

CMP	28	Rating	BUY
Target	39 (12m)	Upside	38%

Strong performance across segments: LT Foods Ltd reported a revenue de-growth of 10.7% YoY to 10bn mainly due to a decline in the private label business (-43%) and 3% YoY decline in organic business while branded business grew 6.4% YoY.

Higher gross margin drives OPM expansion: EBITDA grew 5.8% YoY to Rs 1.2bn while OPM expanded 180bps YoY to 11.6% due to an improvement in gross margins (+311bps). However, a rise in employee cost (+112bps) restricted further expansion.

Lower effective tax rate drives PAT: Adj PAT grew 29.7% YoY to Rs.0.5bn on back of a lower tax rate (28.1% vs 41.7%). Higher depreciation (+30% YoY to Rs.0.2bn) and lower other income (-52.6% YoY) restricted further PAT Growth. PAT margin improved by 142bps to 4.6%.

Result (Rs.bn)	Q3FY20	Q3FY19	Q2Y20	Y/Y(%)	Q/Q(%)
Revenue	10.0	11.1	9.7	-10.6%	+2.5%
EBITDA	1.2	1.1	1.0	+5.8%	+12.6%
EBITDA(%)	11.6%	9.8%	10.6%	+180bps	+104bps%
Adj. PAT	0.5	0.4	0.4	+29.7%	+7.1%
Adj. PAT(%)	4.6%	3.1%	4.4%	+142bps	+19bps
Adj. EPS	1.4	1.1	1.3	29.7%	+7.1%

Concall Key Takeaways:

Business Update: The company's 9M revenue grew 2% YoY to Rs.29.6bn, EBITDA increased 12% YoY to Rs.3.6bn on account of higher gross profit and operational efficiency. The EBITDA margin for 9 months improved by 107 bps YoY.

Debt: Total debt stood at Rs15.9bn, lower by Rs.0.7bn over the previous year and the debt-equity ratio improved to 1.02 vs 1.18. The average cost of debt is 7.8%. As per the management, they will maintain a debt-to-EBITDA ratio less than 3.

Capex: Till Dec19 the company did Rs. 0.4bn capex and next the year capex will be in the same range.

Other highlights:

- The management is focused on increasing branded business segment and gradually reducing the non-branded private label and the trading business.
- During the quarter International branded realization is down due to an unfavorable product mix as export of brown rice to Europe increased.
- The management is targeting 10-15% growth in organic business and 10% YoY growth in the branded business.
- Advertising expenses during the quarter are Rs.0.6bn
- For this season (crop'19) crops are cheaper by 15% to 20% than the last year.
- The company has a plan to open 10,000 outlets in the coming years.

STOCK DETAILS	
Bloomberg Code	LTFO:IN
Market Cap (Rs.bn)	9.1
Market Cap (USD bn)	0.1
Sector	Packaged Foods
Index	S&P BSE SmallCap
52w High/Low	41/18
Avg Monthly Turnover (Rs. mn)	131.7
Shares in Issue (mn)	319.8
BSE Sensex	41,566
NSE Nifty	12.108

Valuation and View: We have reduced our revenue est, by -3.4%/-1.9% for FY20E/FY21E on account of the company's focus to increase the branded business and gradually reduce the private label contribution in revenue. We have increased the EBITDA margin for FY20E by 40bps (9m avg margin is 11.5%) and reduced it by 20bps for FY21E. This has led to an upward revision of EPS estimates for FY20E by 8.7% and decline (-1.2%) for FY21E.

We also introduce FY22E estimates. We now expect the company to post a Revenue/EBITDA/Adj.PAT CAGR of 5.5%/8.1%/15.8% over FY19-FY22E with OPM in the region of 11.0% by the end of FY22E.

At CMP of Rs 28, the stock is trading at 5.4x/5.1x/4.6x our earnings estimates of Rs.5.2/Rs.5.5/Rs.6.2 for FY20E/FY21E/FY22E respectively. We continue to like the company for (1) its strong brand image in domestic and international market, (2) the focus toward branded segment (high margin business) and (3) new product launches. This will bolster revenue growth and margin

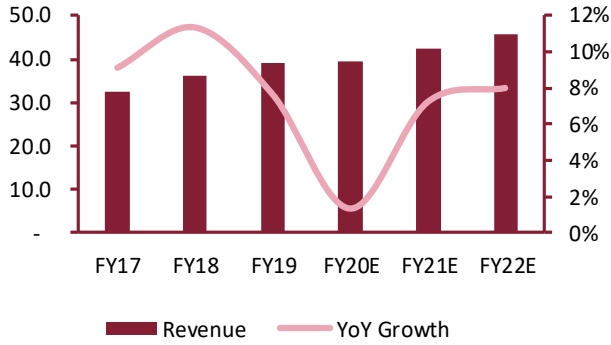
CONSOLIDATED FINANCIALS				
Rs in bn	FY19	FY20E	FY21E	FY22E
Revenue	38.9	39.4	42.3	45.6
EBITDA	4.0	4.5	4.7	5.0
EBITDA(%)	10.2%	11.4%	11.1%	11.0%
Adj PAT	1.3	1.7	1.8	2.0
Adj PATM(%)	3.3%	4.2%	4.2%	4.3%
EPS (Rs.)	4.0	5.2	5.5	6.1
P/E (x)	7.2	5.4	5.1	4.6

Source: Company-Annual Report, Indsec Research

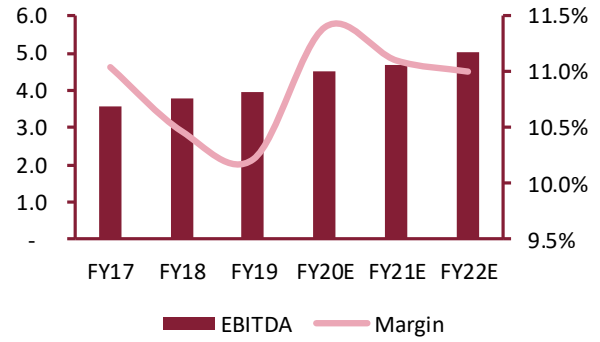
expansion in the long term. We have maintained our target multiple of 7x and assign it to our FY21E earnings of Rs.5.5 post which we arrive at a target price of Rs.39, which implies an upside of 38% from current levels. Thus, we assign a BUY rating to the stock.

Financial Snapshot

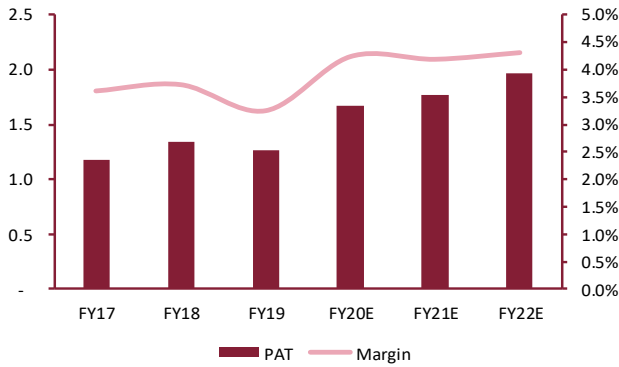
Revenue (Rs. Bn.)



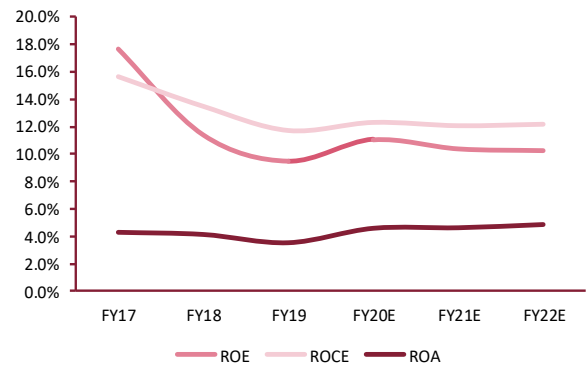
EBITDA (Rs. Bn.)/ OPM



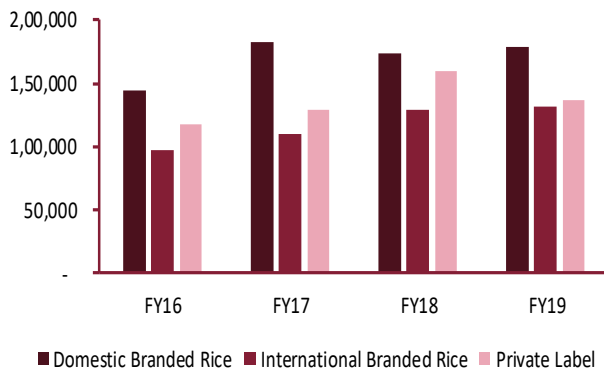
PAT(Rs. Bn.)/ NPM



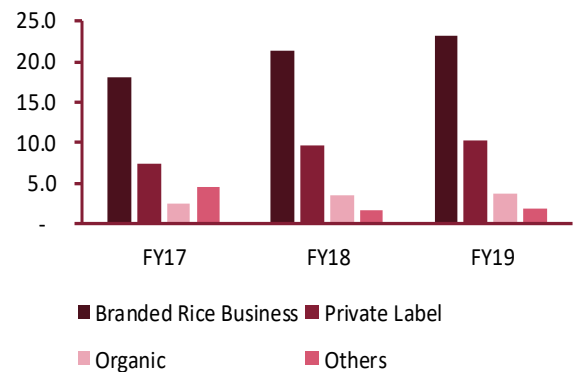
ROE/ROA/ROCE



Business Wise Volume (MT)



Business Wise Revenue (Rs.bn)



Source: Company-Annual Report, Indsec Research

SUMMARY INCOME STATEMENT						
<i>(in mn)</i>	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Income	32,448	36,137	38,904	39,409	42,255	45,636
% YoY Growth	9.1%	11.4%	7.7%	1.3%	7.2%	8.0%
Cost Of Revenues (incl Stock Adj)	24,097	26,714	29,382	29,123	31,269	33,771
Gross Profit	8,350	9,423	9,523	10,286	10,986	11,865
Gross Margins	25.7%	26.1%	24.5%	26.1%	26.0%	26.0%
Employee Cost	1,169	1,350	1,519	1,773	1,817	1,917
Other Operating Expenses	3,599	4,292	4,031	4,020	4,479	4,929
EBITDA	3,582	3,780	3,972	4,493	4,690	5,020
EBITDA Margins	11.0%	10.5%	10.2%	11.4%	11.1%	11.0%
Other Income	481	362	241	217	190	183
Net Interest Exp.	1,568	1,466	1,387	1,394	1,376	1,368
Depreciation	551	501	690	849	889	929
Exceptional Items	0	0	0	0	0	0
PBT	1,945	2,176	2,136	2,467	2,615	2,906
Tax	649	714	762	666	706	785
Net Profit	1,296	1,462	1,375	1,801	1,909	2,121
Adj.PAT	1,172	1,347	1,265	1,669	1,770	1,966
Adj PATM	3.6%	3.7%	3.3%	4.2%	4.2%	4.3%
Adj EPS	3.7	4.8	4.0	5.2	5.5	6.1

SUMMARY BALANCE SHEET						
<i>(in mn)</i>	FY17	FY18	FY19	FY20E	FY21E	FY22E
Assets						
Net Block	3,702	4,927	5,265	4,916	4,527	4,098
Capital WIP	395	275	422	422	422	422
Other Non current Assets	99	99	322	322	322	322
Current Assets	1,874	2,789	2,953	2,953	2,953	2,953
Current Investment						
Inventories	0	0	0	0	0	0
Trade receivables	14,470	17,287	18,912	18,830	20,218	21,835
Cash and Bank Balances	4,628	4,680	5,349	5,399	5,788	6,252
Bank Balances other than Cash & Cash Eq	327	195	292	1,290	1,770	2,324
Short-term loans and advances	91	183	79	79	79	79
Other Current Assets	1,764	2,184	2,260	2,260	2,260	2,260
Total Current Assets	21,281	24,529	26,892	27,858	30,115	32,750
Current Liabilities & Provisions						
Trade payables	2,179	3,417	2,838	2,154	2,313	2,498
Other current liabilities	2,225	1,515	1,695	1,695	1,695	1,695
Short-term provisions	6	17	29	29	29	29
Total Current Liabilities	4,410	4,949	4,562	3,878	4,037	4,222
Net Current Assets	16,870	19,581	22,330	23,980	26,078	28,528
Total Assets	22,941	27,671	31,292	32,593	34,302	36,323
Liabilities						
Share Capital	267	320	320	320	320	320
Reserves and Surplus	6,382	11,475	12,971	14,772	16,681	18,802
Total Shareholders Funds	6,649	11,794	13,291	15,092	17,001	19,122
Minority Interest	471	554	1,054	1,054	1,054	1,054
Total Debt	15,762	15,162	16,704	16,204	16,004	15,904
Long Term Provisions	30	61	80	80	80	80
Other Long Term Liabilities	30	43	41	41	41	41
Net Deferred Tax Liability	0	56	122	122	122	122
Total Liabilities	22,941	27,671	31,292	32,593	34,302	36,323

*Previous period figures have been restated wherever necessary to make them comparable.

Source: Company-Annual Report, Indsec Research

SUMMARY CASH FLOW STATEMENT

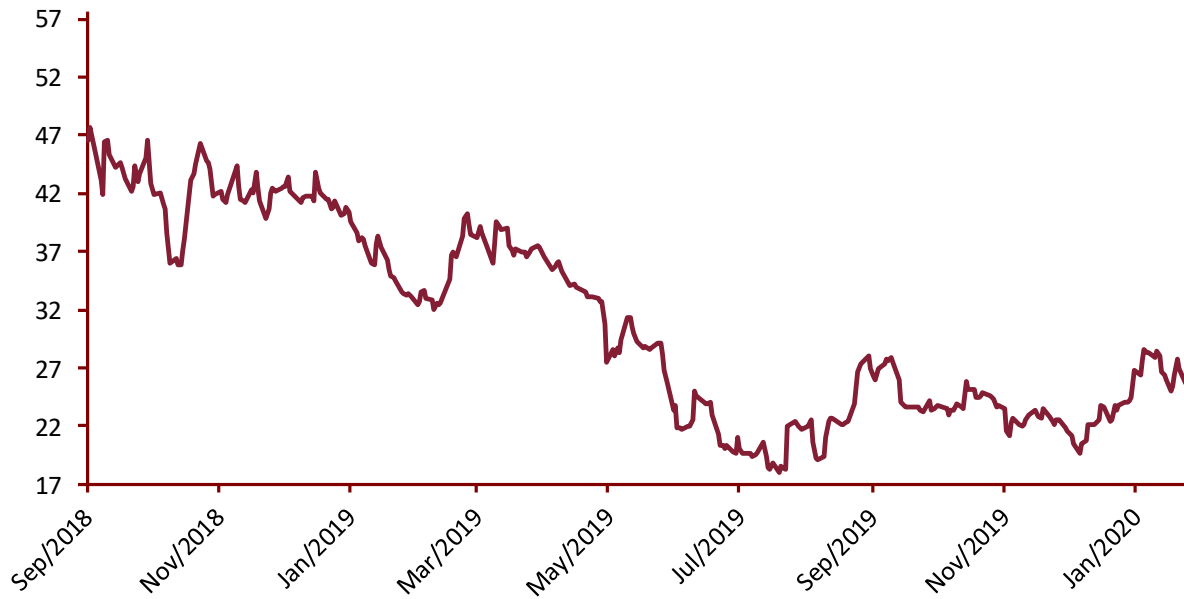
<i>(in mn)</i>	FY17	FY18	FY19	FY20E	FY21E	FY22E
PBT	1,942	2,158	2,136	2,467	2,615	2,906
Depreciation & Amortization	551	501	690	849	889	929
Other Adjustments	1,388	1,393	1,387	1,394	1,376	1,368
(Inc) / Dec in Working Capital	(1,106)	(2,567)	(2,734)	(652)	(1,618)	(1,896)
Taxes	(507)	(1,035)	(762)	(666)	(706)	(785)
Cash from Ops.	2,267	451	718	3,392	2,556	2,522
Capital Expenditure & investments	(820)	(2,324)	(986)	(500)	(500)	(500)
Cash from Investing	(820)	(2,324)	(986)	(500)	(500)	(500)
Issue of Share capital	-	3,812	-	-	-	-
Net Borrowings	118	(708)	1,542	(500)	(200)	(100)
Others	(1,443)	(1,307)	(1,387)	(1,394)	(1,376)	(1,368)
Issuance of Dividend	(48)	(48)	-	-	-	-
Cash from Financing	(1,372)	1,749	155	(1,894)	(1,576)	(1,468)
Extraordinary receipts/payment	-	-	210	-	-	-
Net Change in Cash	75	(124)	97	998	480	555
BF Cash	261	327	195	292	1,290	1,770
Adjustment	(9)	(9)	-	-	-	-
END Cash	327	195	292	1,290	1,770	2,324

SUMMARY RATIOS

	FY17	FY18	FY19	FY20E	FY21E	FY22E
<u>Profitability</u>						
Return on Assets	4.3%	4.1%	3.5%	4.6%	4.6%	4.8%
Return on Capital	15.7%	13.5%	11.7%	12.3%	12.1%	12.2%
Return on Equity	17.6%	11.4%	9.5%	11.1%	10.4%	10.3%
<u>Margin Analysis</u>						
Gross Margin	25.7%	26.1%	24.5%	26.1%	26.0%	26.0%
EBITDA Margin	11.0%	10.5%	10.2%	11.4%	11.1%	11.0%
Net Income Margin	3.6%	3.7%	3.1%	4.2%	4.2%	4.3%
<u>Short-Term Liquidity</u>						
Current Ratio	1.1x	1.3x	1.4x	1.5x	1.7x	1.8x
Quick Ratio	0.3x	0.4x	0.4x	0.5x	0.5x	0.6x
Avg. Days Sales Outstanding	52	47	50	50	50	50
Avg. Days Inventory Outstanding	219	236	235	236	236	236
Avg. Days Payables	25	35	27	27	27	27
<u>Long-Term Solvency</u>						
Total Debt / Equity	2.4x	1.3x	1.3x	1.1x	0.9x	0.8x
Interest Coverage	2.2x	2.5x	2.5x	2.8x	2.9x	3.1x
<u>Valuation Ratios</u>						
EV/EBITDA	6.3x	5.8x	6.4x	5.3x	5.0x	4.5x
PER	6.0x	4.6x	7.2x	5.4x	5.1x	4.6x
P/B	1.1x	0.6x	0.7x	0.6x	0.5x	0.5x

*Previous period figures have been restated wherever necessary to make them comparable.

Source: Company Annual Report, Indsec Research

Stock Price movement from Initiation (18th Sept, 2018) to 12th February, 2020

Recommendation History

Date	Closing Price	TP	Periods (in mts)	Rating	Analyst
13-Feb-20	28	38	12m	Buy	Rakesh Roy
16-Aug-19	22	37	12m	BUY	Jimeet M. Shah, Kimberly Paes
15-Feb-19	33	54	12m	BUY	Jimeet M. Shah, Kimberly Paes
20-Nov-18	42	70	12m	BUY	Jimeet M. Shah, Kimberly Paes
19-Sep-18	48	70	12m	BUY	Jimeet M. Shah, Kimberly Paes

INDSEC Rating Distribution

BUY : Expected total return of over 20% within the next 12-18 months.

HOLD : Expected total return between 0% to 20% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

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