

LT Foods

A Royal Daawat for investors

LT Foods Limited (LTFL) is a branded speciality foods company engaged in milling, processing and marketing of branded and non-branded basmati rice and manufacturing of rice food products in the domestic and overseas markets. Its geographical segments include India, North America and Rest of the World. The major brands of the company are Daawat, Gold Seal Indus Valley, Rozana and 817 Elephant.

Market leadership with strong brand visibility: LTFL's flagship brand Daawat enjoys 22% market share in the branded rice market of India. The company has strong market share in North America selling Basmati rice under the brand name 'Royal'. Historically, the company has been focusing on strong brand visibility, and in order to enhance brand visibility it spends on ad spends.

Wide distribution network: Currently LTFL has an access to 1,40,000 traditional retail outlets and reaches to 93% of towns with over 2 lakh population and 3,000 wholesalers. Further, the company sells its products to premium hotels & restaurants (~50% share) and has an access to 6,000 foodservice outlets i.e. 'DaawatChefs Secretz'. Moreover, it has an access to 2,500 modern trade stores including 121 hypermarkets, 298 supermarkets and 1,462 mini markets. It is the 1st Rice Company to place Brown Basmati Rice in Medical Chains.

Diversified product portfolio catering to varied customers: LTFL has a well-diversified product basket, which caters to consumers of all income groups. The company is present in segments like Basmati rice, Speciality rice (non-Basmati) and Other food products. It is also consistently working on adding new products to its portfolio. LTFL has done JV with Japanese Snack Food major Kameda, which would launch rice based snacks in India. LTFL has recently introduced 'Daawat Rozana GoldPlus' brand.

Strong global footprint: LT Foods is now an emerging global Foods Company with a focus on basmati and other speciality rice, organic foods and convenience rice based products. LT Foods has a global footprint, selling their flagship basmati rice brands i.e. Royal and Daawat into 65 countries. The company has established on ground presence in the US, Europe and Middle East in order to unlock the full potential of these territories.

Outlook and Valuation: Going forward, we expect the company to report healthy top-line CAGR of 13.5% over the next two years on the back of strong distribution network & brand, continuous expansion, wide product basket and addition of new products in portfolio. On the bottom-line front, we expect ~20% CAGR on the back of robust improvement in operating performance. We expect margin expansion on the back of better manufacturing efficiency, increase in scale and change in product mix. **We initiate coverage on the stock with a Buy recommendation and Target Price of ₹ 96 (15x FY2019E EPS), indicating an upside of ~29% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	2,973	3,287	3,747	4,234
% chg	7.0	10.5	14.0	13.0
Net profit	99	117	139	170
% chg	36.3	18.9	18.2	22.6
EBITDA margin (%)	10.5	11.1	11.5	11.5
EPS (₹)	3.7	4.4	5.2	6.4
P/E (x)	20.1	16.9	14.3	11.7
P/BV (x)	3.7	3.0	2.5	2.1
RoE (%)	18.4	17.9	17.5	17.6
RoCE (%)	12.2	13.8	15.4	16.3
EV/Sales (x)	1.2	1.1	0.9	0.8
EV/EBITDA (x)	11.3	9.7	8.2	7.3

Source: Company, Angel Research, Note: CMP as of Nov 06, 2017

Quick take

BUY

CMP	₹ 74
Target Price	₹ 96

Investment Period	12 Months
Sector	Food Processing
Market Cap (₹ cr)	1,983
Net Debt (₹ cr)	1,565
Beta	1.0
52 Week High / Low	85 / 21
Avg. Daily Volume	1,09,568
Face Value (₹)	1
BSE Sensex	33,731
Nifty	10,452
Reuters Code	LTOL.BO
Bloomberg Code	LTFO.IN

Shareholding Pattern (%)	
Promoters	67.2
MF / Banks / Indian FIs	1.3
FII / NRIs / OCBs	2.5
Indian Public / Others	29.1

Abs. (%)	3m	1yr	3yr
Sensex	4.5%	23%	21%
LTFL	6.1%	184%	497.0%

3 year daily price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-39357800 Ext: 6831

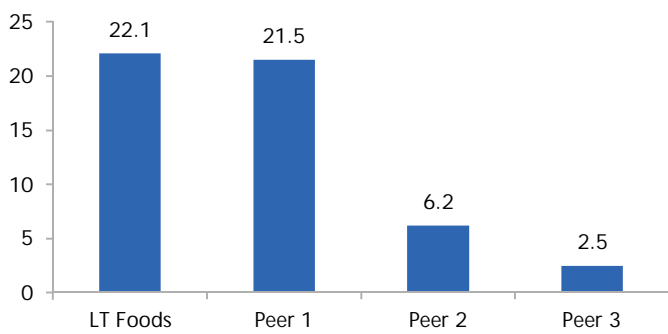
amarjeet.maurya@angelbroking.com

Investment Arguments

Market leadership with strong brand visibility

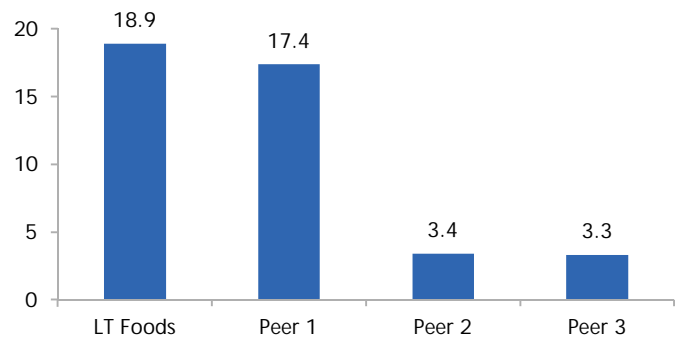
LTFL has a wide range of brands across price range catering to various customer segments. The company's flagship brand Daawat enjoys 22% market share in the branded rice market of India. LTFL has been continuously focusing on strong brand visibility. Hence, historically, the company has been spending on ad spends in order to increase brand visibility. The company also has strong market share in North America selling Basmati rice under the brand name 'Royal'.

Exhibit 1: All India Rural & Urban Markets (%)



Source: Company, Angel Research

Exhibit 2: All India Modern Trade (%)



Source: Company, Angel Research

Exhibit 3: LTFL strong brand presence across the segment

Branded Basmati rice

Value added staples

- Wheat flour
- Refined flour
- Chickpea flour
- Semolina
- Flattened rice

Premium

Health

Horeca

Mid-price

Value

Other products

- Sauces
- Oils
- Organic food

Source: Company, Angel Research

Wide distribution network

Currently LTFL has an access to 1,40,000 traditional retail outlets and reaches to 93% of towns with over 2 lakh population and 3,000 wholesalers. Further, the company sells its products to premium hotels & restaurants (~50% share) and has an access to 6,000 foodservice outlets i.e. 'DawatChefs Secretz". Moreover, it has an access to 2,500 modern trade stores including 121 hypermarkets, 298 supermarkets and 1,462 mini markets. It is the 1st Rice Company to place Brown Basmati Rice in Medical Chains.

Diversified product portfolio catering to varied customers

The company has a well-diversified product basket catering to consumers of all income groups. The company's strong flagship brand is Daawat. In the basmati rice segment, the company has products like White Basmati, Brown Basmati, Sela Basmati, Organic Basmati, Traditional Basmati, and Super Basmati. The speciality rice (non-Basmati) includes Jasmine Thai, Brown Jasmine Thai, Arborio, Sona Masoori, Sona Masoori Organic, Kerala Mata rice, Ponni rice and Gujarat no. 17 rice. Furthermore, the company has wide range of Other food products like Curry paste, Cooking sauces, Wheat flour, Couscous, Tea, Ecolife organic, range Rice mixes and Grape seed oil.

LT Foods is also consistently working on adding new products to its portfolio. LTFL has done JV with Japanese Snack Food major Kameda, which would launch rice based snacks in India. LTFL had recently introduced "Daawat Rozana GoldPlus" brand.

Exhibit 4: Broad Portfolio of Products



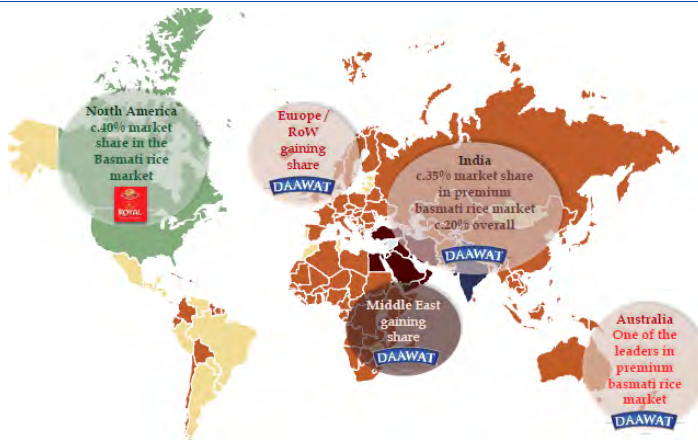
Source: Company, Angel Research

Strong global footprint

LT Foods is now an emerging global Foods Company with a focus on basmati and other speciality rices, organic foods and convenience rice based products.

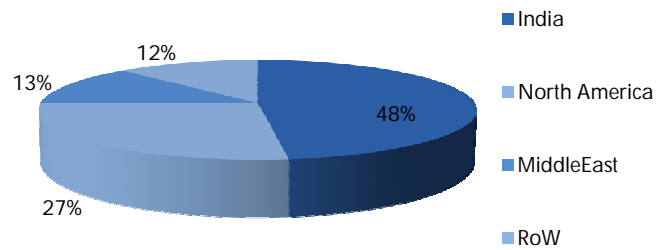
The company has a global footprint and sells its flagship basmati rice brands i.e. Royal and Daawat, into 65 countries. Further, LT Foods has a dedicated network for expanding its global reach. The company has established on ground presence in the US, Europe and Middle East in order to unlock the full potential of these territories. In addition, the company's other product brands such as ecoLife and Devaaya are also being strongly appreciated globally.

Exhibit 5: Global presence in over 65 countries



Source: Company, Angel Research

Exhibit 6: Revenue by geography in FY2017

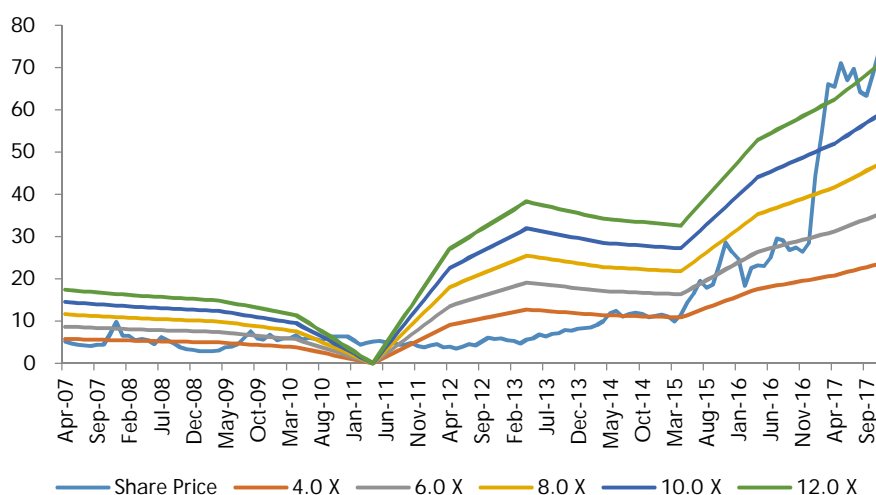


Source: Company, Angel Research

Outlook and Valuation

Going forward, we expect the company to report healthy top-line CAGR of 13.5% over the next two years on the back of strong distribution network & brand, continuous expansion, wide product basket and addition of new products in portfolio. On the bottom-line front, we expect ~20% CAGR on the back of robust improvement in operating performance. We expect margin expansion on the back of better manufacturing efficiency, increase in scale and change in product mix. **We initiate coverage on the stock with a Buy recommendation and Target Price of ₹96 (15x FY2019E EPS), indicating an upside of ~29% from the current levels.**

Exhibit 7: One year forward PE chart



Source: Company, Angel Research

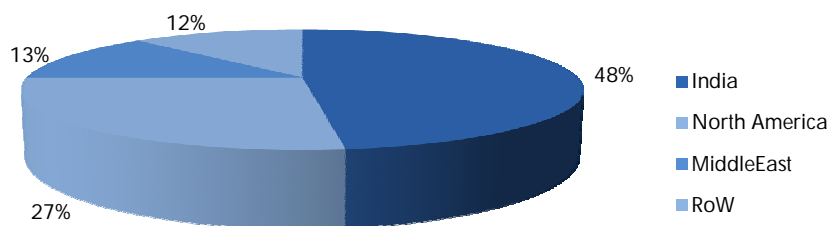
Key risks to our estimates

- 1) Increase in competition from unorganized players would impact overall growth prospects of the company.
- 2) Basmati rice is an extremely volatile commodity. Hence, any unfavorable change in Basmati rice prices could impact the company's profitability.
- 3) Company derives ~52% revenue from overseas market; any unfavorable change in currency could have an adverse impact on the company's profitability.

Company Background

LT Foods Limited (LTFL) is a branded speciality foods company. The company is engaged in milling, processing and marketing of branded and non-branded basmati rice and manufacturing of rice food products in the domestic and overseas markets. Its geographical segments include India, North America and Rest of the World. Its operations include contract farming, procurement, storage, processing, packaging and distribution. Its rice product portfolio comprises of brown rice, white rice, steamed rice, parboiled rice, organic rice, quick cooking rice, value added rice and flavoured rice in the ready to cook segment. The company's brands include (a) Royal, ecoLife, an organic food brand that includes rice, pulses, oil seeds, cereal grains, spices, nuts & fruits and vegetables; (b) Devaaya, which offers branded basmati rice, with staples, such as Atta, Suji, Besan, Dalia, Poha and Maida; and (c) Heritage, a basmati rice brand. The other brands of the company include Daawat, Gold Seal Indus Valley, Rozana and 817 Elephant.

Exhibit 8: Revenue break-up for LTFL (FY2017)



Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Total operating income	2,779	2,973	3,287	3,747	4,234
% chg	11.5	7.0	10.5	14.0	13.0
Total Expenditure	2,471	2,661	2,920	3,316	3,747
Raw Material	2,076	2,105	2,405	2,743	3,099
Personnel	74	90	117	139	157
Others Expenses	321	466	398	435	491
EBITDA	308	313	366	431	487
% chg	9.6	1.6	17.2	17.6	13.0
(% of Net Sales)	11.1	10.5	11.1	11.5	11.5
Depreciation & Amortisation	47	52	54	57	60
EBIT	261	261	312	374	427
% chg	7.3	(0.0)	19.5	19.8	14.1
(% of Net Sales)	9.4	8.8	9.5	10.0	10.1
Interest & other Charges	151	148	155	157	159
Other Income	1	6	36	10	10
(% of PBT)	1.1	5.2	18.4	4.4	3.6
Share in profit of Associates	-	-	-	-	-
Recurring PBT	111	120	193	227	278
% chg	(15.1)	7.5	61.5	17.4	22.5
Tax	35	47	64	75	92
(% of PBT)	31.3	39.4	33.3	33.0	33.0
PAT (reported)	76	72	129	152	186
Minority Interest (after tax)	4	(0)	10	12	15
Profit/Loss of Associate Company	-	(1)	(1)	(1)	(1)
Extraordinary Items	-	(27)	-	-	-
ADJ. PAT	72	99	117	139	170
% chg	(7.5)	36.3	18.9	18.2	22.6
(% of Net Sales)	2.6	3.3	3.6	3.7	4.0
Basic EPS (₹)	2.7	3.7	4.4	5.2	6.4
Fully Diluted EPS (₹)	2.7	3.7	4.4	5.2	6.4
% chg	(7.5)	36.3	18.9	18.2	22.6

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS					
Equity Share Capital	26	27	27	27	27
Reserves & Surplus	436	510	630	768	938
Shareholders Funds	463	537	656	795	965
Minority Interest	34	34	45	45	45
Total Loans	1,692	1,597	1,612	1,632	1,652
Deferred Tax Liability	5	1	5	5	5
Total Liabilities	2,194	2,169	2,318	2,477	2,667
APPLICATION OF FUNDS					
Gross Block	638	676	736	736	766
Less: Acc. Depreciation	268	315	365	422	482
Net Block	370	361	371	313	283
Capital Work-in-Progress	15	24	40	40	40
Investments	7	6	5	5	5
Current Assets	2,052	2,065	2,299	2,566	2,846
Inventories	1,362	1,300	1,448	1,653	1,856
Sundry Debtors	318	376	463	513	580
Cash	21	32	41	62	72
Loans & Advances	319	189	179	169	169
Other Assets	31	168	167	169	169
Current liabilities	256	296	410	460	521
Net Current Assets	1,796	1,769	1,889	2,105	2,325
Deferred Tax Asset	6	8	13	13	13
Mis. Exp. not written off	-	-	-	-	-
Total Assets	2,194	2,169	2,318	2,477	2,667

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	111	163	195	227	278
Depreciation	47	52	54	57	60
Change in Working Capital	(245)	(69)	(125)	(195)	(211)
Interest / Dividend (Net)	145	140	143	157	159
Direct taxes paid	(50)	(34)	(44)	(75)	(92)
Others	1	45	(7)	0	0
Cash Flow from Operations	9	297	217	171	194
(Inc.)/ Dec. in Fixed Assets	(55)	(53)	(85)	(30)	(30)
(Inc.)/ Dec. in Investments	(3)	(1)	(4)	0	0
Cash Flow from Investing	(58)	(54)	(89)	(30)	(30)
Issue of Equity	1	5	2	0	0
Inc./(Dec.) in loans	184	(93)	23	20	20
Dividend Paid (Incl. Tax)	(6)	(5)	(4)	0	0
Interest / Dividend (Net)	(147)	(142)	(145)	(129)	(175)
Cash Flow from Financing	32	(235)	(124)	(109)	(155)
Inc./(Dec.) in Cash	(17)	8	4	32	9
Opening Cash balances	35	18	26	30	62
Closing Cash balances	18	26	30	62	72

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	27.4	20.1	16.9	14.3	11.7
P/CEPS	16.1	16.0	10.8	9.5	8.1
P/BV	4.3	3.7	3.0	2.5	2.1
Dividend yield (%)	0.3	0.0	0.0	0.0	0.0
EV/Sales	1.3	1.2	1.1	0.9	0.8
EV/EBITDA	11.8	11.3	9.7	8.2	7.3
EV / Total Assets	1.7	1.6	1.5	1.4	1.3
Per Share Data (₹)					
EPS (Basic)	2.7	3.7	4.4	5.2	6.4
EPS (fully diluted)	2.7	3.7	4.4	5.2	6.4
Cash EPS	4.6	4.6	6.9	7.8	9.2
DPS	0.2	0.0	0.0	0.0	0.0
Book Value	17.3	20.1	24.6	29.8	36.2
Returns (%)					
ROCE	12.1	12.2	13.8	15.4	16.3
Angel ROIC (Pre-tax)	12.3	12.5	14.0	15.9	16.8
ROE	15.7	18.4	17.9	17.5	17.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.4	4.4	4.5	5.1	5.5
Inventory / Sales (days)	179	160	161	161	160
Receivables (days)	42	46	51	50	50
Payables (days)	13	18	24	24	24
Working capital cycle (ex-cash) (days)	208	188	188	187	186

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement	LT Foods
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ` 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)