

Company Update

LT Foods Ltd

Bloomberg Code: LTFO IN

India Research - Stock Broking

BUY

Branded Business Driving Domestic and Export Sales

Mixed Performance: The company on a consolidated basis has registered mixed performance, wherein revenue for full year FY18 has grown by 11.4%, primarily driven by branded sales whose contribution in total sales has increased to 69% from 64% in FY17. The company's branded business has increased by 18%, wherein domestic grew by 13% and international grew by 23% on YoY basis. The average realization for domestic branded sales increased to Rs. 51/kg, an increase of 18%, while average realization for international branded sales increased to Rs. 96/kg, higher by 5% on YoY basis. However, EBITDA margin contracted by 58 bps as a result of the rise in the cost of materials consumed and other expenses including Fx-fluctuation loss. PAT during the period increased by 11.7% led by lower interest cost and depreciation, resulting in EPS recording growth of 9.1% on YoY basis.

Going forward, the company is likely to grow at CAGR of 11% during FY18-20E on the back of consistent brand investment and strengthening footprints in all the channels including general trade, modern trade and online business. However, we believe that continuing adverse impact of GST on HoReCa (Hotel, Restaurant and Café) business, competitions from private label sales, European business to be profitable only from FY20E and relatively lesser penetration in Gulf region where 75% of basmati rice is consumed, would continue to exert pressure on sales and margin. Flatish operating margin around 10% and PAT margin around 4% have been provocative reasons why investors are indifferent towards the stock. Accordingly, we have downwardly revised our Q3FY18 target price of Rs. 111 to Rs. 81.

Valuation and Risks

We believe that the company will continue to leverage on brand strength, distribution network and infrastructure. This along with a focus on value-added business will provide big flip to the business. Further, picking up of the organic food business, gathering pace of business in Middle-East and Africa, contributions from the US facility and Rotterdam plant to provide impetus to sales. We are also encouraged to see that company has improved upon its net debt-to-equity ratio from 2.3x in FY17 to 1.3x in FY18. We value the stock at three years average of 1 yr forward PE 11x of FY20 EPS which gives the TP of Rs. 81 with 19% upside. The company's closest peer 1yr forward PE is at 20x of FY20E EPS. The key downside risk continues to be competition from private label sales and foreign exchange fluctuations.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	29734	32448	36137	40112	44524
EBITDA	3566	3582	3780	4532	5045
EBITDA Margin (%)	12.0	11.0	10.5	11.3	11.3
Net Profit	725	1293	1444	1987	2362
EPS (Rs.)	2.7	4.8	4.5	6.2	7.4
RoE (%)	14.5	21.5	15.7	15.6	15.9
PE (x)	8.3	13.6	20.7	10.9	9.2

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

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Recommendation (Rs.)

CMP (as on Jun 05, 2018)	68
Target Price	81
Previous Target Price	111
Upside (%)	19

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	21701 / 323
52-wk High/Low (Rs.)	110 / 55
3M Avg. daily value (Rs. mn)	89.4
Beta (x)	1.1
Sensex/Nifty	34903 / 10593
O/S Shares(mn)	319.8
Face Value (Rs.)	1.0

Shareholding Pattern (%)

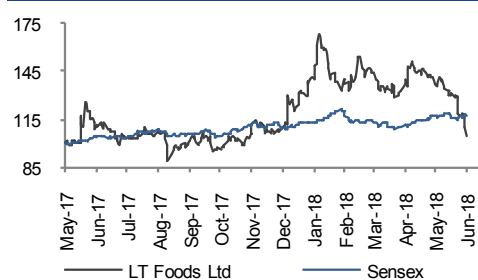
Promoters	56.0
FIIs	3.8
DIIIs	13.9
Others	26.3

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(24)	(26)	(7)	(7)
Relative to Sensex	(24)	(28)	(13)	(17)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY19E	FY20E
Sales (%)	↓ (4.8)	↓ (8.9)
EBITDA (%)	↓ (10.8)	↓ (15.6)
PAT (%)	↓ (14.5)	↓ (20.0)

Source: Karvy Research

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Key takeaways from quarterly earnings

The company is on an expansionary mode which will be big positive for its growth in the near future.

- The HoReCa business had a dip because of GST due to the absence of input credit to this sector. The company has lost 5% volume of all India sales because of GST.
- The contribution of branded business to overall rice business has increased to 69% in FY18 from 64% in FY17.
- The average realization in domestic market was at Rs. 51/kg and at international level stood at Rs.96/kg.
- Paddy inventory in FY18 stands at 1,71,000 valued at Rs. 31.78, whereas Rice inventory stands at 1,21,000 valued at Rs. 52.86.
- The stock inventory is mixed of the domestic and export. Of the total inventory, 70% will be exported at Rs. 96/kg, while the rest 40% will be sold in domestic market at Rs. 80/kg.
- The company is focused on strengthening the consumer business both in India and International markets.
- The company plans to start setting up factory for KariKari Snacks.
- The company's net debt to equity ratio has improved to 1.26 in FY18 from 2.3 in FY17.
- Capex for FY19 will be in the range of Rs. 400 to Rs. 500 Mn which is kind of maintenance capex.
- There has been initial problem of Rotterdam plant which is likely to be operational from the next quarter. In the meantime, the company incurred loss of Rs. 200 Mn in FY18 and is expected to incur loss of Rs. 150 Mn in FY19E. The unit will be profitable only from FY20E.
- There is a order of Rs. 2500 Mn of European business in hand.
- The company is building a big warehouse and increasing capacity by 60,000 tonnes for finished goods to improve the service level.

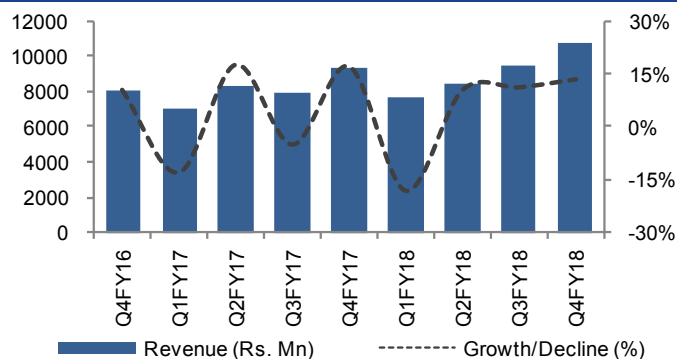
Quarterly performance at sales level has been encouraging but contraction in margins is disappointing.

Exhibit 2: Q4FY18

YE Mar (Rs. Mn)	Q4FY18	Q3FY18	QoQ %	Q4FY17	YoY %
Turnover	10706	9409	13.8	9274	15.4
Expenditure	9743	8548	14.0	8333	16.9
EBITDA	964	861	11.9	941	2.4
Depreciation	175	115	52.3	131	33.7
Interest	402	334	20.4	392	2.6
Other Income	77	175	(56.2)	174.1	(56.0)
PBT	460	584	(21.2)	577	(20.3)
Tax	114	198	(42.4)	198	(42.4)
PAT	346	386	(10.3)	378.7	(8.7)
EBITDA Margin (%)	9.0	9.2	(15) bps	10.1	(115) bps
EBIT Margin(%)	7.4	7.9	(56) bps	8.7	(137) bps
Net Profit Margin (%)	3.2	4.1	(87) bps	4.1	(85) bps

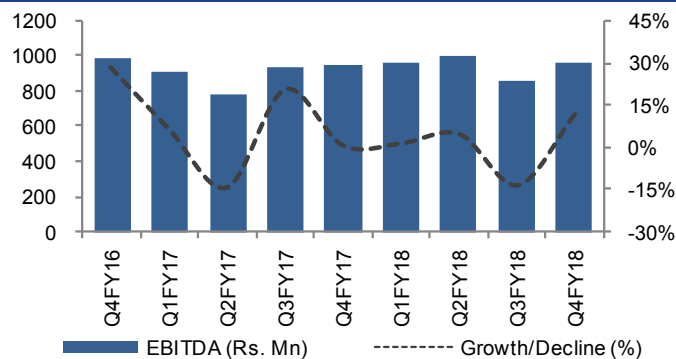
Source: Company, Karvy Research

Exhibit 3: Revenue and Revenue Growth Trend



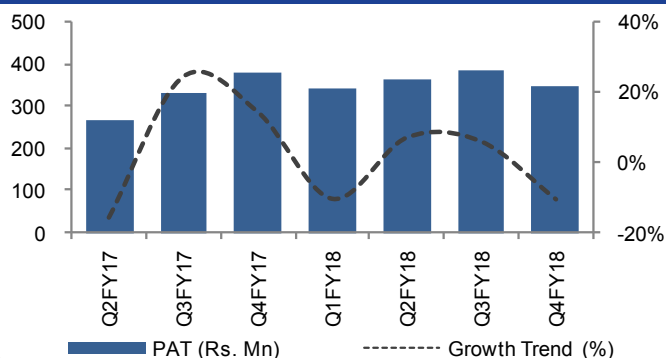
Source: Company, Karvy Research

Exhibit 4: EBITDA and EBITDA Growth Trend



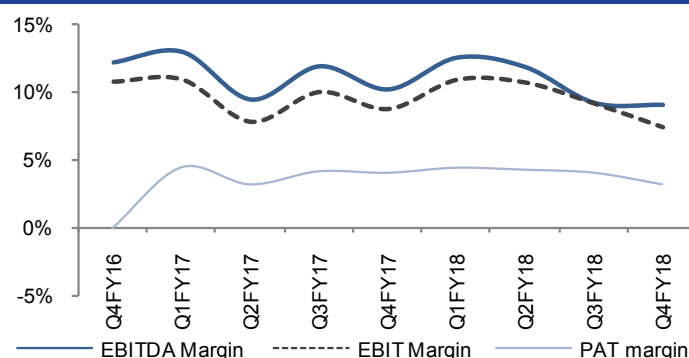
Source: Company, Karvy Research

Exhibit 5: PAT and PAT Growth Trend



Source: Company, Karvy Research

Exhibit 6: QoQ Margin Trend (%)



Source: Company, Karvy Research

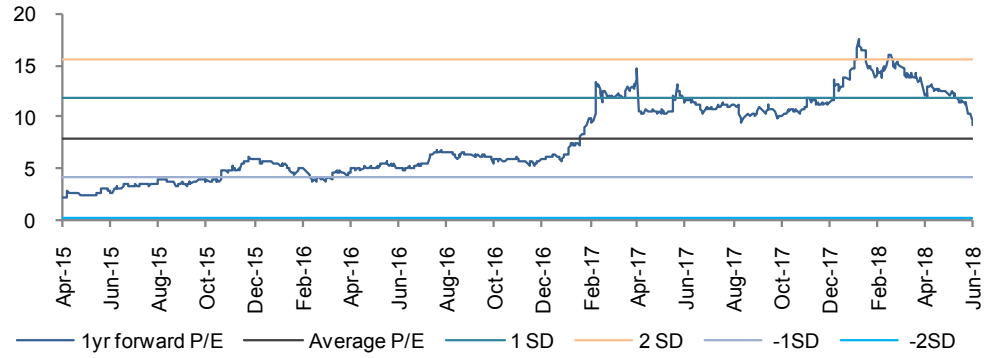
Exhibit 7: Change in Earnings Estimates

YE Mar (Rs. Mn)	FY19E			FY20E		
	Old	New	% Change	Old	New	% Change
Net Sales	42150	40112	(4.8)	48894	44524	(8.9)
EBITDA	5082	4532	(10.8)	5980	5045	(15.6)
EBITDA Margin (%)	12.1	11.3	(6.6) bps	12.2	11.3	(7.1) bps
Adj. PAT	2324	1987	(14.5)	2951	2362	(20.0)
EPS (Rs.)	7.3	6.2	(14.9)	9.2	7.4	(19.7)

Source: Karvy Research

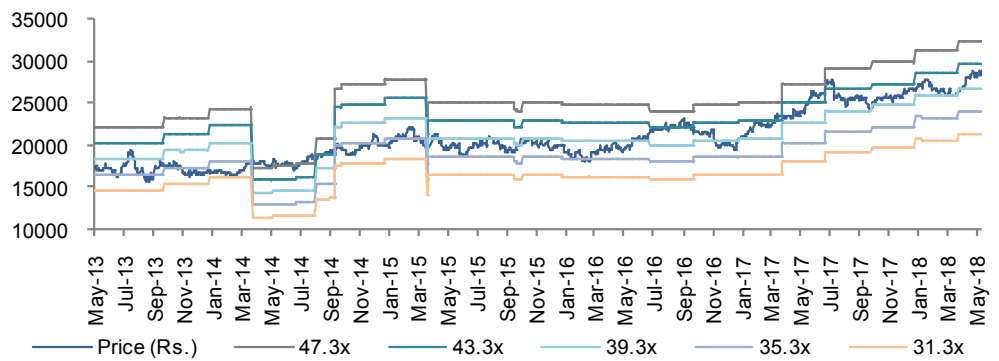
PE ratio being above three years 1 year forward PE, suggests to strength in the stock.

Exhibit 8: 3yr PE Band for LT Foods Ltd



Source: Bloomberg, Karvy Research

Exhibit 9: 5yr PE Band for NSE FMCG



Source: Bloomberg, Karvy Research

Financials

Double-digit growth in top-line and bottom-line are encouraging signs. However, the company needs to improve upon margins.

Increasing trend in networth and declining trend in debt reflect upon efficient use of the existing assets.

Exhibit 10: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	29734	32448	36137	40112	44524
Growth (%)	8.7	9.1	11.4	11.0	11.0
Operating Expenses	26168	28866	32357	35581	39480
EBITDA	3566	3582	3780	4532	5045
Growth (%)	35.2	0.5	5.5	19.9	11.3
Depreciation & Amortization	515	551	501	487	509
EBIT	3051	3031	3279	4045	4536
Other Income	62	481	362	401	445
Interest Expenses	1478	1568	1466	1480	1457
PBT	1635	1945	2176	2966	3525
Tax	471	649	714	979	1163
PAT	725	1293	1444	1987	2362
Growth (%)	(5.3)	78.4	11.7	37.6	18.9

Source: Company, Karvy Research

Exhibit 11: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Cash & Cash Equivalents	323	415	291	4301	5300
Trade Receivable	3757	4628	4680	5652	5814
Inventory	12996	14470	17287	17571	19829
Loans & Advances	3565	160	284	313	344
Investments	64	30	44	52	47
Net Block	3856	3348	5202	5345	5545
Other Assets	81	4300	4800	3033	3104
Total Assets	24643	27351	32588	36267	39985
Current Liabilities	3340	4410	4949	7034	8655
Gross Debt	15578	15762	15162	14804	14566
Other Liabilities	358	530	715	737	767
Total Liabilities	19276	20702	20825	22575	23989
Equity Capital	267	267	320	320	320
Reserves & Surplus	5101	6382	11443	13372	15676
Total Networth	5368	6649	11762	13692	15996
Total Networth & Liabilities	24643	27351	32588	36267	39985

Source: Company, Karvy Research

Positive operating cash flow enables the company to meet its maintenance capex and pay regular dividend.

We expect key ratios of the company to improve in the years to come.

We expect valuation for the company to improve with the rise in sales and operational efficiency brought in.

Exhibit 12: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	1635	1945	2176	2966	3525
Depreciation	515	551	501	487	509
Interest	1404	1441	1466	1480	1457
Tax Paid	(338)	(649)	(714)	(979)	(1163)
Inc/dec in Net WC	(689)	(1226)	(2857)	2592	(873)
Others	445	(72)	(362)	(401)	(445)
Cash flow from operating activities	2972	1989	210	6145	3009
Inc/dec in capital expenditure	(537)	(867)	(2355)	(629)	(709)
Others	1	(15)	352	391	450
Cash flow from investing activities	(536)	(882)	(2004)	(238)	(258)
Inc/dec in borrowings	(930)	230	(600)	(358)	(237)
Dividend paid	(63)	(48)	(58)	(58)	(58)
Interest paid	(1406)	(1443)	(1466)	(1480)	(1457)
Others	46	0	4077	0	0
Cash flow from financing activities	(2353)	(1260)	1954	(1896)	(1751)
Net change in cash	82	(154)	159	4010	999

Source: Company, Karvy Research

Exhibit 13: Key Ratios

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	12.0	11.0	10.5	11.3	11.3
EBIT Margin (%)	10.3	9.3	9.1	10.1	10.2
Net Profit Margin (%)	2.4	4.0	4.0	5.0	5.3
Dividend Payout Ratio (%)	6.6	3.1	3.3	2.4	2.0
Net Debt/Equity (x)	2.8	2.3	1.3	0.8	0.6
RoE (%)	14.5	21.5	15.7	15.6	15.9
RoCE (%)	14.5	14.0	13.3	14.6	15.4

Source: Company, Karvy Research

Exhibit 14: Valuation Parameters

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs.)	2.7	4.8	4.5	6.2	7.4
DPS (Rs.)	0.2	0.2	0.2	0.2	0.2
BVPS (Rs.)	20.1	24.9	36.8	42.8	50.0
PE (x)	8.3	13.6	20.7	10.9	9.2
P/BV (x)	1.1	2.6	2.5	1.6	1.4
EV/EBITDA (x)	6.1	9.3	12.0	7.2	6.2
EV/Sales (x)	0.7	1.0	1.3	0.8	0.7

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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