetrating existing markets and entering new ones. Introduce new products and variants
2. Growth of Avadh business within Gujarat and newer markets. Market reach with lesser distribution costs
3. Exploiting synergy for Yellow Diamond products on Avadh platform, and vice versa
4. New product variants in sweet snack portfolio which enjoy mass appeal, supported by enhanced capacity

Management ka Vayda

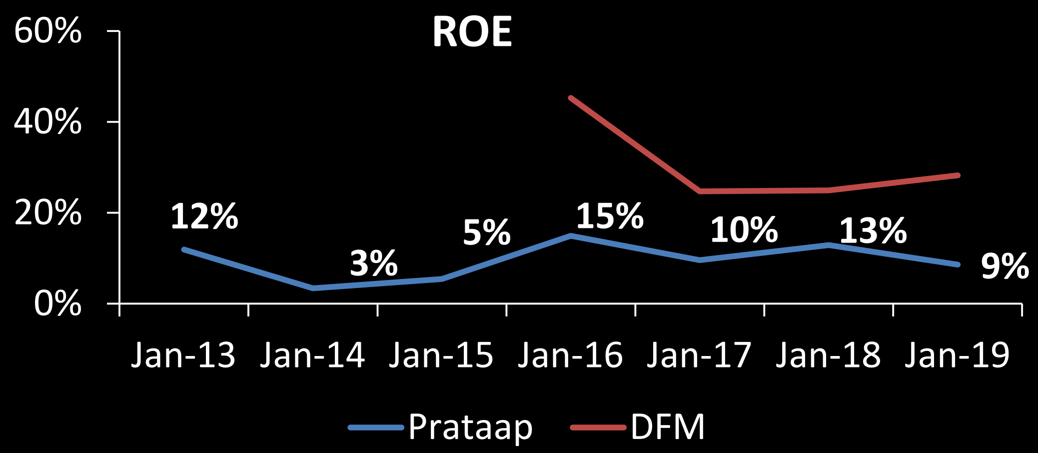
Ramping up distribution network
- 100 SKU’s, 240 super stockist, 4,100 distributors, 1.7 Mn retail touch points
- 2x retail touch points by FY23

Removing one layer in select areas to increase margins
- Moving from 3-tier supply chain to 2-tier in select metro and towns
- Discarding Super-stockist and selling directly to Distributors
- Aid margins for Prataap and also increase ROI for distributors

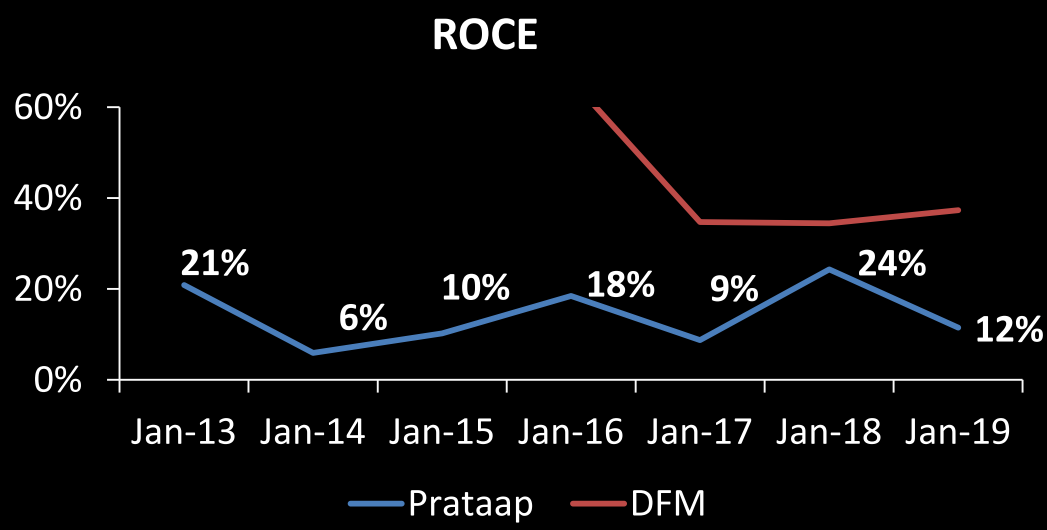
Low cost operating model
- Being asset light
- Mix of own plants & 3P

Market leader in Rings category
- Sustain performance in Rings

Books pe return banega?



- Reason for lower ROE - mainly margins. FA turnover healthy
- Ignore FY18/19 ROE due to major equity dilution



- RoCE good around 10-20%. Why lower RoE then?
- Depreciation charge double than DFM
- Dep % gross block 11% vs 5.5% of DFM. That's why much lower RoE. ROCE healthy
- Look at ROCE. Accurate metric

Inventory is nuisance

	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Inventory days	38	41	38	33	31	33	35
Receivables days	5	6	8	8	7	6	8
Payables days	22	28	31	27	27	33	31
CC days	**21**	**20**	**15**	**14**	**11**	**6**	**12**

	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Working Capital	15.02	22.21	23.97	21.58	32.86	21.77	10.44	64.62
Increase/(decrease)		7.19	1.76	-2.39	11.28	-11.09	-11.33	54.18
Cumulative			**8.95**	**6.56**	**17.84**	**6.75**	**-4.58**	**49.60**

FMCG Valuation

Companies	FY21 Mcap/sales	FY21 EV/EBITDA	FY21 PER
Britannia Industries	5.2	28.9	44.4
Dabur India	6.6	28.7	34.3
Hindustan Unilever	7.0	30.6	42.3
Marico	5.0	26.2	37.7
Nestle	7.3	28.9	48.0
Future Consumer	1.3	2.8	96.6
Median	**5.3**	**27.5**	**42.3**
DFM Foods	1.8	16.6	29.5
Prataap Snacks	**1.2**	**14.4**	**33.7**

- EV/EBITDA better measure to value since depreciation is high

Peer comparison

Companies	FY19-21 CAGR			FY21			
	Rev.	EBITDA	PAT	ROCE	EV/sales	EV/EBITDA	PER
Britannia Industries	14	18.3	19.1	47	4.9	28.9	44.4
Dabur	11.1	12.9	15.1	30.2	6.3	28.7	34.3
Godrej Consumer	9.7	11.6	12.5	21	5.3	25	35
Hindustan Unilever	18.3	21.5	24.8	52.6	7.3	30.6	42.3
Marico	12.3	15.2	15.1	48.6	4.8	26.2	37.7
Nestle	13.4	14.8	16.7	78.3	7.0	28.9	48
Future Consumer	30.5	55.6		11.9	1.3	28.0	96.6
DFM Foods	18.5	18.7	24.8	26	1.8	16.6	29.5
Median	**13.4**	**15.2**	**15.9**	**36**	**5.4**	**26.2**	**37.7**
Prataap	**21.5**	**30**	**27**	**19.4**	**1.2**	**14.4**	**33.7**

Simple numbers (cons)

	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Sales	173	344	446	559	757	894	1,017	1,171	1,329	1,488	1,801	2,053
Revenue growth %		99.09%	29.63%	25.40%	35.50%	18.06%	13.80%	15.06%	13.50%	12.00%	21.00%	14.00%
Raw Material	122	244	327	406	524	630	688	820	930	1,027	1,242	1,416
Inventory	5	3	-1	2	2	4	2	0	0	0-	0	0
Gross profit	**56**	**103**	**117**	**155**	**235**	**268**	**331**	**350**	**399**	**461**	**558**	**636**
GPM	**32.39%**	**29.95%**	**26.30%**	**27.71%**	**31.04%**	**29.97%**	**32.55%**	**29.92%**	**30.00%**	**31.00%**	**31.00%**	**31.00%**
Power and Fuel	9	14	16	16	18	21	26	27	31	33	40	43
Other Mfr. Exp	8	14	21	27	38	47	56	72	73	82	99	113
Employee Cost	2	5	9	14	19	25	37	42	47	52	59	68
Selling and admin	18	40	49	63	105	128	119	121	143	164	202	230
Other Expenses	0	2	2	1	-1	4	6	5	5	6	7	8
EBITDA (Ex OI)	**18**	**28**	**20**	**34**	**57**	**42**	**87**	**83**	**100**	**125**	**151**	**174**
OPM	10.52%	8.01%	4.53%	6.10%	7.51%	4.72%	8.60%	7.12%	7.50%	8.40%	8.40%	8.50%

Cash flow

	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
PAT	14.76	5.38	9.92	30.39	21.76	48.78	46.46
Add: Depreciation	6.82	11.68	15.34	17.99	25.47	30.42	37.64
Add: Interest	3.61	4.73	6.33	5.88	4.57	2.89	0.77
CFO pre WC changes	**25.19**	**21.79**	**31.59**	**54.26**	**51.8**	**82.09**	**84.87**
Inventories	-17.05	-9.89	-5.4	-10.88	-10.34	-10.82	-29.79
Debtors	1.54	-7.89	-2.03	-4.66	3.78	-5.92	-10.35
Creditors	8.32	16.02	9.82	4.26	17.65	28.07	-14.04
WC Changes	-7.19	-1.76	2.39	-11.28	11.09	11.33	-54.18
CFO post WC changes	**18**	**20.03**	**33.98**	**42.98**	**62.89**	**93.42**	**30.69**
Less: Capex	68.67	29.7	29.2	26.44	49.96	43.3	59.37
Less: Interest	3.61	4.73	6.33	5.88	4.57	2.89	0.77
FCFE	**-54.28**	**-14.4**	**-1.55**	**10.66**	**8.36**	**47.23**	**-29.45**
Cumulative		**-68.68**	**-70.23**	**-59.57**	**-51.21**	**-3.98**	**-33.43**

Weakness and risks

- Competition
  - Competition from MNC and top domestic firms
  - Might not be harnessing technology like its bigger counterparts
- Product
  - Product failure rate high in this segment
  - Numerous small businesses that have tried to sell snacks have either died, or become suppliers for bigger brands
- Health averse
  - Ventured into healthy snack segment with quinoa chips, but the product was not successful

Management team & last words

Chariman	Arvind Mehta	Over 30 years of experience in real estate business. 16 years in snacks food industry & financing business
MD CEO	Amit Kumat	23 years in the snacks food industry
Non-Indep (Sequoia)	GV Ravishankar	18 years in management consultancy & PE investments. Worked at McKinsey, Wipro
Indep (ex-Sequoia)	VT Bharadwaj	GP at A91 Partners. 18 years in management consultancy & PE investments. Worked with Sequoia & McKinsey
CFO	Sumit Sharma	17 years of experience, worked with Crompton Greaves, L&T and New Holland Group
COO	Subhashis Basu	27 years of experience in MCG industry, worked with Parle, PepsiCo India and Mother Dairy

- Exit through M&A possible
  - Consolidation in 5-7 years. Reaching 2-3k crore sales important i.e. size
- No margin improvement then valuation expansion low
  - OPM expansion 100 bps will take care of return ratios and all
  - Valuation then should be 45-60x because it'll offer 15% growth

Amit’s story

- Amit Kumat has his roots in operating businesses
- His father owns a wholesale cloth shop where he worked after a short stint in the U.S
- The cheeseball experiment was Amit Kumat’s second shot at making snacks
- The first was when he bought a sick chip factory in Indore and started making chips under the now defunct Hello Chip brand
- The business died in a few years, after which he dabbled in various businesses, including a trading website and an SAP training institute.
- By 1999, all his business ventures had failed, and he was saddled with liabilities.
- In 2002/03 commenced with Prataap snacks

Market prices and shareholding

- Promoters – Amit Kumat & Arvind Mehta. Sequoia Capital.
  - Sequoia invested INR 128 crore in 2012. INR 140 crore up till 2017.
- Malabar acquired 2.5% for INR 50 crore valuing company at INR 2,000 crore. Sep 2017
  - Malabar Nil return for 2 years
- Cornered stock
  - Retail & HNI participation low. 1.72% holding with less than 10,000 shares
  - Good results/better margins or other trigger could result in sharp movement
- Does Sequoia need to exit? How will Sequoia exit? Get acquired?

Shareholding Jun'19

Party	% holding
Sequoia Capital	48.39%
Kumat & Mehta Family	23.04%
Promoter	**71.43%**
Malabar Fund	4.84%
Faering Capital	2.05%
MF's (Kotak, SBI, IDFC)	7.94%
Other FPI	8.74%
Retail	5.00%
Total	**100.00%**

Gochi areas (research yet to be done)

Ways to siphon money in this business

- Inventory faulty
- Acquisition route
- Marketing spend faulty (related party)
- Cash generating in certain years - Loans to director/related party
- Low chances since bank money not involved, it’s all equity

Gaps in research

- Not covered corporate governance
- Not covered channel checks and market participants views
- Not covered margins for 3 tier supply chain