

LT Foods (LTFO IN)

SC Net: Gaining Share Through *Dawat* in India and *Royal* in North America

Food

14 Mar 2018

Not Rated

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Visit Rationale: Sector Coverage**Basic Share Information**

Market cap	Rs27.65b / US\$0.43b
Daily volume (3mth)	US\$4.01m
Shares outstanding	319.8m
Free float	43%
Net debt-to-equity	219%
1 yr high	Rs109.1
1 yr low	Rs53.70
Foreign shareholding	3%
Visit date	15 Feb 18

Note: Share price and market data as of 13 March 2018.

What Is The Business Story For This Stock?

LT Foods produces and distributes several varieties of rice globally, including basmati rice, and other organic foods. In FY3/17, the company's sales totaled Rs33bn, with 44% in India, 28% in North America and 12% in the Middle East. LT Foods raised Rs4bn through an equity share placement in December 2017, with Rs1.5bn–2.0bn earmarked for repaying existing debt and the remainder for working capital.

The company markets its basmati rice in three categories. The specialty range (under the *Dawat Traditional* and *Dawat Biryani* brands), which targets hotels, restaurants and canteens, has a gross margin of 40%, the *Royal* brand sold in North America has a gross margin of 30%, and the mass market *Dawat Rozana* brand has a gross margin of 20%. The *Dawat* brands are available in India and about 65 other countries. The *Royal* brand (launched in 2007), which had a 45% share of the North American basmati rice market as of end-Q3 FY3/18, posted sales of US\$140mn in FY3/17 and a CAGR for revenue of 30% during FY3/13–17. Management projects a CAGR for revenue in its basmati rice business of 16% during FY3/18–22 with sales of Rs45bn by FY3/22.

LT Foods' value-added products, including quick-cooking brown rice, sauces, and ready-to-eat rice products have a gross margin of about 40%. In FY3/17, revenue for the company's value-added and organic staples business reached Rs3bn and management sees segment sales climbing to Rs15bn by FY3/22. Based on Bloomberg consensus estimates, the shares trade on a 12-month trailing PER of 19.7x, which compares with the PERs of 19.5x and 27.3x for peers Chaman Lal Setia Exports (CMLTX IN) and KRBL (KRB IN), respectively.

How Does The Value Chain Look?

LT Foods sources paddy from wholesale traders in Punjab, Haryana, Madhya Pradesh and Uttar Pradesh. The company operates five processing and packaging facilities in India as well as facilities in Rotterdam and in the US, with a combined capacity of 91 tonnes per hour as of end-December 2018. LT Foods has about 800 distributors throughout India and markets its products through 150,000 retailers nationwide. The US, Europe and Middle East are the company's major overseas markets.

Segment	Market Share	Fundamentals	Major Clients	Major Suppliers	Competitors
Basmati rice	45% in North America; 20% in India	Strong	About 800 distributors in India	Wholesale traders	Chaman Lal Setia Exports (CMLTX IN), KRBL (KRB IN) and Kohinoor Foods (KFL IN)

Source: Company Data

Who Currently Owns This Stock?

As of end-December 2017, LT Foods' founders held 56.0% of the company's shares, while DSP Blackrock (unlisted) held 5.2%, Reliance Small Cap Fund (unlisted) held 1.5%, SBI Funds Management (unlisted) 7.3%, Societe Generale (GLE FP) 2.8%, and India Agri Business Fund (unlisted) 3.5%.

How Does It Fit Into Our SCNet Index

LT Foods is not a constituent of Haitong International's (HTI's) SC Net Index at present. Its stock price has increased 9.4% over the past three months, outperforming India's small cap index by 11.1ppts. LT Foods' PER, PBR, ROA, OPM, and revenue growth are in the middle of the range for HTI's SC Net stock universe, while its ROE, net gearing ratio, and EPS growth are at the top of the range.

	Significant Shareholdings
Founder	56.0%
Management	n.a.
Employees	n.a.
Industry	n.a.

Source: Company Data



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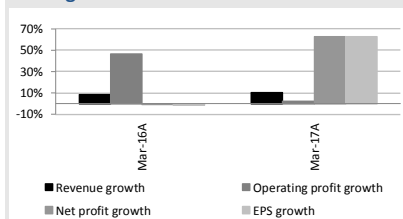
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S-C Net



Earnings Trends



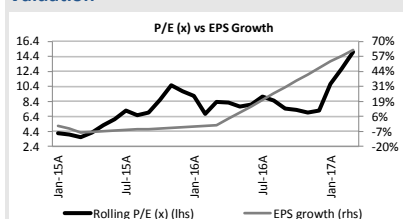
Source: Company data, Bloomberg

Price / Volume



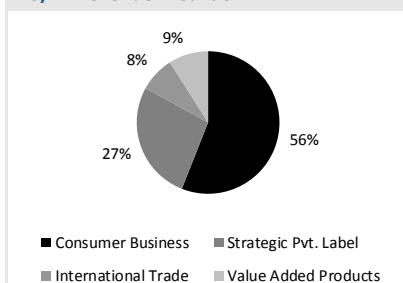
Source: Bloomberg

Valuation



Source: Company data, Bloomberg

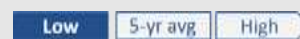
FY3/17 Revenue Breakdown



Source: Company data

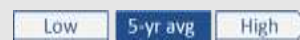
Key Investment Metrics

Revenue Growth



LT Foods' FY3/17 revenue growth of 11% YoY was below the company's CAGR for revenue of 18% during FY3/13-17.

Profit Margins



The FY3/17 EBITDA margin was 11.6%, in line with the company's average of 11.2% during FY3/13-17.

Shareholder Returns



LT Foods' FY3/17 ROE of 17.9% was higher than its average ROE of 17.0% during FY3/13-17.

Balance Sheet Risks



The company's net debt-to-equity ratio of 2.19x at end-FY3/17 was lower than its average of 3.16x during FY3/13-17. LT Foods raised Rs4bn through an equity share placement in December 2017, with Rs1.5bn-2.0bn earmarked for the repayment of existing debt.

Barriers to Entry



According to management, a new entrant into the rice manufacturing market would require a strong value chain related to paddy sourcing capabilities, manufacturing facilities and warehouse infrastructure.

International Exposure/Breakdown



In FY3/17, 55% of LT Foods' revenue was from exports, with 28% of its total sales in North America and 12% in the Middle East.

FX Exposure



As of end-FY3/17, the company's trade receivables totaled Rs2.1bn, its trade payables were Rs73mn, it had pre-shipment credits of Rs455mn and discounted bills of Rs232mn denominated in USD, EUR and GBP.

Corporate Governance



Four of the seven directors on LT Foods' board are independent directors, while two of the three members of the audit committee and all the members on the nomination and remuneration committee are independent directors.

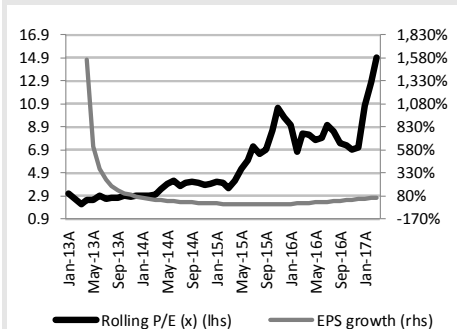
Company Snapshot and Industry Context

LT Foods manufactures and sells basmati rice under the *Royal* brand in North America and the *Dawat* brand in the rest of the world and it markets pulses, soya products, spices and value-added products such as fast-cooking brown rice and sauces. The company has processing and packaging facilities in India, Rotterdam and the US with a combined capacity of 91 tonnes per hour as of end-December 2018.

	Mar-13A	Mar-14A	Mar-15A	Mar-16A	Mar-17A	Trend
Total turnover (Rsm)	22,077	24,741	27,346	29,734	32,865	■
Operating profit (Rsm)	2,072	2,288	2,172	3,181	3,257	■
Pre-tax profit (Rsm)	828	1,311	1,112	1,195	1,931	■
Net income to ord equity (Rsm)	561	783	725	721	1,174	■
Net profit growth		39.7%	(7.5%)	(0.5%)	62.8%	■
P/E (x)	40.30	28.99	31.47	31.97	19.65	■
P/B (x)	7.28	5.82	4.94	4.29	3.51	■
ROE	19.8%	22.3%	17.0%	14.4%	19.7%	■
Dividend yield	0.2%	0.3%	0.2%	0.0%	0.0%	■
EPS (Rs)	2.15	2.98	2.75	2.70	4.40	■

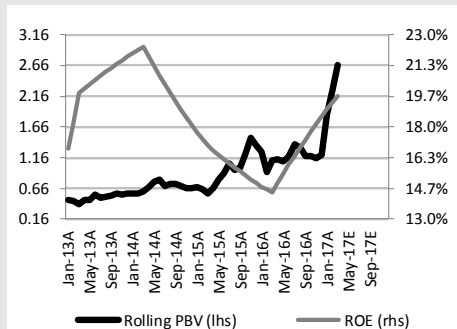
Source: Bloomberg
 Note: The data in the table above and in the corresponding charts below is as of 13 March 2018.

P/E (x) vs EPS Growth



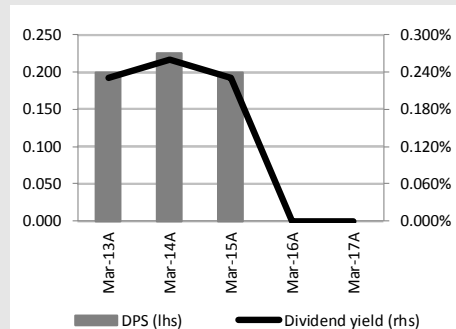
Source: Bloomberg

P/B (x) vs ROE



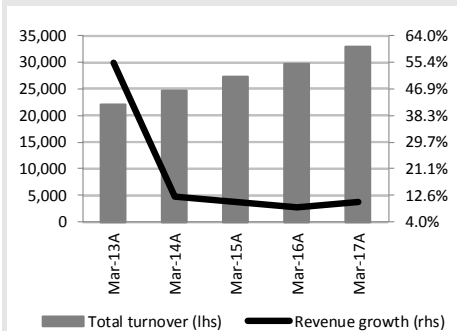
Source: Bloomberg

Dividend Payout and Yield



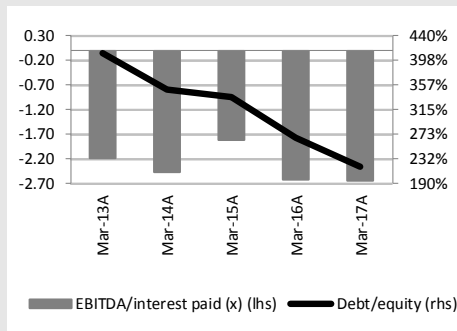
Source: Bloomberg

Turnover and Growth (INRM)



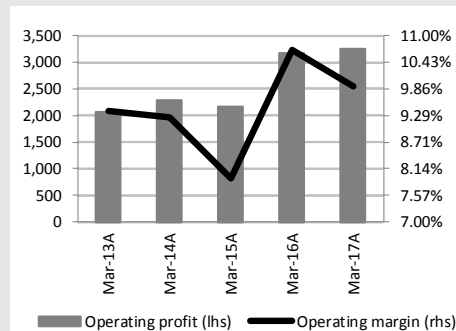
Source: Bloomberg

Net Debt To Equity and Interest Cover



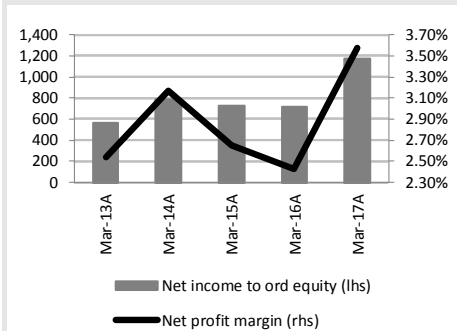
Source: Bloomberg

Operating Profit and Margin (INRM)



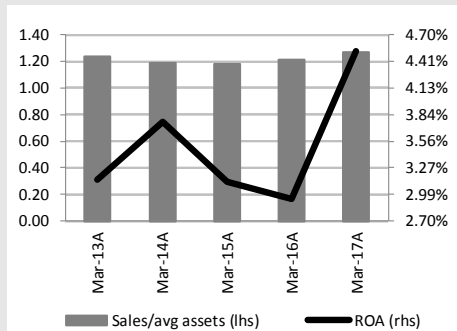
Source: Bloomberg

Net Profit and Margin (INRM)



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

APPENDIX

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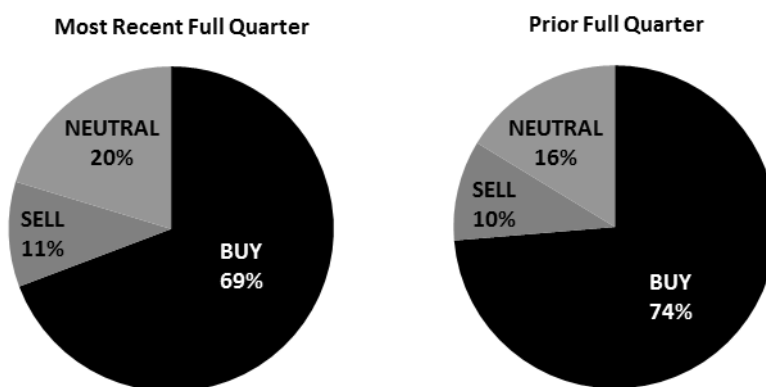
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