

Stock Update

# LT Foods Ltd.

April 08, 2024





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Rice Processing	Rs. 206.2	Buy in Rs. 200-210 band and add more on dips in Rs. 180-190 band	Rs. 225	Rs. 248	2 -3 quarters

HDFC Scrip Code	LTFOODEQNR
BSE Code	532783
NSE Code	LT Food
Bloomberg	LTO.IN
CMP (Apr 08, 2024)	206.2
Equity Capital (RsCr)	34.7
Face Value (Rs)	1.0
Equity Share O/S (Cr)	34.7
Market Cap (RsCr)	6,476
Book Value (Rs)	88.0
Avg. 52 Wk Volumes (in '000s)	1,697
52 Week High	234.6
52 Week Low	90.0

Share holding Pattern % (Dec, 2023)	
Promoters	51.0
Institutions	10.9
Non Institutions	38.1
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

Fundamental Research Analyst

Darshil Shah

[Darshil.Shah@hdfcsec.com](mailto:Darshil.Shah@hdfcsec.com)

### Our Take:

LT Foods Ltd. (LTFL) is one of the leading branded Basmati rice companies. It has been one of the most successful Basmati rice players 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 ~30% 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).

We had issued a [stock update](#) report on LT Foods on November 20, 2023; and both the targets were achieved within our investment horizon. We are positive on the company, given the continued growth of its core brands, diversified product portfolio and growth potential of its newly launched products.

### 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 11% and 24% CAGR over FY23-26E.

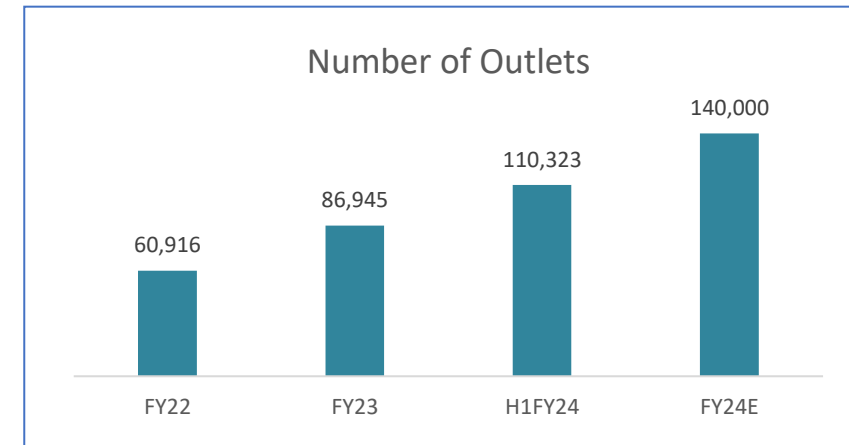
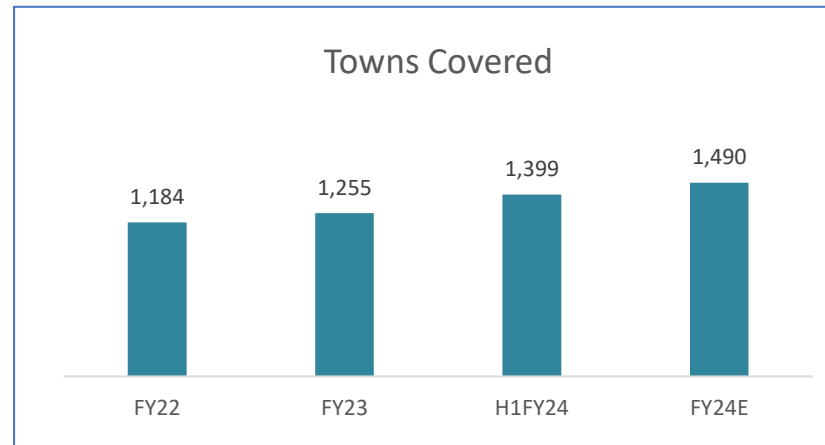
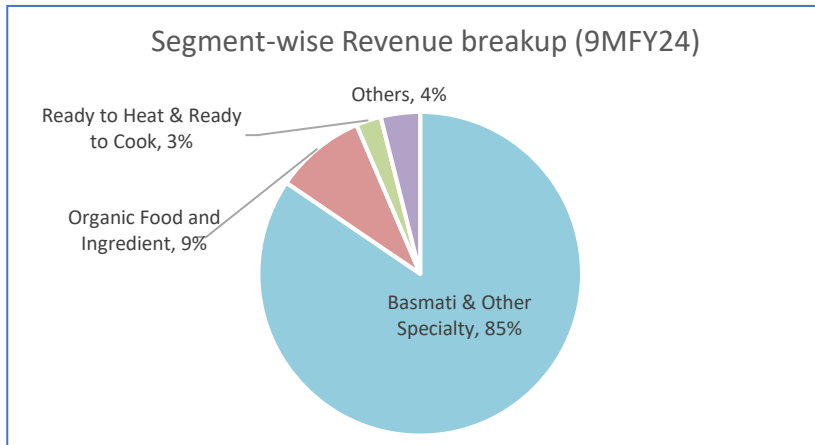
**We think the base case fair value of the stock is Rs 225 (9.5x FY26E EPS) and the bull case fair value of is Rs 248 (10.5x FY26E EPS). Investors can buy the stock in Rs 200-210 band (8.5x FY26E EPS) and add more on dips in Rs 180-190 (7.5x FY26E EPS) band.**



### Financial Summary

Particulars (in Rs Cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY23	FY24E	FY25E	FY26E
Operating Income	1942	1778	9%	1978	-2%	6,936	7,597	8,455	9,470
EBITDA	239	166	44%	241	-1%	701	927	1,074	1,203
APAT	151	95	59%	156	-3%	403	543	660	772
Diluted EPS (Rs)	4.4	3.0	46%	4.5	-3%	11.6	17.4	20.9	23.6
RoE-%						16.9	20.0	19.9	18.9
P/E (x)						18	12	10	9
EV/EBITDA						11	8	6	5

(Source: Company, HDFC sec)



(Source: Company, HDFC sec)



### Q3FY24 results: Key Highlights

In Q3FY24, LTFL's revenue was up 9% YoY aided by superior product mix, accelerated brand investments and distribution expansion across segments. Gross Profit was up by 11% YoY & Gross Profit margin expanded by 70bps YoY (from 31.9% to 32.6%) because of reduction in input cost and increase in price realization. EBITDA was up by 44%, margin expanded by 297 bps YoY (from 9.3% to 12.3%) due to reduction in freight cost and favourable operating leverage. APAT was up by 59% YoY at Rs 151 cr aided by robust EBITDA growth and lower other operating expenses. During the quarter, the company further worked towards solidifying its core business and further strengthening its product portfolio by increasing consumer engagements through targeted marketing campaigns and increasing penetration into newer geographies.

**Basmati and Other Speciality** – Posted a volume growth of 8.1% and revenue growth of 18% YoY in 9MFY24 on the back of continued investments in marketing initiatives to further strengthen brand recall, resulting in increased market share. EBITDA margin for 9MFY24 for the segment stood at 13.9%. The segment accounted for ~85% of the revenues in 9MFY24.

**Organic Food and Ingredients** – The segment has been impacted due to the anti-dumping duty levied on import of organic soya in the US. It reported a revenue de-growth of 17% YoY and volume de-growth of 13% YoY in 9MFY24. The EBITDA margin for the segment stood at 10.2% in 9MFY24 and it contributed ~9% of the company's revenue in 9MFY24. However, despite the recent headwinds, other product lines barring soya have been doing well for the company and the segment is expected to return YoY growth from FY25 onwards.

**Ready-to-eat and Ready-to-cook** – The segment reported a robust 13% YoY revenue growth and 23.1% YoY volume growth in 9MFY24. The segment comprises of Daawat® Sehat on the Health platform and Royal Ready-to-Heat (in the U.S.), Daawat® Cuppa Rice, Daawat® Sauté Sauces and Kari Kari (Japanese Rice Snacks). The segment accounted for ~3% of the company's revenue in 9MFY24.

With majority of the company's revenue coming from exports, it may face a negative impact from the Red Sea disruptions in terms of increased freight cost and increased transit time by around~15 days. However, given the leadership of LTFL's it is expected to effectively pass on the excess cost to its customers without materially impacting its demand/margins. The actual impact of the disruptions on the company's margin is expected to come in Q1FY25 and is estimated to be around Rs12/cr per quarter.

During the quarter the company also won in its favour an ongoing case regarding an insurance claim from a fire incident along with interest at 6% p.a. with effect from the date of the loss. The company has recognized Rs 134.1 cr out of Rs 161.2 cr during the quarter and the total receipt from the claim (along with interest) is estimated to be around Rs 250 cr. The additional inflow from this claim is expected to contribute towards debt reduction for the company but is subject to further appeal by the insurer in higher courts.



### Key Triggers

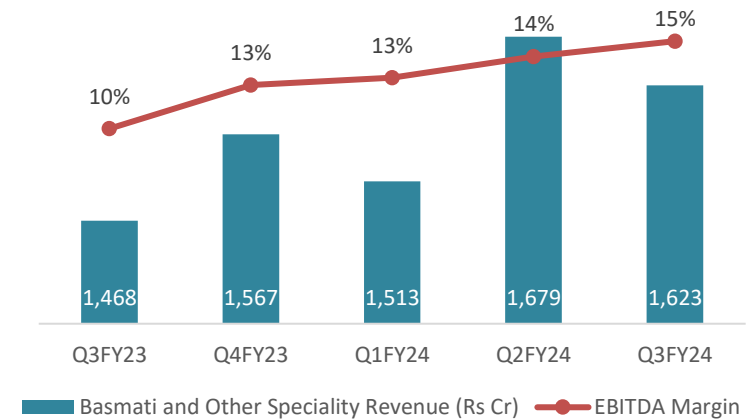
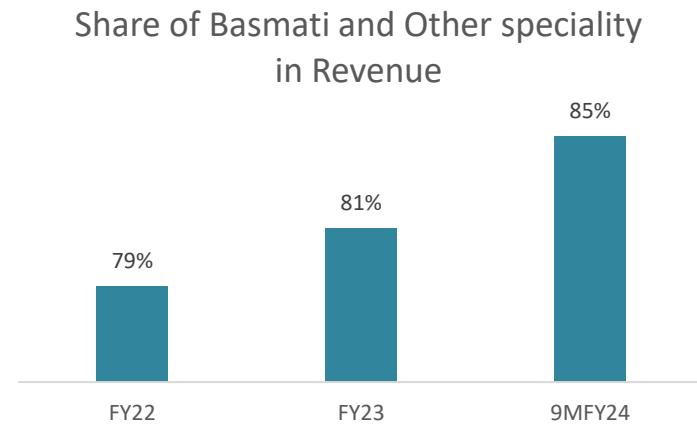
#### Core brands continue to be pillars of strength for the company

LTFL's flagship brands Daawat® and Royal (USA) for basmati rice continue to drive market share gains driven by increasing consumption of Basmati rice in and outside India. The brands have further headroom from growth owing to shift in consumption from non-branded to branded Basmati rice, increasing popularity of speciality rice and shift in consumer's preference from lower price point to higher price point products with the rise in per capita income. Royal basmati rice enjoys a leadership position in the US with a close to 50% market share and witnessed 14.8% YoY growth in revenue in 9MFY24. The Indian Government's move to ban the export of non-Basmati white rice has further aided the demand for export of basmati rice from India. Basmati remains the only premium grain with a growth in consumption of around 6-7% in volume terms with an ongoing shift in consumption from non-Basmati to Basmati rice. The overall Basmati and other speciality rice segment for the company is expected to grow at c.10% CAGR between FY25-29.

Within the Speciality and Jasmine rice category, LTFL strengthened its position in the US with acquisition of 51% stake in Golden Star Trading Inc. in March 2022. In Q3FY24, Golden Star 10 lbs became the #1 Jasmine rice 10 lb brand in the US and Golden Star 2 lbs Jasmine grew from #8 brand to #3 brand. In 9MFY24 Golden Star's jasmine rice has witnessed a YoY growth of 23.3% garnering revenue and profit of \$58 mn and \$9 mn, respectively during the period. 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.

*Basmati and Speciality Rice remains core strength*

*Basmati and Other speciality segment has grown at a robust pace*



(Source: Company, HDFC sec)



### Investments in new and innovative products to provide additional levers for growth

Since FY22, the company has made investments in launching a host of innovative products across various geographies through both organic and inorganic route. Some of these launches in the convenience and health segment 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.

With rise in income levels and increasing urbanization, the demand for ready to heat and ready to cook products is expected to rise at an exponential CAGR of 33% between FY25-29. The company aims to leverage its brand equity and presence in more than 80 countries to enhance engagement with mainstream retailers and ethnic channels to strengthen brand positioning and increase its market share globally.

### *Investment in new and innovative products to drive future growth*



(Source: Company, HDFC sec)



### India business on a strong footing

While exports continue to garner the dominant share in the company's primary Basmati rice business, in recent years, LTFL has also increased efforts to garner market share in the Indian market by focusing on expansion of its distribution network in the country and on creating greater brand recall by increased spends on marketing and consumer acquisition. LTFL enjoys dominant market share in 7 key states for Basmati consumption. The India business for the company has grown CAGR of 31.5% in terms of revenue and 20.5% in terms of volume over the last 3 years. The company currently has 30.1% market share in the country and aims to further increase it to 33% over the next 5-6 quarters on the back of shift in consumer preferences towards a relatively premium and better quality basmati rice with the rise in per capita income. The India business is expected to continue growing at around 15% CAGR, higher than the International piece's 8-10% CAGR over the next few years, resulting in an increased contribution of the India business towards the company's revenue, going forward.

### 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.

The Middle east remains the fastest growing market for the company with revenue growth of 40% YoY in 9MFY24 and 7% market share in terms of volume. The company aims to further increase penetration of its flagship brands within the region.

### 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 11% over FY23-26E.

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 20% and 24% respectively over FY23-26E.



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)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>4742</b>	<b>5427</b>	<b>6936</b>	<b>7597</b>	<b>8455</b>	<b>9470</b>
<b>Growth (%)</b>	<b>14.7</b>	<b>14.5</b>	<b>27.8</b>	<b>9.5</b>	<b>11.3</b>	<b>12.0</b>
Operating Expenses	4175	4831	6235	6662	7365	8267
<b>EBITDA</b>	<b>567</b>	<b>597</b>	<b>701</b>	<b>934</b>	<b>1091</b>	<b>1203</b>
<b>Growth (%)</b>	<b>20.4</b>	<b>5.3</b>	<b>17.5</b>	<b>33.3</b>	<b>16.7</b>	<b>10.3</b>
<b>EBITDA Margin (%)</b>	<b>12.0</b>	<b>11.0</b>	<b>10.1</b>	<b>12.3</b>	<b>12.9</b>	<b>12.7</b>
Depreciation	108	123	127	145	159	170
Other Income	32	23	43	46	51	57
<b>EBIT</b>	<b>490</b>	<b>497</b>	<b>617</b>	<b>835</b>	<b>982</b>	<b>1090</b>
Interest expenses	87	69	82	83	78	64
<b>PBT</b>	<b>402</b>	<b>428</b>	<b>535</b>	<b>752</b>	<b>905</b>	<b>1026</b>
Tax	109	114	140	199	239	270
<b>PAT</b>	<b>293</b>	<b>314</b>	<b>395</b>	<b>553</b>	<b>666</b>	<b>756</b>
Share of Asso./Minority Int.	-19	-22	8	53	59	65
<b>Adj. PAT</b>	<b>274</b>	<b>292</b>	<b>403</b>	<b>606</b>	<b>725</b>	<b>821</b>
<b>Growth (%)</b>	<b>48.5</b>	<b>6.6</b>	<b>37.8</b>	<b>50.4</b>	<b>19.6</b>	<b>13.3</b>
EPS	8.6	9.1	11.6	17.4	20.9	23.6

### Balance Sheet

Particulars (in Rs Cr) - As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCE OF FUNDS</b>						
Share Capital	32	32	35	35	35	35
Reserves	1724	1966	2722	3276	3931	4683
<b>Shareholders' Funds</b>	<b>1755</b>	<b>1998</b>	<b>2757</b>	<b>3311</b>	<b>3966</b>	<b>4718</b>
Minority Interest	135	151	40	37	33	28
Total Debt	1290	1061	938	726	516	306
Net Deferred Taxes	4	1	2	2	2	2
<b>Total Sources of Funds</b>	<b>3184</b>	<b>3210</b>	<b>3736</b>	<b>4075</b>	<b>4516</b>	<b>5053</b>
<b>APPLICATION OF FUNDS</b>						
Net Block & Goodwill	880	905	995	945	866	776
CWIP	33	35	27	27	27	27
Investments	29	25	127	177	232	292
Other Non-Curr. Assets	225	227	224	243	271	303
<b>Total Non-Current Assets</b>	<b>1166</b>	<b>1192</b>	<b>1372</b>	<b>1392</b>	<b>1395</b>	<b>1398</b>
Inventories	2223	2352	3072	3247	3660	4099
Debtors	487	611	674	728	811	908
Cash & Equivalents	30	39	39	194	212	397
Other Current Assets	211	165	162	167	185	208
<b>Total Current Assets</b>	<b>2950</b>	<b>3167</b>	<b>3948</b>	<b>4336</b>	<b>4868</b>	<b>5612</b>
Creditors	504	703	1093	1145	1158	1297
Other Current Liab & Provisions	429	446	491	508	589	659
<b>Total Current Liabilities</b>	<b>932</b>	<b>1149</b>	<b>1584</b>	<b>1653</b>	<b>1747</b>	<b>1956</b>
Net Current Assets	2018	2018	2364	2683	3121	3655
<b>Total Application of Funds</b>	<b>3184</b>	<b>3210</b>	<b>3736</b>	<b>4075</b>	<b>4516</b>	<b>5053</b>



## Cash Flow Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	424	563	563	752	905	1026
Non-operating & EO items	19	12	-45	2	2	2
Interest Expenses	86	68	82	83	78	64
Depreciation	108	123	127	145	159	170
Working Capital Change	-54	-1	-339	-186	-449	-384
Tax Paid	-113	-107	-129	-199	-239	-270
<b>OPERATING CASH FLOW ( a )</b>	<b>445</b>	<b>517</b>	<b>258</b>	<b>597</b>	<b>455</b>	<b>608</b>
Capex	-99	-152	-144	-95	-80	-80
Free Cash Flow	346	366	115	507	375	528
Investments	-1	-1	-252	0	0	0
Non-operating income	-1	8	1	0	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-101</b>	<b>-145</b>	<b>-395</b>	<b>-95</b>	<b>-80</b>	<b>-80</b>
Debt Issuance / (Repaid)	-190	-235	-112	-212	-210	-210
Interest Expenses	-89	-47	-73	-83	-78	-64
FCFE	65	91	-321	207	87	254
Share Capital Issuance	0	0	382	0	0	0
Dividend	-32	-32	-16	0	0	0
Others	-35	-43	-45	-52	-69	-69
<b>FINANCING CASH FLOW ( c )</b>	<b>-346</b>	<b>-358</b>	<b>136</b>	<b>-347</b>	<b>-357</b>	<b>-343</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-3</b>	<b>15</b>	<b>0</b>	<b>155</b>	<b>18</b>	<b>185</b>

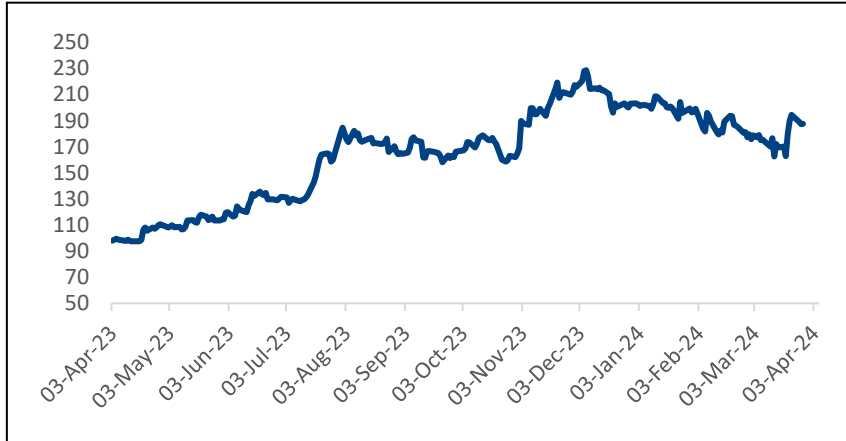
## Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Profitability Ratios (%)</b>						
EBITDA Margin	12.0	11.0	10.1	12.3	12.9	12.7
EBIT Margin	10.3	9.2	8.9	11.0	11.6	11.5
APAT Margin	5.8	5.4	5.8	8.0	8.6	8.7
RoE	16.9	15.6	16.9	20.0	19.9	18.9
RoCE	16.4	16.3	18.3	21.6	23.1	22.9
<b>Solvency Ratio (x)</b>						
Net Debt/EBITDA	2.2	1.7	1.3	0.6	0.3	-0.1
Net D/E	0.7	0.5	0.3	0.2	0.1	0.0
<b>PER SHARE DATA (Rs)</b>						
EPS	8.6	9.1	11.6	17.4	20.9	23.6
CEPS	12.0	13.0	15.3	21.6	25.5	28.5
BV	54.9	62.5	79.4	95.4	114.2	135.9
Dividend	1.0	1.0	1.0	1.5	2.0	2.0
<b>Turnover Ratios (days)</b>						
Debtor days	43	37	34	34	33	33
Inventory days	153	154	143	152	149	150
Creditors days	29	41	47	54	50	47
<b>VALUATION (x)</b>						
P/E	24.1	22.6	17.8	11.8	9.9	8.7
P/BV	3.8	3.3	2.6	2.2	1.8	1.5
EV/EBITDA	13.9	12.8	10.7	7.6	6.3	5.4
EV / Revenues	1.7	1.4	1.1	0.9	0.8	0.7
Dividend Yield (%)	0.5	0.5	0.5	0.7	1.0	1.0
Dividend Payout	11.7	10.9	8.6	8.6	9.6	8.5

(Source: Company, HDFC sec)



## Price chart



### 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. These 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.



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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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