

Stock Update

# LT Foods Ltd.

November 20, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Rice Processing	Rs. 202.6	Buy in Rs. 198-205 band and add more on dips in Rs. 183-190 band	Rs. 232	Rs. 257	2 -3 quarters

HDFC Scrip Code	LTFOODEQNR
BSE Code	532783
NSE Code	LT Food
Bloomberg	LTO.IN
CMP (Nov 17, 2023)	202.6
Equity Capital (RsCr)	32
Face Value (Rs)	1
Equity Share O/S (Cr)	32
Market Cap (RsCr)	6479
Book Value (Rs)	71
Avg. 52 Wk Volumes (in '000s)	1692
52 Week High	207
52 Week Low	90

Share holding Pattern % (Sept, 2023)	
Promoters	51.00
Institutions	8.05
Non Institutions	40.95
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

LT Foods Ltd. (LTFL) 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 the 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 50%+ market share. (2) Institutional- B2B is company’s oldest business wherein the company caters to the HORECA 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”, “Daawat” saute sauces, Daawat Biryani Kit and Kari Kari (Japanese Rice Snacks).

### Valuation & Recommendation:

LTFL’s earnings grew at a CAGR ~16% over FY19-23. Going forward, we are positive on the future growth prospects of LTFL which is mainly on the back of its robust distribution network, strong brand equity and constant endeavour to enrich their product portfolio by expanding into newer categories. It 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. In our view, LTFL’s revenue and PAT is likely to record a growth of 14% and 32% CAGR over FY23-25E.

**We think the base case fair value of the stock is Rs 232 (11.5x FY25E EPS) and the bull case fair value of is Rs 257 (13x FY25E EPS). Investors can buy the stock in Rs 198-205 band (10x FY25E EPS) and add more on dips in Rs 183-190 (9.5x FY25E EPS) band.**



## Financial Summary

Particulars (in Rs Cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY22	FY23	FY24E	FY25E
Operating Income	1978	1725	15%	1778	11%	5,427	6,936	8,080	8,993
EBITDA	240	172	40%	214	13%	597	701	962	1,106
APAT	156	90	74%	137	13%	292	403	573	686
Diluted EPS (Rs)	4.5	2.8	60%	4.0	13%	9.1	11.6	16.5	19.8
RoE-%						15.6	16.9	19.0	19.1
P/E (x)						22	17	12	10
EV/EBITDA						13	11	7	6

(Source: Company, HDFC sec)

## Q2FY24 results: Key Highlights

In Q2FY24, LTFL's revenue was up 15% YoY aided by accelerated brand investments and scaling of distribution in Basmati & Other Specialty Rice segment. Gross Profit was down by 5% YoY & Gross Profit margin contracted by 658bps (from 37.6% to 31.0%) because of increase in input cost & price reduction. EBITDA was up by 43%, margin expanded by 248 bps (from 10.3% to 12.8%) due to reduction in freight cost and favourable operating leverage. PAT was up by 74% YoY at Rs 156 cr aided by robust EBITDA growth and higher other income. In H1FY24, LTFL sold 1.51 lac tonnes in India and 1.56 lac tonnes in export markets (including 0.79 lac tonnes and 0.83 lac tonnes in Q2FY24).

The company's Basmati and Other Specialty rice business for H1FY24 was up by 23% on a YoY basis on account of increased investment in brand and marketing and subsequent gain in market share. However, it witnessed a decline in its Organic segment, which was down by 22% for H1 FY'24 on a YoY basis as compared to H1 FY'23. This was due to anti-dumping duty on the import of Organic Soya in the U.S. Revenue in the Health & Convenience segment comprising Daawat® Sehat on the Health platform and Royal Ready-to-Heat (in the US), Daawat® Cuppa Rice, Daawat® Sauté Sauces and Kari Kari (Japanese Rice Snacks) stood at Rs. 92 cr in H1FY24. USA business that contributes 41%, grew by 27%.

According to AC Nielsen, LTFL's market share in India has surged by 160 basis points to 30.2%, while the market share in the Americas has witnessed a growth of 1.6%. Furthermore, the number of household consuming Dawaat product in India has risen by 24% year-on-year, reaching 48 lakhs. The India business continues its growth trajectory by growing 15% through the introduction of new product and comprehensive 360-degree marketing campaign along with the distribution expansion. In US, LTFL strengthened its market leadership in the Basmati rice segment, achieving a noticeable growth of 27%.

Its flagship brand, Royal, enjoys leadership position in the US, which is why It has a notable market share of more than 50% plus. In Middle East market, LTFL is on the path of strengthening its position and have witnessed a significant growth of 55%.



### **Geographical expansion to drive the growth of organic food business:**

LTFL through its organic subsidiary, Nature Bio Foods Limited accounted for 11% of the Indian organic food export industry. The company provides a range of organic products, including rice, pulses, beans and ancient grains sourced from Asia. It also exports organic soya beans and meal, a nutritious protein supplement sourced from the farms of India and African countries of Togo and Uganda.

In FY22, the company made new investments in Europe and started a dedicated organic packaging and cleaning line. Further, it expanded to new geographies such as Mauritius, Denmark and Slovenia, and expanded its product portfolio to include rice syrups, buckwheat, sorghum and sugar. It plans to introduce the brand Ecolife pan-India.

### **Continued momentum in convenience and health segment**

Company's range of innovative products here include

- 'Kari Kari', a Rice-Based Snack in joint venture with Japanese conglomerate Kameda Seika
- Ready-to-Heat (Microwave Heat & Eat) rice with unique blend of spices and seasonings in the US Market under 'Royal' brand
- Daawat Cuppa Rice which are Ready-to-eat rice meals
- Daawat Biryani Kits that enables consumers to make authentic biryani under 30 min at home. Biryani kits crossed sales of Rs 5 cr in FY23

For Kari Kari snack, the company rapidly increased its presence across channels and is selling in Delhi, Punjab, Haryana, Uttar Pradesh, Maharashtra, Karnataka, Telangana, West Bengal, Assam, Manipur and Sikkim, with plan is to expand it to other states as well. The robust growth in demand in India market paved the way for expansion of this product in the international markets. In FY22, the company also started export of Kari Kari to Australia, UAE, North East and Nepal. According to the management, the launch has been very well accepted by the consumers in these geographies and there have been repeat orders.

**Widening distribution aiding the growth:** In Q2FY24, LTFL's domestic market share has improved to 30.2% (+160 bps YoY) and retail outlets increased to 1.76 lakhs (+9.1% YoY), which will strongly support future growth. LT Foods reported an offtake volume growth of 18.2% for FY23 vs the category growth of 9.0% in the same period. LTFL targets a 5 Year revenue CAGR of 10-12% aided by continuous focus on expanding its product portfolio, making investments in branding and strengthening its distribution network.

**Entry into new market through Inorganic route:** LTFL has in March 2022 acquired 51% stake in Golden Star Trading Inc. to strengthen market share in US. The US specialty rice market includes Basmati as well as Jasmine rice. In the US, Market size of Jasmine rice is 3 times bigger than Basmati rice. Golden Star is one of the strongest brands in Jasmine rice segment particularly through mainstream channels.



**Strategic Partnership with Saudi Agricultural and Livestock Investment Company (SALIC):** LTFL has concluded its strategic transaction with SALIC. SALIC now hold 9.22% equity stake in LTFL through its primary (Rs.142.23/share) and secondary investment of Rs 455.5 cr. According to the management, this transaction reflects a successful collaboration and partnership between LT Foods and SALIC as the equity injection will accelerate LTFL's organic and inorganic expansion plans across business segments, give a boost to its future growth plans specifically in the Middle East and Saudi Arabia region and fortify its position as one of the leading players in the industry. On the other hand, it will enable SALIC to have greater exposure to the Specialty Rice sector and secure larger quantities of Specialty Basmati Rice to Kingdom of Saudi Arabia.

In a related transaction, LT Foods purchased a 29.52% equity stake in subsidiary, Daawat Foods Ltd., from SALIC which was acquired in February 2020 through its subsidiary 'United Farmers Investment Company'. LT Foods acquired this stake for Rs 175.8 cr and after the conclusion of the transaction it will hold 100% equity stake in Daawat Foods.

### **Financial Summary**

LTFL's has delivered a healthy revenue growth of CAGR 15.5% over FY19-23 aided by its consistent focus on high margin branded export segment. Going forward, we are expecting the company to report a revenue CAGR of 14% over FY23-25E.

Its EBITDA and PAT grew by CAGR 15%/33% respectively over FY19-23. Going forward, we expect its operational performance to improve whereby its EBITDA and PAT likely to grow at CAGR 26% and 32% respectively over FY23-25E.

On the working capital side, LTFL being a branded player in premium quality basmati rice business is required to go through a long 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 0.3x in FY23. LTFL aims is to maintain the debt/EBITDA ratio between 2x to 3x. It's currently at 1.3x.

### **Key Concerns**

**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 risk or trade restrictions on import from India:** LTFL has huge dependence on the export business particularly in the US markets. Any large trade restriction or geopolitical issue can result in over supply in other markets and a steep decline in company's realization thereby impacting its profitability.

**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's unable to scale this segment there can be an impact on overall revenue growth resulting in lower than expected earnings growth.

**Exposure to foreign exchange risk** - As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of unhedged exposure. However, it has a well-defined treasury risk management policy in place to reduce any impact of fluctuation in foreign exchange rates through EPC limits and forward cover.

### About the company

LT Foods Ltd. (LTFL) is into Consumer Food business for the last 70 years, a leading player in the specialty rice and rice food products and organic business across the globe, delivering the finest quality and taste experiences in more than 60 countries. The Company portfolio includes a range of power brands that include Daawat- one of India's consumed Basmati brands, Royal- North America's no. 1 Basmati player and other regional leading brands. LTFL is expanding its organic play by supplying organic food ingredients to leading businesses as well as offering organic staples to consumers in markets across the globe. The company has an integrated "Farm to Fork" approach with well-entrenched distribution network with global supply chain hubs backed by automated state-of-the art and strategically located processing units in India, the US and Europe, and a robust distribution network with 1,300+ distributors across globe.



## Financials

### Income Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>4135</b>	<b>4742</b>	<b>5427</b>	<b>6936</b>	<b>8080</b>	<b>8993</b>
<b>Growth (%)</b>	<b>6.3</b>	<b>14.7</b>	<b>14.5</b>	<b>27.8</b>	<b>16.5</b>	<b>11.3</b>
Operating Expenses	3664	4175	4831	6235	7119	7887
<b>EBITDA</b>	<b>471</b>	<b>567</b>	<b>597</b>	<b>701</b>	<b>962</b>	<b>1106</b>
<b>Growth (%)</b>	<b>18.5</b>	<b>20.4</b>	<b>5.3</b>	<b>17.5</b>	<b>37.2</b>	<b>15.0</b>
<b>EBITDA Margin (%)</b>	<b>11.4</b>	<b>12.0</b>	<b>11.0</b>	<b>10.1</b>	<b>11.9</b>	<b>12.3</b>
Depreciation	91	108	123	127	143	150
Other Income	38	32	23	43	40	54
<b>EBIT</b>	<b>417</b>	<b>490</b>	<b>497</b>	<b>617</b>	<b>859</b>	<b>1011</b>
Interest expenses	132	87	69	82	83	81
<b>PBT</b>	<b>281</b>	<b>402</b>	<b>428</b>	<b>535</b>	<b>776</b>	<b>930</b>
Tax	78	109	114	140	203	244
<b>PAT</b>	<b>203</b>	<b>293</b>	<b>314</b>	<b>395</b>	<b>573</b>	<b>686</b>
Share of Asso./Minority Int.	-19	-19	-22	8	0	0
<b>Adj. PAT</b>	<b>184.5</b>	<b>274.1</b>	<b>292.2</b>	<b>402.7</b>	<b>573.4</b>	<b>686.2</b>
<b>Growth (%)</b>	<b>45.8</b>	<b>48.5</b>	<b>6.6</b>	<b>37.8</b>	<b>42.4</b>	<b>19.7</b>
EPS	5.8	8.6	9.1	11.6	16.5	19.8

### Balance Sheet

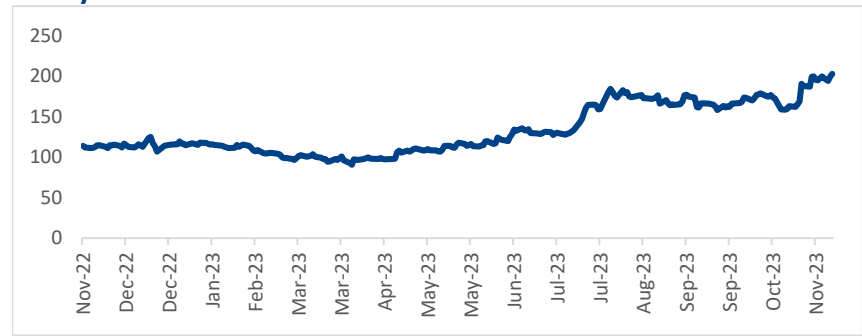
Particulars (in Rs Cr) - As at March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>SOURCE OF FUNDS</b>						
Share Capital	32	32	32	35	35	35
Reserves	1449	1724	1966	2722	3244	3860
<b>Shareholders' Funds</b>	<b>1481</b>	<b>1755</b>	<b>1998</b>	<b>2757</b>	<b>3278</b>	<b>3895</b>
Minority Interest	118	135	151	40	40	40
Total Debt	1458	1290	1061	938	726	516
Net Deferred Taxes	2	4	1	2	2	2
<b>Total Sources of Funds</b>	<b>3153</b>	<b>3184</b>	<b>3210</b>	<b>3736</b>	<b>4046</b>	<b>4453</b>
<b>APPLICATION OF FUNDS</b>						
Net Block & Goodwill	906	880	905	995	947	878
CWIP	17	33	35	27	27	27
Investments	98	29	25	127	127	127
Other Non-Curr. Assets	231	225	227	224	259	288
<b>Total Non Current Assets</b>	<b>1253</b>	<b>1166</b>	<b>1192</b>	<b>1372</b>	<b>1359</b>	<b>1319</b>
Inventories	1750	2223	2352	3072	3453	3893
Debtors	620	487	611	674	775	862
Cash & Equivalents	25	30	39	39	39	39
Other Current Assets	238	211	165	162	177	197
<b>Total Current Assets</b>	<b>2632</b>	<b>2950</b>	<b>3167</b>	<b>3948</b>	<b>4444</b>	<b>4991</b>
Creditors	261	504	703	1093	1218	1232
Other Current Liab & Provisions	472	429	446	491	540	626
<b>Total Current Liabilities</b>	<b>732</b>	<b>932</b>	<b>1149</b>	<b>1584</b>	<b>1758</b>	<b>1858</b>
Net Current Assets	1900	2018	2018	2364	2686	3133
<b>Total Application of Funds</b>	<b>3153</b>	<b>3184</b>	<b>3210</b>	<b>3736</b>	<b>4046</b>	<b>4453</b>



## Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	398	424	563	563	776	930
Non-operating & EO items	25	19	12	-45	3	2
Interest Expenses	130	86	68	82	83	81
Depreciation	91	108	123	127	143	150
Working Capital Change	33	-54	-1	-339	-361	-478
Tax Paid	-79	-113	-107	-129	-203	-244
<b>OPERATING CASH FLOW ( a )</b>	<b>477</b>	<b>445</b>	<b>517</b>	<b>258</b>	<b>442</b>	<b>440</b>
Capex	-85	-99	-152	-144	-95	-80
Free Cash Flow	393	346	366	115	347	360
Investments	-1	-1	-1	-252	0	0
Non-operating income	2	-1	8	1	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-83</b>	<b>-101</b>	<b>-145</b>	<b>-395</b>	<b>-95</b>	<b>-80</b>
Debt Issuance / (Repaid)	-228	-190	-235	-112	-212	-210
Interest Expenses	-131	-89	-47	-73	-83	-81
FCFE	35	65	91	-321	52	70
Share Capital Issuance	0	0	0	382	0	0
Dividend	-25	-32	-32	-16	-52	-69
Others	-20	-35	-43	-45	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>-404</b>	<b>-346</b>	<b>-358</b>	<b>136</b>	<b>-347</b>	<b>-360</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-10</b>	<b>-3</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>

## One-year Share Price Chart



## Key Ratios

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability Ratios (%)</b>						
EBITDA Margin	11.4	12.0	11.0	10.1	11.9	12.3
EBIT Margin	10.1	10.3	9.2	8.9	10.6	11.2
APAT Margin	4.5	5.8	5.4	5.8	7.1	7.6
RoE	13.1	16.9	15.6	16.9	19.0	19.1
RoCE	14.0	16.4	16.3	18.3	22.3	24.0
<b>Solvency Ratio (x)</b>						
Net Debt/EBITDA	3.0	2.2	1.7	1.3	0.7	0.4
Net D/E	1.0	0.7	0.5	0.3	0.2	0.1
<b>PER SHARE DATA (Rs)</b>						
EPS	5.8	8.6	9.1	11.6	16.5	19.8
CEPS	8.6	12.0	13.0	15.3	20.6	24.1
BV	46.3	54.9	62.5	79.4	94.4	112.2
Dividend	0.5	1.0	1.0	1.0	1.5	2.0
<b>Turnover Ratios (days)</b>						
Debtor days	51	43	37	34	33	33
Inventory days	161	153	154	143	147	149
Creditors days	24	29	41	47	52	50
<b>VALUATION</b>						
P/E	35.1	23.6	22.2	17.5	12.3	10.3
P/BV	4.4	3.7	3.2	2.6	2.1	1.8
EV/EBITDA	16.8	13.7	12.6	10.5	7.5	6.3
EV / Revenues	1.9	1.6	1.4	1.1	0.9	0.8
Dividend Yield (%)	0.2	0.5	0.5	0.5	0.7	1.0
Dividend Payout	8.7	11.7	10.9	8.6	9.1	10.1

(Source: Company, HDFC sec)





## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

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