

Initiating Coverage LT Foods Ltd.

09-APRIL-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs. 68	Buy at LTP & add on dips at Rs.58	Rs. 78	Rs.88	2 quarters

HDFC Scrip Code	LTFOODEQNR
BSE Code	532783
NSE Code	LT Food
Bloomberg	LTO.IN
CMP	68
Equity Capital (Rscr)	24
Face Value (Re)	1
Equity Share O/S (cr)	32
Market Cap (Rscrs)	2180
Book Value (Rs)	51
Avg. 52 Wk Volumes	20,45,675
52 Week High	68.4
52 Week Low	19.8

Share holding Pattern % (Dec, 2020)	
Promoters	56.81
Institutions	5.08
Non Institutions	38.11
Total	100.0

Fundamental Research Analyst

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Our Take:

LT Foods is one of the leading branded Basmati rice company. It has been one of the most successful Basmati rice player in the US & EU markets. The company is amongst very few players in this space to invest behind setting-up a rice processing facility in Europe (Rotterdam) and a packaging unit with Ready to Heat facility in US. It has dominant market share of 50%+ in US while in the Indian market it holds 27% share.

It mainly operates in 4 business segments – (1) Consumer- B2C Branded Basmati business under company's two flagship brands – a "Daawat" Basmati and its sub-brands in India and Overseas markets b) Its brand "Royal" is No. 1 selling basmati brand in US and commands a 37% market share. (2) Institutional- B2B is company's oldest business wherein the company caters to the HORECA (Hotel/Restaurant/Catering) segment and has strong private label partnerships with large global retailers. (3) Organic portfolio in which the company manufactures and exports organic Agri ingredients like rice, pulses, oil seeds, cereal grains, spices and nuts to Europe and US under the brand "Ecolife" and has also launched these products in Indian market. (4) Value added products which includes the company's health and convenient foods business under which it sells products like Ready to Heat "Daawat Cuppa Rice", Brown rice and "Daawat" saute sauces.

Going forward, the company aims to further enhance its product mix with higher focus on margin accretive premium basmati export business and plans constant scale-up of new launches in value-add segment.

Valuations & Recommendation:

LT Foods earnings grew at a CAGR 18.7% over FY13-20. Going forward, we are positive on the future growth prospects of LT Foods which is mainly on the back of its robust distribution network, strong brand equity and constant endeavor to enrich their product portfolio by expanding into newer categories. In our view, LT Foods revenue and PAT is likely to record a growth of 8.8% and 21.5% CAGR over FY20-23E.

The stock is currently trading at valuation of 6.3x FY23E earnings. We feel the base case fair value of the stock is Rs. 78 (7.5x FY23E) and bull case fair value is Rs. 88 (8.5x FY23E). Investors willing to take risk can buy the stock at current levels of Rs. 68 and add on dips in the price range of Rs 58.

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	1075.0	996.2	7.9	1208.7	-11.1	3,890.4	4,146.1	4,606.6	4,956.0	5,360.7
EBITDA	137.8	115.4	19.5	149.9	-8.1	3,493.2	462.7	568.9	622.0	680.8
Depreciation	25.4	21.5	17.9	27.7	-8.3	69.0	91.4	100.7	107.2	113.7
Other Income	9.8	1.4	620.6	9.5	3.4	24.1	37.9	23.0	24.8	26.8
Interest Cost	17.9	28.1	-36.3	23.0	-22.2	138.7	132.3	105.6	110.2	114.3
Tax	24.5	18.9	29.8	31.2	-21.4	76.2	77.6	102.2	113.8	129.5
RPAT	69.2	48.1	43.9	72.5	-4.6	137.5	199.3	283.4	315.5	350.1
Diluted EPS (Rs)	2.1	1.4	45.8	2.3	-8.8	4.0	5.8	8.4	9.4	10.4
RoE						10%	13%	17%	16%	16%
P/E (x)						16.7	11.4	7.9	7.1	6.3
EV/EBITDA						9.5	8.3	6.5	5.8	5.1

(Source: Company, HDFC sec)

Q3FY21 Result Review

- LT Foods in Q3FY21 reported decent performance. Overall revenues stood at Rs. 1075Cr which grew by 7.9% on YoY and declined by 11% on sequential basis. The Company's Basmati and Other Specialty Rice business has grown by 6% in Q3FY21 on Y-o-Y basis while Small Consumer Pack business witnessed a growth of 14%. Also its Organic business' revenue registered a growth of 35% during Q3FY21 on Y-o-Y basis which was mainly driven by increase in consumer focus on hygiene, health and convenience.
- Gross Profit Margins at 29.2%; up 214 bps YoY. EBITDA stood at Rs.138Cr registering a growth of 19.5% on YoY basis while EBITDA Margins stood at 12.8% which expanded by 125bps on YoY basis. Consequently, PAT for the quarter stood at Rs. 69Cr up 45% on YoY basis. High PAT growth was driven by strong operating leverage and lower interest cost.

Long Term Triggers

Presence across the value chain

The company has a fully integrated farm to fork business model with presence across 234+ procurement mandis across India along with complete control over milling, packaging, sales and marketing. It has 5 manufacturing facilities in India, 1 in Europe and 3 packaging and RTH facilities in US. As on FY20, its processing capacity stood at 2160 MT/day. On the distribution side, it has developed a robust network in India which spans across 150,000+ retail outlets supported by its 800+ distributors.



Constant focus on establishing itself as a truly global rice company

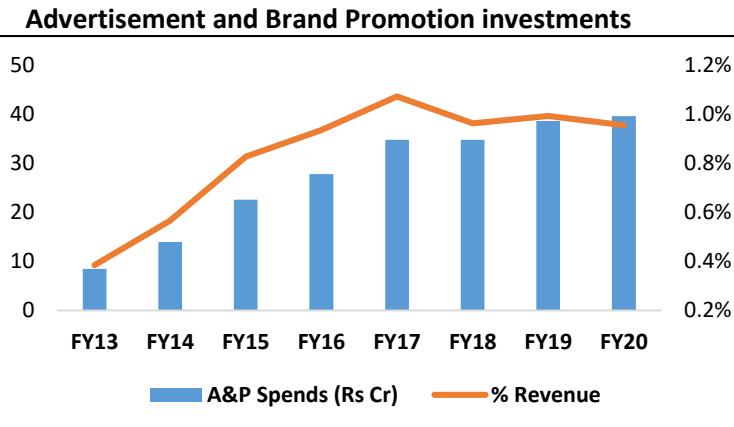
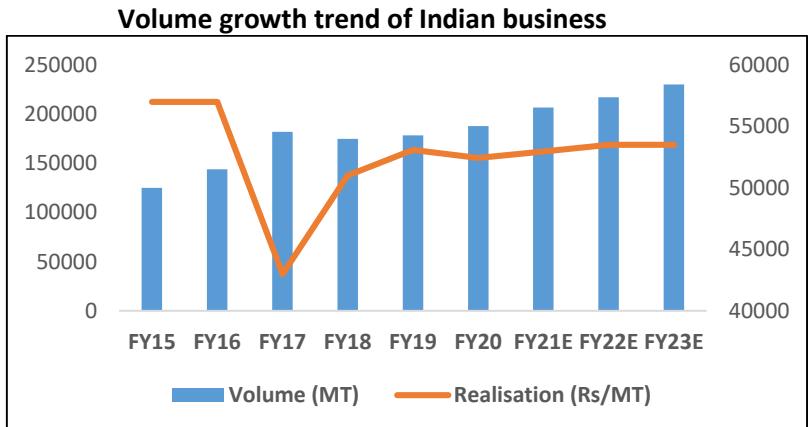
In the mid-'90's the company entered in the branded basmati rice business and also started exploring opportunities in the export markets. Currently, it has presence across 60+ countries globally. One of the major growth drivers for its exports business has been constant focus on inorganic growth opportunities fuelled by brand acquisitions across the world. Acquisition of the Royal Brand in FY08 gave the company a strong fillip in the US market. Post this, the company has carried out several other brand acquisitions which has helped the company expand presence to markets such as Canada, Europe and parts of Middle East. In FY16, the Company acquired two established brands of Hindustan Unilever viz. 'Gold Seal Indus Valley' and 'Rozana' to strengthen its position in Qatar, Oman and Bahrain. Also it acquired "817 Elephant" to scale-up its presence in the UK market.

In the European business, the company had set-up a facility in Rotterdam in 2017 with an initial capacity of 60,000 MTPA to capture the growing demand for Branded Basmati in European markets.

International business for LT Foods has grown at CAGR 20% over FY15-20 which is mainly driven by volume growth across geographies. In the global markets the company's key customers includes the likes of Walmart, Kroger, Costco, Lowes, Sams Club etc. Recently the company had signed a partnership with Jumbo a supermarket chain having 660 stores commanding 21% market share in Netherlands alone. International business contributes ~64% of overall revenues. Geography-wise US contributes a major chunk of revenues (36% of overall revenues) followed by EU, Middle East and ROW which contributes 11%, 12% and 5% of the overall revenues.

LT Foods - Indian Branded Basmati market share almost tripled in last 13 years

The company has been consistently pursuing its strategy of creating a strong brand portfolio under its flagship brand "Daawat" in India. It has a varied range of product offerings catering to diverse set of consumers from mass to premium segment and thereby it has been focusing on optimizing the full potential of the growing consumer base. Apart from this, it has been constantly expanding its reach across the length and breadth of the country with presence across ~120,000 touch points across General trade, Modern Retail, HORECA and E-com. In the Modern trade channel the company 30% market share. The company's constant focus on brand building and deeper penetration in Indian markets has led to consistent market share gains which as per AC Nielsen, the company's current overall market share for branded basmati products in India stood at 27% v/s 10% in 2007 while in the rural segment its current share stood at 44%.



(Source: Company, HDFC sec)

Expansion in product portfolio

Over last 2 decades, LT Foods has been constantly focusing on expanding its product offering both in International and Indian markets. The company aimed to leverage “Royal” (basmati rice brand in US) distribution network by expanding in Indian organic food exports, through its wholly owned subsidiary, Nature Bio Foods Ltd (NBFL). The company exports primarily to the European and US markets under its brand “Ecolite”. Organic portfolio comprises mainly of organic Agri ingredients like rice, pulses, oil seeds, cereal grains, spices and nuts.

Apart from this the company has also ventured in value-add health and convenience food category which includes Ready to Heat “Daawat Cuppa Rice”, “Kari Kari” Snacks (JV with Kameda Seika a Japanese snack food major) and “Daawat” sauté sauces. As per the management it has been planning to launch few more products in non-rice category and aims to expand higher proportion of non-rice sales.

Branded Basmati players to benefit from cut in Mandi Tax

The key Paddy producing states like Punjab, Haryana and UP has reduced the market and rural development fees (Mandi Fees) on purchase of Paddy which is likely to be positive for branded basmati players like LT Foods which enjoys an inherent advantage over pricing.

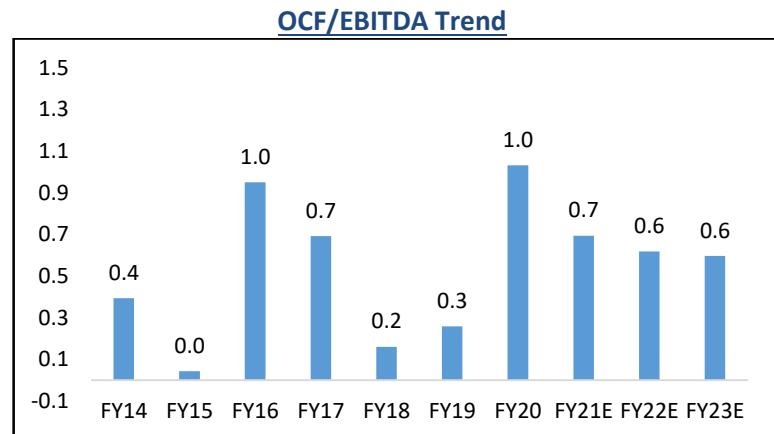
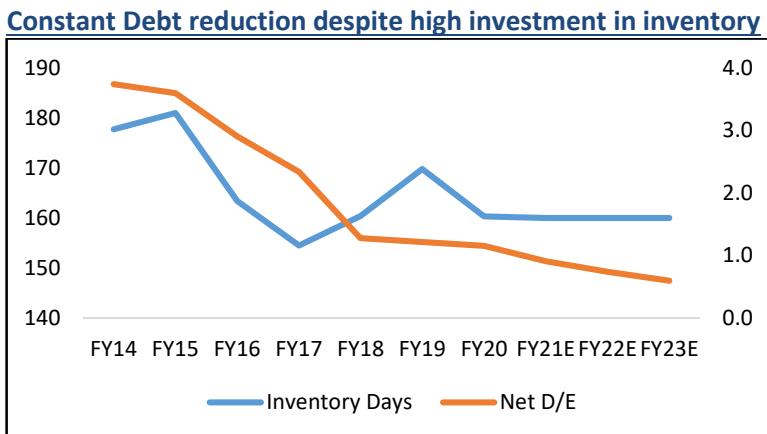
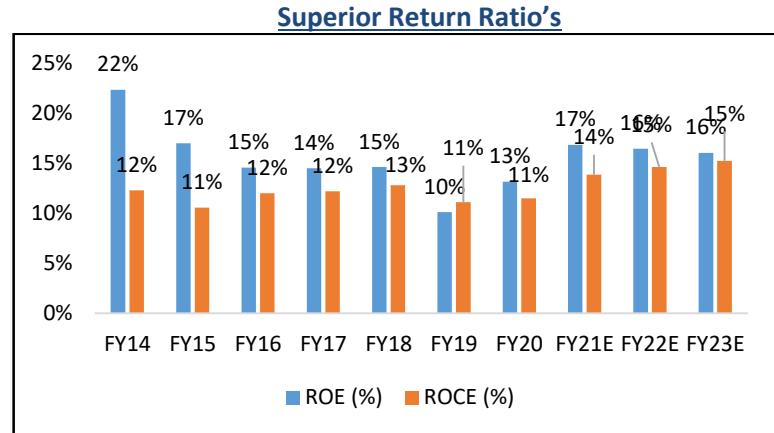
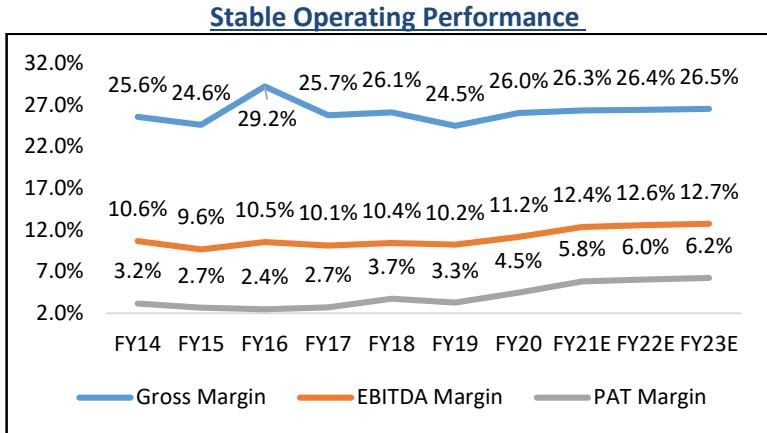


Focus on Debt reduction despite continues investment in brand building and high inventory stocking

LT Foods being a branded player in premium quality basmati rice business is required to go through a tedious paddy aging process which takes atleast 15-20 months. Ageing as a process is highly working capital intensive resulting a huge entry barrier. LT Foods has gone through those the initial struggling phase of constantly balancing the working capital requirements and at the same time investing behind branding and acquisitions world-wide. The company has already gone through the larger part of its investment phase resulting in Net D/E coming down from 3.6x in FY15 to 1.2x in FY20 which it further plans to reduce over next 2-3 years.

Key Financial Summary

- LT Foods has delivered a healthy revenue growth of CAGR 13.2% over FY09-20 aided by its consistent focus on high margin branded export segment. Going forward, we are expecting the company to report a revenue CAGR of 8.8% over FY20-23E.
- Its EBITDA and PAT grew by CAGR 12.4%/18% respectively over FY09-20. Going forward, we expect its operational performance to improve whereby its EBITDA and PAT likely to grow at CAGR 13.6% and 21.5% respectively over FY20-23E.
- On the working capital side, LT Foods being a branded player in premium quality basmati rice business is required to go through a tedious paddy aging process which takes atleast 15-20 months. Most of its products goes through an aging process of atleast 18-24 months of harvested paddy. This is a highly working capital intensive process which has been the main reason the company has a working capital heavy business model.
- Despite a working capital intensive business model, LT Foods has been able to consistently generate free cash flows thereby reducing its net debt from 3.6x in FY15 to 1.2x in FY20.



(Source: Company, HDFC sec)



What could go wrong?

- **Negative outcome of ongoing case for recovery of fire insurance claims**

A major fire occurred in the subsidiary company, Daawat Foods Limited, resulting in loss of inventory of raw material having a book value of Rs. 180Cr and the subsidiary company had filed an insurance claim of Rs.189.7Cr. The insurance company (Oriental Insurance) had repudiated the insurance claim vide its order dated 4th February 2016 against which the subsidiary company filed a civil suit. On the basis of developments in the case including surveyor reports, the subsidiary company has written off claim of Rs. 44Cr. The carrying value of the insurance claim amounts to Rs. 134Cr as at 31st March 2020. In case of failure to recover the same, LT Foods will have to provide for the balance.

- **Volatility in raw material prices**

The basmati rice processing industry is an agro-based industry and its main raw material is basmati paddy. Any drought like situation in key paddy producing states can have a supply crunch of paddy which can result in abrupt price rise making the product less competitive against other rice varieties.

- **Geopolitical/forex risk or trade restrictions on import from India**

LT Foods has huge dependence on the export business particularly in the US markets. Any large trade restriction or geopolitical issue can result in over supply and a steep decline in company's realization thereby impacting its profitability. Also changes in export subsidies (like limiting MEIS benefits) could impact the overall realisation for basmati exporters and consequently the margins.

LT Foods earns 65% of its revenue from the global market exposing it to exchange rate fluctuations. However, the company follows a well-framed hedging policy that mitigates any large potential risk due to currency volatility.

- **Inability to scale-up Non-Rice business like new value-add business and Organic ingredients exports**

The company expects its Non-Rice business to grow significantly higher than rest of the business over next 4-5 years. In case if it is unable to scale this segment there can be an impact on overall revenue growth resulting in lower than expected earnings growth.

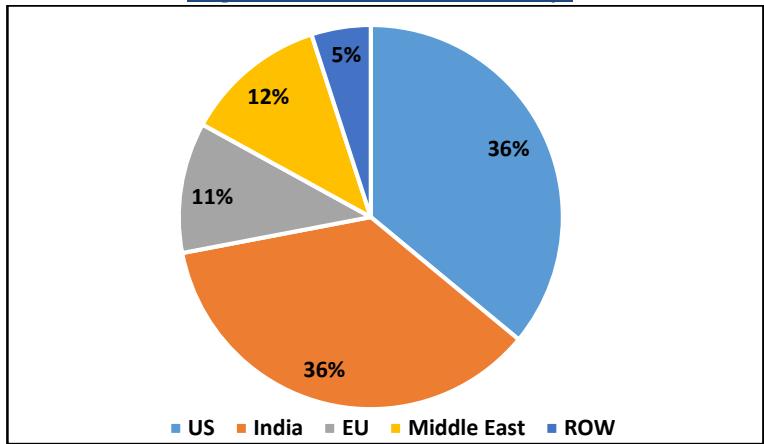
LT Foods earns lower margins when compared to the leader as it has higher exposure to private label and trading business.

Continued Covid incidence could result in repeated lockdowns and resultant impact on HORECA sales across the globe and especially in India.

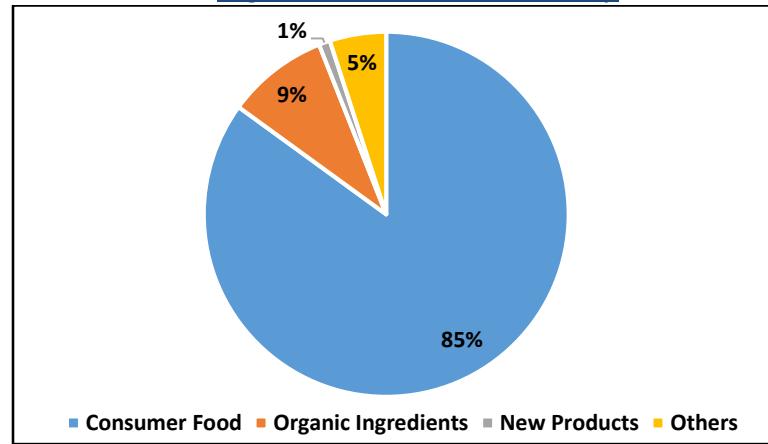
Company Profile:

LT Foods Limited (LTFL) is a leading Indian food processing company mainly engaged in the business of milling, processing and marketing of basmati rice. Over the years, the Company has transformed from a pure-play private label player (in 1995) to India's 2nd largest branded Basmati player. It has a 27% market share in the domestic market and a whopping 50% market share in the US market. The company has developed a robust distribution network which is spread across 60+ countries and 800 distributors world-wise. The company has 5 state-of-the-art manufacturing and processing units in India and has 3 packaging units in US and 1 processing facility in Europe.

Region-wise Revenue Break-up



Segment-wise Revenue Break-up



(Source: Company, HDFC sec)

The basmati market is estimated to be 8.5 million MT, 1.7% of the rice market. India produces ~7 million tonnes of basmati meeting ~80% of the world's basmati requirements. The domestic basmati market is 2.3-2.4 million tonne and 35% of this market is branded. Top 5 export destinations are countries in the Middle East. The Middle East market is estimated to be 4.2 million tonnes, constituting 50% of the world basmati market. Saudi Arabia and Iran are two important markets in the Middle East. While the exports to Saudi Arabia have been stable, we see a lot of fluctuations in exports to Iran.



Peer Comparison

Company	Mcap (Rs cr)	Revenue				EBITDA Margin (%)				PAT				RoE			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
KRBL	4,520	4499	4381	4816	5368	19.3	19.8	19.8	20.1	551	592	670	766	19%	18%	17%	17%
LT Foods	2,180	4146	4606	4956	5360	11.2	12.2	12.3	12.7	185	268	299	333	13%	17%	16%	16%
Company	P/B				P/E												
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	
KRBL	1.4	1.2	1.1	0.9	8	8	7	6									
LT Foods	1.4	1.2	1.1	1	12	8	7	6									

(Source: Company, HDFC sec)



Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	3890.4	4146.1	4606.6	4956.0	5360.7
Growth (%)	7.7%	6.6%	11.1%	7.6%	8.2%
Operating Expenses	3493.2	3683.4	4037.7	4334.0	4679.9
EBITDA	397.2	462.7	568.9	622.0	680.8
Growth (%)	10%	4%	11%	7%	8%
EBITDA Margin (%)	10.2	11.2	12.4	12.6	12.7
Depreciation	69.0	91.4	100.7	107.2	113.7
EBIT	328.2	371.3	468.2	514.7	567.1
Other Income	24.1	37.9	23.0	24.8	26.8
Interest expenses	138.7	132.3	105.6	110.2	114.3
PBT	213.6	277.0	385.6	429.3	479.6
Tax	76.2	77.6	102.2	113.8	129.5
RPAT	137.5	199.3	283.4	315.5	350.1
APAT	126.5	184.5	267.9	299.2	332.9
Growth (%)	-6%	46%	45%	12%	11%
EPS	4.0	5.8	8.4	9.4	10.4

Balance Sheet

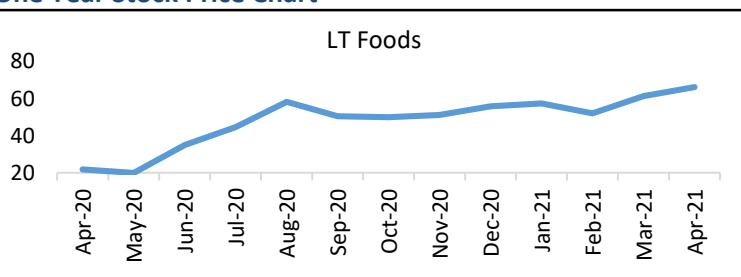
As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	32.0	32.0	32.0	32.0	32.0
Reserves	1297.1	1449.4	1669.3	1910.9	2179.9
Shareholders' Funds	1329.1	1481.3	1701.3	1942.9	2211.9
Total Debt	1690.4	1764.3	1624.3	1574.3	1524.3
Net Deferred Taxes	-8.6	-31.9	-32.5	-33.2	-33.8
Other Liabilities	12.1	13.4	14.1	14.8	15.5
Minority Interest	105.4	117.9	117.9	117.9	117.9
Total Source of Funds	3128	3345	3425	3617	3836
APPLICATION OF FUNDS					
Net Block & Goodwill	601.2	906.0	905.2	898.0	884.2
CWIP	42.2	17.3	17.3	17.3	17.3
Other Non-Current Assets	196.4	197.6	161.2	148.7	150.1
Total Non Current Assets	839.7	1120.8	1083.7	1063.9	1051.6
Current Investments	36.1	33.4	34.0	35.7	37.5
Inventories	1891.3	1750.2	2019.3	2172.5	2349.9
Trade Receivables	534.9	619.6	631.0	678.9	734.3
Cash & Equivalents	37.7	24.9	45.7	107.0	164.4
Other Current Assets	225.1	237.7	230.3	223.0	214.4
Total Current Assets	2725.0	2665.8	2960.5	3217.1	3500.6
Trade Payables	275.0	261.0	315.5	339.5	367.2
Other Current Liab & Provisions	117.5	125.4	276.4	297.4	321.6
Total Current Liabilities	392.5	386.4	591.9	636.8	688.8
Net Current Assets	2332.5	2279.4	2368.6	2580.3	2811.8
Total Application of Funds	3128	3345	3425	3617	3836



Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	213.6	277.0	385.6	429.3	479.6
Non-operating & EO items	4.8	24.5	0.0	0.0	0.0
Interest Expenses	135.1	129.8	105.6	110.2	114.3
Depreciation	69.0	91.4	100.7	107.2	113.7
Working Capital Change	-216.3	33.4	-95.3	-148.8	-172.3
Tax Paid	-103.7	-78.9	-102.2	-113.8	-129.5
OPERATING CASH FLOW (a)	102.6	477.1	394.4	384.2	405.9
Capex	-120.3	-88.8	-100.0	-100.0	-100.0
Free Cash Flow	-17.7	388.4	294.4	284.2	305.9
Investments	-22.0	-1.0	-0.7	-1.7	-1.8
Non-operating income	5.6	6.3	36.3	12.6	-1.4
INVESTING CASH FLOW (b)	-136.7	-83.4	-64.3	-89.1	-103.2
Debt Issuance / (Repaid)	148.6	-247.8	-140.0	-50.0	-50.0
Interest Expenses	-137.8	-130.9	-105.6	-110.2	-114.3
FCFE	-6.9	9.7	48.9	124.0	141.5
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Others	31.9	-27.7	-63.8	-73.6	-81.0
FINANCING CASH FLOW (c)	42.8	-406.4	-309.3	-233.8	-245.3
NET CASH FLOW (a+b+c)	8.6	-12.7	20.8	61.3	57.4

One Year Stock Price Chart



Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	10.2%	11.2%	12.4%	12.6%	12.7%
EBIT Margin	8.4%	9.0%	10.2%	10.4%	10.6%
APAT Margin	3.3%	4.5%	5.8%	6.0%	6.2%
RoE	10%	13%	17%	16%	16%
RoCE	11%	11%	14%	15%	15%
Solvency Ratio					
Net Debt/EBITDA (x)	4.2	3.8	2.8	2.4	2.0
Net D/E	1.2	1.2	0.9	0.8	0.6
PER SHARE DATA					
EPS	4.0	5.8	8.4	9.4	10.4
CEPS	6.1	8.6	11.5	12.7	14.0
Dividend	0.2	0.5	1.5	1.8	2.0
BVPS	42	46	53	61	69
Turnover Ratios (days)					
Debtor days	47	51	50	50	50
Inventory days	170	160	160	160	160
Creditors days	29	24	25	25	25
VALUATION					
P/E	17	11	8	7	6
P/BV	1.6	1.4	1.2	1.1	1.0
EV/EBITDA	9.5	8.3	6.5	5.8	5.1
EV / Revenues	1.0	0.9	0.8	0.7	0.6
Dividend Yield (%)	0.2%	0.8%	2.3%	2.7%	3.0%
Dividend Payout	4%	9%	18%	19%	19%

(Source: Company, HDFC sec)



Disclosure:

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