



SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	FMCG
Total Issue (Shares) - Offer for sale	3,005,770
Total Issue (Shares) - Fresh Issue	2,132,196
Net Offer to the Public	5,137,966
Issue Size (Rs. Cr.)	477-482
Price Band (Rs.)	930-938
Offer Date	22-Sep-17
Close Date	26-Sep-17
Face Value	5
Lot Size	15 Per Equity Share

Issue Composition In shares

Total Issue for Sale	5,137,966
QIB	2,568,983
NIB	770,695
Retail	1,798,288

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	92.67%	71.43%
QIB	0.00%	10.95%
NIB	0.00%	3.29%
Retail	7.33%	14.33%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

Offer for Sale

- Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale. Company will not receive any proceeds from the Offer for Sale.

Fresh Issue

Company proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

- Repayment/pre-payment, in full or part, of certain borrowings availed by the Company;
- Funding capital expenditure requirements in relation to expansion and modernisation at certain of its existing manufacturing facilities;
- Investment in its Subsidiary, Pure N Sure, towards enabling the repayment/pre-payment of certain borrowings availed of by its Subsidiary;
- Marketing and brand-building activities; and
- General corporate purposes.

Book Running Lead Manager

- Edelweiss Financial Services Ltd
- JM Financial Institutional Securities Limited
- Spark Capital Advisors (India) Private Limited

Name of the registrar Karvy Computer share Pvt Ltd

About the Company

Incorporated in 2009, Prataap Snacks sells products under the brand name "Yellow Diamond". It has a diversified product portfolio including traditional and western snacks. The company manufactures and sells its snacks under three major savory snack food categories: 1. Extruded Snacks: Processed, reconstituted and shaped potato or cereal based snacks. This includes Puffs, Rings, Pellets and Chulbule products. 2. Chips: Fried, sliced chips or crisps made from potatoes, hummus, lentils. 3. Namkeen: Traditional savitsy Indian snack which includes products such as moong dal, masala or fried nuts, sev and bhujia. In Fiscal 2017, revenue from Extruded Snacks, Chips and Namkeen represented 62.99%, 23.85%, and 12.23%, respectively.

Strength

Innovation driven diversified product portfolio: The company believes that its ability to identify market trends and develop new flavours catering to the palate of Indian consumers are significant factors that have contributed to the growth of its business. As of July 31, 2017, the company had 40 flavours of Chips and Extruded Snacks and 23 varieties of Namkeen in the market. The company has generated revenues of ₹ 1 billion from each of its key products, i.e., Potato Chips, Chulbule, Rings, and Namkeen within a few years of their launch.

Value proposition for consumers: The company believes that its brand philosophy emphasises delivery of maximum value to consumers and is reflected in its marketing campaign "Dildaar Hain Hum". The revenues generated by its Rings product grew at a CAGR of 105.98% since launch to Fiscal 2017 and Rings generated revenues of ₹ 3,98.72 Cr. in Fiscal 2017.

Strategic supply chain for a pan-India distribution network: As of June 30, 2017, The company has appointed super stockists in 26 States and one Union Territory in India, with a distribution network comprising of 218 super stockists and over 3,500 distributors. Although according to the FS Report, the East Zone is generally considered to be one of the most difficult markets for generation of increased market share, its wide distribution network and product configuration has enabled the company to achieve a CAGR of 45.82% in revenues from operations (net) from the East Zone in the period from Fiscal 2013 to Fiscal 2017.

Strategically located manufacturing facilities: It owns and operates three manufacturing facilities across India. One in Indore in Madhya Pradesh while the other two are located at Guwahati in Assam. As of July 31, 2017, the aggregate estimated installed capacity for these owned and operated manufacturing facilities was 80,500 MTPA. It has also engaged two facilities on a contract manufacturing basis, located at Bengaluru, Karnataka and at Kolkata, West Bengal. As of July 31, 2017, the estimated installed production capacity of the Bengaluru contract manufacturing facility was 4,260 MTPA.

Successful track record and professional management: In Fiscal 2012, the company has acquired certain manufacturing businesses from its Group Company, Prakash Snacks pursuant to a business transfer agreement dated September 28, 2011. Its revenue from operations (net) has grown at a CAGR of 27.34% from Fiscal 2013 to 2017. From 2010 to 2016, its market share increased from 1% to 4%. The company became the market leader in rings segment in 2015. The revenue from sale of its Rings product grew at a CAGR of 54.17% from Fiscal 2013 to Fiscal 2017. Its Potato Chips, Rings, Chulbule and Namkeen products currently generate revenues of over ₹ 1 billion.

Strategy

Deeper penetration in existing markets and explores select new territories: The Company intends to deepen penetration in the North and West Zones, particularly in the states of Rajasthan, Punjab and Uttar Pradesh. It has a strong presence in regional pockets and intends to proliferate its presence deeper into these to be able to serve all classes and customer segments. While continuously reinforcing its position in India, The Company plans to explore select markets abroad, such as South Asia, to expand its sales in these regions and enhance its brand recognition internationally.

Expand and modernize its production capabilities: The Company intends to expand its production capabilities to aid its efforts to deepen its pan-India presence. So as to cater to the increased demand, The Company intends to use a part of the Net Proceeds towards expansion and modernization of its manufacturing facilities, specifically at its Indore manufacturing facility. In order to cater to the increasing demand, The Company intends to add production lines for Chips and Namkeen along with a packaging line and purchase of related utilities at its Indore manufacturing facility. The company also intends to modernise its existing facilities. The company also intends to replace some of its existing Chulbule packaging machinery at Indore with newer and more advanced machinery and modernise its effluent treatment plant at Indore.

Increased advertising and marketing activities: The Company has spent Rs. 36.80 Cr on advertising and sales promotions of its products in Fiscal year 2017 across kids' channels, general entertainment channels and other channels. In the past, it has launched its multimedia campaign "Dildaar Hain Hum" that was intended to increase brand awareness and strengthen the recall of the Yellow Diamond brand. To further increase its brand awareness and achieve brand recall, especially in urban, semi-urban and rural markets, the company intends to increase its marketing and advertising activities, by increasing advertising activities on Hindi general entertainment channels, Hindi movie channels, Hindi music channels, news channels, sports channels, and further strengthening its campaigns on kids channels.

Expand its product portfolio into healthier snacks segment and confectionaries: The company will continue to expand its product portfolio and distribution reach, focus on increasing sales volumes, and strive to provide differentiated offerings to its consumers. The company will leverage its extensive experience to solidify its industry position, by creating new products, entering new product categories and building new brands to capitalize on emerging trends. The company also intends to foray into the chocolate-based confectionary snack business.

Risk factors

Operates in a highly competitive industry: The company operates in India's snack food industry and face strong competition. An inability to maintain its competitive position may adversely affect its business, prospects and future financial performance.

If fails to develop, launch and market new products: The snack food industry in India is highly evolving and consumers may be tempted to shift their choices and preferences whenever new products are launched or various marketing and pricing campaigns of different brands are introduced. If the company fails to develop, launch and market new products due to unpredictable consumer preferences may have a material adverse effect on its business, results of operations, profitability and financial condition.

Relies largely on third-party super stockists and distributors to sell its products: The company relies largely on third-party super stockists and distributors to sell its products to retailers, who place its products in the market. As of June 30, 2017, its distribution network included 218 super stockists and over 3,500 distributors. Its inability to expand or effectively manage its growing super stockists and distribution network or any disruptions in its supply or distribution infrastructure may have an adverse effect on its business, results of operations and financial condition.

Peer comparison

Co_Name	Net Sales	PAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
Britannia Inds.	8962.28	884.61	73.42	59.43	19.43	224.59	2.00	4363.35	52386.01
DFM Foods	342.08	18.46	16.66	85.68	17.68	80.75	10.00	1427.35	1427.59
Prataap Industries	903.92	9.89	4.22	222.37	4.23	221.84	5.00	938.00	2199.89

*Prataap Industries ratios post issue

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 938, the stock is priced at pre issue P/E of 202.15x on its FY17 EPS of Rs. 4.64. Post issue, the stock is priced at a P/E of 222.37x on its EPS of Rs. 4.22. Looking at the P/B ratio at Rs. 938 the stock is priced at P/B ratio of 8.39x on the pre issue book value of Rs.111.79 and on the post issue book value of Rs. 221.84 the P/B comes out to 4.23x.

On the lower end of the price band of Rs.930 the stock is priced at pre issue P/E of 200.43x on its FY17 EPS of Rs. 4.64. Post issue, the stock is priced at a P/E of 220.47x on its EPS of Rs. 4.22. Looking at the P/B ratio at Rs. 930, the stock is priced at P/B ratio of 8.32x on the pre issue book value of Rs. 111.79 and on the post issue book value of Rs. 221.84, the P/B comes out to 4.19x.

Industry Overview

The ₹ 550 billion Indian snacks market is characterised by a large number of unorganised players across all product segments. This is because traditionally snacks can and are very specific to each region, and hence, many small companies cater to that market. The market for organised Indian snacks has grown by 11% between 2015 and 2016. The market for organised snacks in India is estimated to grow at about 14.6% CAGR, between 2016 and 2021. Shift from unorganised sector to the organised sector, and increasing penetration in Southern and Eastern markets will be the key driving factors for this market. Companies have responded to this growth by enhancing their production capacities across the country.

Outlook

The company is present in three major savory snack food categories in India and all its products are sold under the “Yellow Diamond” brand. It has diversified product portfolio includes three categories i.e. Extruded Snacks, Chips and Namkeen. The management is hopeful about its new product launch plans. However, the issue is aggressively priced.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Issue Closing Date	September 26, 2017
Finalisation of Basis of Allotment with the Designated Stock Exchange	September 29, 2017
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	October 3, 2017
Credit of Equity Shares to demat accounts of Allottees	October 4, 2017
Commencement of trading of the Equity Shares on the Stock Exchanges	October 5, 2017

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-17	Period ended 31-Mar-16
Total Operating Income	903.92	757.19
Total expenditure	863.05	700.67
Operating Profit	40.87	56.52
OPM%	4.52	7.46
Other Income	1.54	0.71
PBDIT	42.41	57.23
Depreciation	24.99	17.99
PBIT	17.42	39.25
Interest	4.484	5.88
PBT & exceptional Item	12.94	33.36
Exceptional items	0	5.802
PBT after exceptional Item	12.94	27.56
Tax	3.046	0.19
PAT	9.89	27.37

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-17	As on 31-Mar-16
Non-current assets		
Property, plant and equipments	193.16	167.80
Intangible assets	7.65	0.36
Capital work-in-progress	51.80	30.31
Intangible assets under	0.01	0.01
Deferred tax assets (net)	0.08	0.01
Loans and advances	45.47	40.19
other non current assets	1.27	0.24
Total Non- Current Assets	299.45	238.93
Current assets		
Inventories	78.87	68.53
Trade Receivables	19.69	18.29
Cash and Bank balances	11.05	6.05
Loans and advances	11.99	8.04
Other current assets	6.13	1.56
Total current assets	127.73	102.47
Total Assets	427.18	341.40
Non-current liabilities		
Long-term borrowings	38.85	21.04
Deferred tax liabilities (net)	8.59	5.53
Long-term provisions	1.69	1.03
Total non-current liabilities	49.13	27.60
Current liabilities		
Short-term borrowings	26.75	26.42
Other current liabilities	35.39	14.78
Short-term provisions	0.27	0.15
Trade payables	77.28	55.21
Total current liabilities	139.70	96.57
Total	188.83	124.17
NET Worth	238.34	217.23
Net worth represented by:		
Share capital	3.06	1.47
Reserves and surplus	235.28	215.77
Net Worth	238.34	217.23

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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