



**“LT Foods Q1 FY17 Results
Conference Call”**

August 12, 2016



ANALYST: MR. NITESH DHOOT - EMKAY GLOBAL FINANCIAL SERVICES

**MANAGEMENT: MR. ASHWANI KUMAR ARORA - MD AND CEO – LT FOODS
MS. MONIKA CHAWLA JAGGIA – VICE PRESIDENT (FINANCE & STRATEGY) - LT FOODS**



LT Foods
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Moderator: Good day ladies and gentlemen and welcome to the Q1 FY2017 Results Conference Call of LT Foods hosted by Emkay Global Financial Services. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Dhoot of Emkay Global. Thank you and over to you Sir!

Nitesh Dhoot: Good afternoon everyone. I would like to welcome and thank the management for giving us this opportunity. We have with us today Ms. Monika Chawla Jaggia – Vice President Finance and Strategy Mr. Ashwani Kumar Arora, MD and CEO. I would like to hand over to call to Ms. Monika Chawla for her opening remarks. Over to you madam!

Monika Chawla Jaggia: Thank you Nitesh. Very warm welcome to all of you at this LT Foods Earnings Conference Call for the quarter ended June 30 2016. I am Monika from investors' relation team at LT Foods and I have with me Mr. Ashwani Arora, our MD and CEO and Mr. Sachin Gupta, DGM Finance joining in for this call. Anything which is said during this call which may reflect our outlook for the future or which may be construed as a forward looking statement must be reviewed in conjunction with the risk that the company faces. An audio and transcript of this call would be shortly available on the investor section of our website that is www.ltverseas.com. With this we are now ready to begin with the opening comments on performance of the company and our strategy for growth from the MD and CEO post this we would be available for question and answer session. Now with this I will pass it over to Mr. Ashwani Arora.

Ashwani Kumar Arora: Thank you Monika and a very good afternoon to all of you. I am pleased to connect with you at this earning call for the first quarter ended June 2017. Along with me I have Ms. Monika Jaggia – VP Finance & Strategy and Mr. Sachin Gupta – DGM Finance. I hope everyone had an opportunity to look at our results. A presentation on the same has been uploaded on the stock exchange and the company website for the ready referral. With the end of the first quarter of financial year 2017 we are very excited to share medium to long-term growth strategy of LT Group with you. Over the next two to three years the group is well placed and we are confident to grow and maintain the same momentum of growth. To achieve this feat, management is working on well thought thorough strategy. We have already taken few steps in this direction and which are evident with the developments that are taking place. This is expected to bring value to all our stakeholders. I will now share with you some of the key highlight of our growth strategy.

Firstly, our target is to enhance our global presence. We are currently exporting rice to over 60 countries. We are very proud of the fact that we are amongst a few Indian companies, which have a strong presence in both USA and Middle East besides of course serving our Indian market. We are now looking forward to expand in Europe and Africa in addition to our focus in India and the

US. This further reiterates that our branded business in India is also growing at a CAGR of more than 20%.

Secondly our target is to grow our branded sales. Our top quality produce and our marketing efforts have helped us in further enhancing our brand. We have specially focused on the marketing effort and we can see that this investment has yielded positive results for us in the past five years. The branded sales have registered an improvement of 25% on a sequential basis and 19% on a year-on-year basis at the group level. In absolute terms out of total revenue of 3000 Crores 2000 Crores come from our own brand. Besides Daawat, Devaaya, Daawat Rozana, which are already among the well recognized brands in India and global market too. Company's Royal brand which has also got a pole position in the US market, which contributes around 30% to the company's top line and more than 30% to the company's bottom line. On the acquisition front I have already updated you on earlier call that the company acquired two strong brands from HUL that is Gold Seal Indus Valley and Rozana. We have also got approval from the Competition Commission of India (CCI) for the acquisition and the company has duly completed the procedural formalities pertaining to the acquisition. Both these brands will help us further penetrate into the Middle East markets. Globally, Middle East is the largest basmati rice consumer and is growing at the rate of 10% to 15% in the volume terms. This acquisition will help us to penetrate and establish our foothold in country like Oman, Qatar and Bahrain. In line with our strategy to strengthen our brand portfolio and to continue with our pace of inorganic growth, we acquired iconic brand 817Elephant through our UK subsidiary. This brand is very well established and has strong presence in Canada and Europe and will help the Company foray into in the European market. This brand has a high recall value and will help us to launch our other value added products as well. Over the next three years our target is to continue volume growth of at least 15% CAGR and we are quite confident that with our various strategic initiatives and whole hearted efforts we will be able to do this.

Thirdly, we are actively working on reducing our borrowings. This is quite evident from the increment in sales compared to the increment in working capital over the last three years. This has helped company to reduce the debt equity ratio to 2.57. The working capital borrowings are to the tune of 1570 Crores backed by an inventory of 1267 Crores.

Fourthly, the company is gradually moving into the value added products category in accordance with the consumer trends and behavior. The organic business although small has shown a steady growth on the back of strong margin. The margins in this business are superior to the traditional businesses. Company's organic products are being sold largely to the overseas market but plans are afoot to launch these products all over the Indian market too. The organic products are currently sold in India and US market under Ecolife Brand. Fast Cooking Brown rice has also seen a strong growth. Company has been a pioneer in this segment. The technology initiatives have reduced cooking time to close to 15 minutes. Company's relationship with PepsiCo Company continues on a strong footing. We continue to manufacture its fast selling snack brand Kurkure.

Fifthly, company is gradually moving towards an asset light model. Over next two to three years we will gradually outsource manufacturing of low value item and utilize our own facility for manufacturing of premium variety of basmati rice. We will grow our sale volume without any significant spends on capacity expansion in medium to long-term. We have already taken baby steps in this direction. We have recently entered into an SPV with Future Group wherein all the capex will be done by future growth while LT Foods shall be partner with them to jointly run the business. All our efforts are focused as per the five strategic drivers that we have identified and I just shared with you. We expect all our initiatives and efforts to lead to an improvement in efficiency therefore resulting in overall improvement in EBITDA margin by at least 200 bps over the next two to three years. The economy is changing and the industry as such is also evolving rapidly. Let me share my thoughts on this with you. Indian consumer is moving fast in terms of consumption. Shift in food consumption from unpackaged to packaged and from unbranded to branded is clearly visible. The same trend is being witnessed in basmati rice industry too. Currently share of branded basmati rice stands at 20% to 30%, which used to be 14% in 2011. In Sec A, B and C penetration of basmati is estimated in 50% of the homes, half of whom buy branded products and half still buy loose rice which has a potential. This number of basmati using homes here has are more than doubled in the last three years. With increase in disposable income and brand awareness the shift in the favor of organized industry is likely to accelerate further. The key beneficiaries will be the large organized players like LT Foods, who have a capability to create brands and have a strong distribution network. Most of the geographies such as USA and GCC have started recognizing the importance of such companies with the strong brands and have started equating them with the food FMCG Company. The awareness is gradually increasing in India too. Company's baby steps towards value added products should also help in this cause. Now I want to pass it to Ms. Monika to take you through the numbers. I reiterate that LT Food is moving in a direction to capitalize on growth opportunities present in market of India, Middle East, US and Europe. Now the five point strategy I discussed here at the same time we are all conscious of the value being delivered to all our stakeholders including our investors and are putting in all efforts and lying sharp focus on improvement in profitability and deleveraging of the balance sheet for the creation of value.

Monika Chawla Jaggia: Thank you Sir. I would now walk you through the numbers for the quarter ended June 30 2016. Company has achieved a turnover of Rs. 709 Crores in this quarter wherein the branded business has grown 25% in terms of volume on quarter-on-quarter basis and 19% on year-on-year basis. The EBITDA for this quarter is Rs. 97 Crores which has increased to 13.7% versus 12.47% on segmental basis. EBITDA margins of 13.7% have been the historical high for the company. The gross margins have also grown from 27.9% in Q1 FY16 to 29.7% now. PAT is at Rs. 31 Crores which has increased to 4.2% versus 3.76% on the year-on-year basis. The margin improvement has occurred on account of various reasons such as focused attention towards making the company's various brands stronger in their respective geographies such as Daawat getting stronger in Indian market while Royal taking the pole position in US market. Company's initiative to launch various value added products such as organic, Fast Cooking Brown Rice and wheat product under different brands in the global market. Just to add here the Company saw a

decline in its top line by 6%, which is better than the industry. This has happened because we witnessed that input prices especially paddy were quite low during the previous procurement period and we passed on the drop in the input prices to the consumers as well to maintain our share and growth. As mentioned earlier the volume however has seen a significant growth on the back of improved margins, which is a big positive for the company. The contribution from value added products including organic products were around 10% to the sale and 13.8% to the EBITDA. With this we now open the floor for question and answer please.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Dhruv Bhatia from Crescita Investments. Please go ahead.

Dhruv Bhatia: Congratulations on a good set of numbers. My first question is regarding your partnership with Future Group. So, any update on it as to where the partnership has reached as of now.

Ashwani Kumar Arora: We are going to start the production in the month of December and the plant is already on final stages.

Dhruv Bhatia: What is the target market? What is the size of the market that you are targeting in south of India?

Ashwani Kumar Arora: Target of course Sona Masoori is very popular among the South Indian consumer. So that is the one market and the second is the overseas market because lot of South Indians are living there, so overseas export market has a lot of potential there.

Dhruv Bhatia: What is the size of the Sona Masoori rice market over there if you have any numbers in India?

Ashwani Kumar Arora: India is a very big market. It is more than around 2 million tonnes.

Dhruv Bhatia: 2 million tonnes. Another question is what has been the acquisition amount for 817Elephant brand.

Ashwani Kumar Arora: We have paid around Rs.10 Crores for that.

Dhruv Bhatia: For acquiring it completely right.

Ashwani Kumar Arora: Yes that is right.

Dhruv Bhatia: What is the market size we can expect it to contribute in the sales going forward?

Ashwani Kumar Arora: Market we are expecting that 50 Crores in the first year.

Dhruv Bhatia: 50 Crores for FY2017.

Ashwani Kumar Arora: So four months are gone so out of proportionately we have that.

Dhruv Bhatia: Sir as madam said that paddy prices which have been down so the benefit of that has been passed on to the consumer resulting in lower sales. So is the trend expected to continue or we can see higher numbers going forward?

Ashwani Kumar Arora: I think we can see the higher number because we feel that this is the bottom of the price and in future there will be a value growth also.

Dhruv Bhatia: If I could ask how much is the price for that any numbers which you can give?

Ashwani Kumar Arora: Already if you see in 2015 there was a decrease of more than 25% to 30% in paddy prices, so we feel that was bottom price.

Dhruv Bhatia: So you are expected to rebound from here.

Ashwani Kumar Arora: That is right.

Moderator: Thank you. The next question is from the line of Nitesh Dhoot from Emkay Global. Please go ahead.

Nitesh Dhoot: Could you please give me an idea about the realizations and the volume picture and the outlook going forward for FY2017.

Ashwani Kumar Arora: You mean to say realization we have done.

Nitesh Dhoot: The realizations during this quarter.

Ashwani Kumar Arora: The average realization is Rs.55 per kilo and in branded we have 58 and in the private label we have done Rs.49.

Nitesh Dhoot: Private label is 49 and what was the volume size if you can share?

Ashwani Kumar Arora: Volume we have done in India in branded 74,000 tonnes as compared to the last year same quarter 59,000 tonnes.

Nitesh Dhoot: Last year 59,000.

Ashwani Kumar Arora: Yes.

Nitesh Dhoot: In the private label?

Ashwani Kumar Arora: Let me correct that 63,000 was in the same quarter now it is 74,000 tonnes.

Nitesh Dhoot: For the non-branded Sir.

Ashwani Kumar Arora: For the non-branded we have done 32,000 tonnes.

Nitesh Dhoot: 32,000 and that compare to.

Ashwani Kumar Arora: 38,000 tonnes. These numbers are all for quarter. So going forward we are seeing a quantitative growth and value growth both and on the top of that we are going to have the revenue from the two acquired brand the Indus Valley and 817 because in this quarter we are going to get the sales from those brands. So what we are saying that by the year end we will be having both quantity and value growth as compare to the last year.

Nitesh Dhoot: Your outlook on paddy prices because we are hearing that outlook on paddy I mean the output of paddy is going to decline substantially. So could you please give your views on that?

Ashwani Kumar Arora: Yes because as I told you that this is the bottom of the prices and the farmers are not happy with that kind of realization so next year we are going to see a drop in the production between 25% to 30% and that will result in the higher prices.

Moderator: Thank you. The next question is from the line of Miten Shah. He is an Individual Investor. Please go ahead.

Miten Shah: Sir I have a question regarding the restructuring that we were talking about in the last call where you are going to merge your subsidiary the main subsidiary Daawat Foods with LT Foods. Any update regarding the same.

Ashwani Kumar Arora: I think we said that we will plan for that but we have not yet initiated. So may be next year we can.

Miten Shah: May be next year so nothing as of now in this year right.

Ashwani Kumar Arora: No.

Miten Shah: One more thing Sir one of there were articles regarding the Rabo Equity Advisors that hold a significant stake in your company. They were planning to exit via secondary deal and all. So are you aware of any such developments whether are you helping them out with that or anything.

Ashwani Kumar Arora: Yes they are a Private Equity fund and they are with the company for 7 years and at any point of time they may like to exit.

Miten Shah: So would the company be helping them out. Would it be like a secondary deal where another strategic investor comes in their place or how would it work or a promoter is going to buy some of the stocks like.

Ashwani Kumar Arora: They may valuate both either in secondary or may be so. So they are evaluating.

- Miten Shah:** Any plan that promoter may take some stake out of that.
- Ashwani Kumar Arora:** There is evaluation because we are already around 69%. So we are evaluating that
- Moderator:** Thank you. The next question is a followup from the line of Dhruv Bhatia from Crescita Investments. Please go ahead.
- Dhruv Bhatia:** I have two followup question Sir regarding the insurance claim that was stuck with Oriental Bank of Commerce. So, any updates on that. How are we proceeding on it?
- Ashwani Kumar Arora:** Oriental Insurance as we told that insurance company has denied to pay that and we went to the court and as we told that we have a very strong case and we will surely win that case but it will take some time.
- Dhruv Bhatia:** So that has been the final update as of now. So it means that the case has been filed against the insurance company.
- Ashwani Kumar Arora:** So we went to legal system.
- Dhruv Bhatia:** So any next hearing date which has been given by the court or something like that.
- Ashwani Kumar Arora:** I think it is August 25.
- Moderator:** Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.
- Ravi Mehta:** Good afternoon, thanks for the opportunity. Just trying to understand that overall there is a fall in production this year and paddy prices may go up and you have been talking of 15% growth over the next two to three years. So at a higher price point you see demand inelastic as you just mentioned in the opening remark that you passed on the price benefit and you saw volume growth. So when the price is revised upside do you still feel that kind of 15% growth? Just want to understand on how.
- Ashwani Kumar Arora:** That is a good question. In our five year plan we have build that 10% we will get a volume growth and 10% value growth. So this is how we have projected our business plan for the next five years but historically if you see we have seen a prices even doubling but still there was a growth in the basmati category. Yes because it is premium rice. So premium variety and historically I can tell you that we have seen a prices of \$3000 also and \$1500 also but even at \$3000 we have seen a growth.
- Ravi Mehta:** On the domestic front so when you are seeing a consumption moving from unbranded to branded so probably your lower price would have helped that transition but if there is steep price rise happening can you see them slowdown in the transition happening or how is your reading of.

Ashwani Kumar Arora: For sure the kind of growth we are getting with the lower prices so then the prices will go up and that the growth will definitely will slowdown that is sure but based on history and based on the basmati category which is only for the total consumption is not more 3% to 4% of the total rice category. So we are not seeing that much impact will come under growth. So there is a conservative kind of 10% quantitative and 10% value will be there.

Ravi Mehta: When you say that there is a 25%, 30% fall in production just an estimated number in paddy so this must be across, so any specific number for the basmati category or how does it work.

Ashwani Kumar Arora: Like you mean to say 25% cut in production.

Ravi Mehta: No I just heard sometime back in the call itself that farmers are not happy with low prices. So probably harvesting would be lower. So this happens across all varieties of paddy or like.

Ashwani Kumar Arora: I think because there is non-basmati and which is protected by the government support price, rather they are moving to the non-basmati which where they are sure that they will get the money.

Ravi Mehta: So even if there is a drop in the basmati category by the farmers still you would be able to comfortably grow with your volumes because.

Ashwani Kumar Arora: Yes we will be able to.

Moderator: Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: So can you give the detail of your inventory numbers that you have said. You said about I think you mentioned some number, which I missed.

Ashwani Kumar Arora: It is 1267 Crores.

Shubhankar Ojha: How much of this is rice and how much is paddy?

Ashwani Kumar Arora: Let me give you a breakup. Rice is 155,000 tonnes and paddy is 140,000 tonnes.

Shubhankar Ojha: How you valued them at cost?

Ashwani Kumar Arora: Rice at Rs.46.7 per kg and paddy 23.3 kg.

Shubhankar Ojha: What are your expectations for the paddy price in the coming season.

Ashwani Kumar Arora: It depends on variety to variety. We are seeing range of Rs.22 to 30.

Shubhankar Ojha: 22 to 30. In terms of Sir our domestic and exports what is the mix right now and what you expect because you said you expect a strong growth in domestic market. So what is it right now and what are your expectations?

Ashwani Kumar Arora: India and international we are around 40:60. India is 40% and global is 60%.

Shubhankar Ojha: You think the growth in domestic is much stronger than export?

Ashwani Kumar Arora: Comparatively but there will be growth in all the markets and especially that we are very strong in the US market where we will grow our share. Already we are with 35% to 40% and we have a very strong presence and I think we will grow both in India and US market equally.

Shubhankar Ojha: Finally what is your ad spend I mean your expected budget for FY2017.

Ashwani Kumar Arora: Ad spends annually we do around globally around Rs.30 Crores.

Shubhankar Ojha: That is an average over the last few years.

Ashwani Kumar Arora: Yes only on advertising and then there is other below the line initiatives. So all together we spend around Rs.70 to 80 Crores.

Moderator: Thank you. The next question is from the line of Prakash P from Emkay Global. Please go ahead.

Sunny: This is Sunny from Emkay. My question pertains to our recent acquisition of Hindustan Unilever's two brands. Just want to know what is the current turnover and how that will pan out over next two to three years because that key to our entry into the Middle East market. So, just your thoughts on that.

Ashwani Kumar Arora: At the present the value we have acquired at that time it was Rs.50 and we are planning to have Rs.50 Crores in eight months. The plan is to at least triple it in the next five years.

Sunny: That is great. Another thing, which I would like to know, is we are contemplating our increase in margin to the tune of 200 basis point in next to two to three years, so what are the efforts we are taking for that.

Ashwani Kumar Arora: So that basically three efforts we are taking. One is of course when the scale will go up and we have the complete infrastructure in terms of SG&A. So from there the improvement come and then we have efficiency in our procurement and the production efficiency and of course with the working capital management that the four, five initiatives we are working on and if you see in this quarter that has resulted that.

Moderator: Thank you. The next question is followup from the line of Nitesh Dhoot from Emkay Global. Please go ahead.

- Nitesh Dhoot:** Sir how would the passage of GST be benefitting players like yourself.
- Ashwani Kumar Arora:** GST will give a level play field. So that is the positive impact we are looking for but it is too early because till time the tax rate has not come and we are hearing that on the agriculture produce they are not going to tax. So let us see but whatever it will be it will have a kind of positive impact because we will have a level play field.
- Nitesh Dhoot:** Sir regarding the Middle East market your exports to Iraq to Iran do you export and if yes what are the comparables.
- Ashwani Kumar Arora:** We export but that does not have much share of our total business. Is that together we do 10% of our total sales to Iran and Iraq not even 10%, may be lesser.
- Nitesh Dhoot:** Some book keeping numbers. Could you please share the debt on books and the cash?
- Ashwani Kumar Arora:** As I told you we have a debt of Rs. 1571 crores and majority the working capital debt against the stocks and receivables.
- Nitesh Dhoot:** I will come back in the queue if again I have question.
- Moderator:** Thank you. The next question is from the line of Shankar Prasad from Karvy. Please go ahead.
- Shankar Prasad:** Good afternoon Sir. Actually I have got one question I mean Middle East considered to be main market for this basmati rice. Why we have lesser penetration over there?
- Ashwani Kumar Arora:** Of course India and US is a very strong market for us and we are now penetrating in Middle East. It is a strategic call one company takes where they have better strength and where they can get the better return. So we were focusing on our strong market and making it stronger and stronger and now in the next move we are moving to the Middle East.
- Shankar Prasad:** So in terms of realizations you said that in total revenue Middle East is contributing something around 10% only.
- Ashwani Kumar Arora:** For us Iran and Iraq. So altogether may be it is contributing to us around 15% to 18%.
- Shankar Prasad:** 15% to 18% okay there was talk regarding rice order being placed by Thailand. Has there been any talks progressing on that?
- Ashwani Kumar Arora:** Basically in basmati category there is no competition from any part of the world except Pakistan. Thailand only impacts the non-basmati export from India and as far as LT Food is concerned our majority business comes from basmati.



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Moderator: Thank you. As there are no questions from the participants I would now like to hand the call over to Mr. Nitesh Dhoot of Emkay Global for closing comments.

Nitesh Dhoot: I would like to thank the management once again for giving us this opportunity. Thank you Sir. Thank you madam and I thank all the participants for joining us in this call today. Have a good evening.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.