

## Company Update

# LT Foods Ltd

Bloomberg Code: LTFO IN

India Research - Stock Broking

## Growing Branded Rice Demand amidst Rising Price to Propel Growth

**Stronger Performance Persists:** The company recorded consolidated revenue growth of 19.1% in Q3FY18 on YoY basis, on account of strong growth in branded business which grew in value terms by 12% in domestic market and 23% in international market on YoY basis. Launch of new operations in Rotterdam and higher marketing expends led to deterioration in EBITDA margins by 271 bps on YoY basis. During the period, reduction in interest cost contributed PAT growing at 16.3% on YoY basis. We believe margins will recover next year. We continue to believe that the company's strategy of expanding its product portfolio as well as geographical presence in key regions will lead to stronger growth. We retain our **'BUY'** rating on stock with TP of Rs. 111, an upside of 20%.

**Key Growth Catalyst:** We believe that the company with 29% of domestic market share will have fare share in domestic business which has been growing at 10% to 12%. It has also been adding to new products in its portfolios based on evolving preference of clients. Launching of Horeca business in domestic market and Ready-to-Eat and Two-minute Organic Rice in US market will provide big flip to business. The American subsidiary, LT Foods America has already bagged the order from one of the largest global supermarket chains in the US. Facility in Europe takes away tax disadvantage the company had; and provides access to large chunk of business in the region. We believe management's strategy of focus on organic foods (currently growing at 23%) provides an additional venue for growth in the future.

## Valuation and Risks

LT foods Ltd., with dominant position in USA and Europe: and good presence in Middle East, is well positioned to capitalize on emerging opportunities. We, while introducing FY20E, have valued the stock at 1 Yr forward PE 12X of FY20E EPS (we believe the company will continue to command a higher multiple on account of greater visibility of earnings due to improved growth prospects) and have arrived at TP of Rs.111, implying an upside of 20% for next 9-12 months. We re-rate **"BUY"** on stock. However, GST at 5% on branded rice and FX-fluctuations may be constraining factors in achieving the target.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	*FY16	*FY17	FY18E	FY19E	FY20E
Net Sales	29734	32865	36974	42150	48894
EBITDA	3566	3678	4116	5082	5980
EBITDA Margin (%)	12.0	11.2	11.1	12.1	12.2
Net Profit	725	1287	1626	2324	2951
EPS (Rs.)**	2.7	4.8	5.1	7.3	9.2
RoE (%)	14.5	21.6	17.4	17.5	18.6
PE (x)	8.3	13.7	18.2	12.7	10.0

Source: Company, Karvy Research, \*As per IndAS, \*\* Split Adjusted from face value of Rs.10 to Re.1

For private circulation only. For important information about Karvy's rating system and other disclosures refer to the end of this material. **Karvy Stock Broking Research is also available on Bloomberg, KRVY<GO>**, Thomson Publishers & Reuters

# BUY

### Recommendation (Rs.)

CMP (as on Feb 12, 2018)	92
Target Price	111
Previous Target Price	87
Upside (%)	20

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	29570 / 460
52-wk High/Low (Rs.)	110 / 49
3M Avg. daily value	3.3
Beta (x)	0.9
Sensex/Nifty	34300 / 10540
O/S Shares(mn)	319.8
Face Value (Rs.)	1.0

### Shareholding Pattern (%)

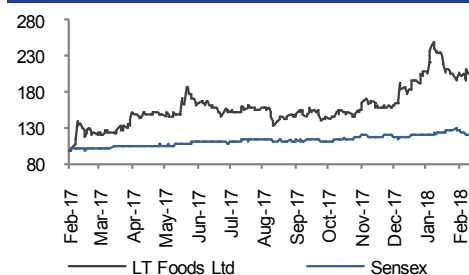
Promoters	56.0
FIIs	3.2
DIIIs	15.0
Others	25.8

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(10)	27	60	55
Relative to Sensex	(9)	24	45	28

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↔ 0.0	↔ 0.0
EBITDA (%)	↔ 0.0	↔ 0.0
PAT (%)	↑ 11.3	↑ 13.4

Source: Karvy Research

### Analyst Contact

**Kiran Shankar Prasad**

040 - 3321 6275

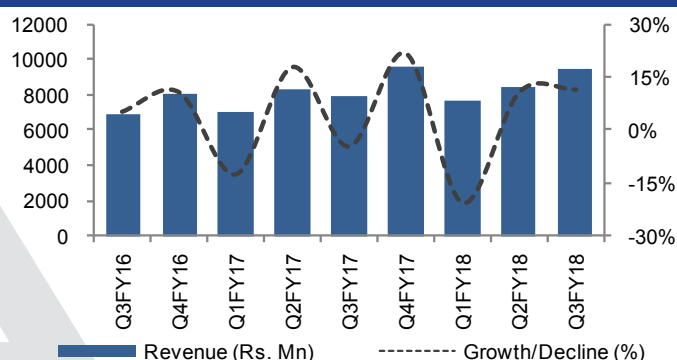
kiran.prasad@karvy.com

**Exhibit 2: Q3FY18**

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	9MFY17	9MFY18	YoY%
Income from Operations	9409	8438	11.5	7897	19.1	23174	25431	9.7
Expenditure	8548	7442	14.9	6960	22.8	20533	22614	10.1
EBITDA	861	996	(13.5)	937	(8.1)	2641	2817	6.6
Depreciation	115	91	26.5	146	(21.3)	420	326	(22.4)
Other Income	175	16	1,009.7	83	110.6	307	285	(7.1)
Interest	334	348	(3.9)	408	(18.1)	1176	1064	(9.5)
PBT	584	557	4.7	472	23.6	1365	1698	24.5
Tax	198	193	2.4	141	40.7	451	600	33.1
PAT	386	364	5.9	331.5	16.3	914	1099	20.2
EBITDA Margin (%)	9.2	11.8	(265) bps	11.9	(271) bps	11.4	11.1	(32) bps
EBIT Margin (%)	7.9	10.7	(279) bps	10.0	(209) bps	9.6	9.8	21 bps
Net Profit Margin (%)	4.1	4.3	(22) bps	4.2	(10) bps	3.9	4.3	38 bps

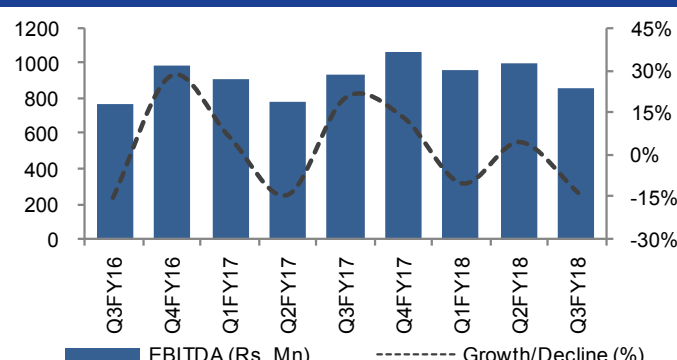
Source: Company, Karvy Research

**Exhibit 3: Revenue and Trend**



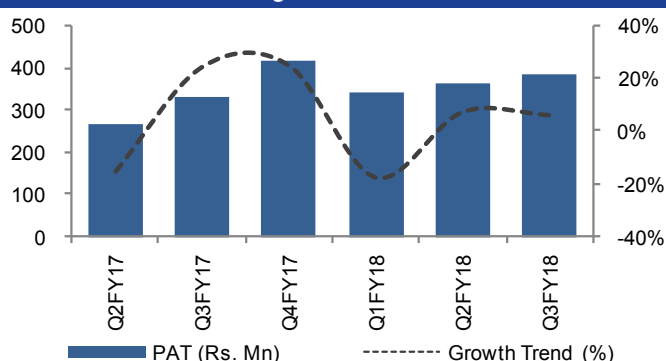
Source: Company, Karvy Research

**Exhibit 4: EBITDA & EBITDA Trend**



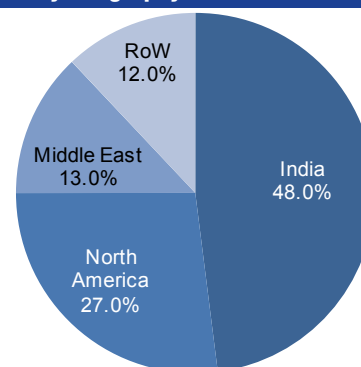
Source: Company, Karvy Research

**Exhibit 5: PAT and PAT Margin Trend**



Source: Company, Karvy Research

**Exhibit 6: Revenue by Geography - FY17**



Source: Company, Karvy Research, RoW: Rest of the World

## Key Takeaways from Management Interaction

- There has been increase in paddy prices to the extent of 25% to 30% due to lower crop production and lesser carry forward stocks.
- Diversification of the company in multiple geographies and across products has helped it in expanding its margin as well as increase in market share.
- The company has approximately 40000 acre of land under sustainable crop production. This ensures company quality procurement at minimum cost.
- The Horeca business is undergoing some realignment with GST regime due to the absence of input credit to this sector.
- Total India branded business experienced growth of 12% whereby realization increased by 16% on YoY basis.
- Total branded business at international level, increased at 23% whereby realization increased by 6% on YoY basis.
- The average realization in domestic market was at Rs.50/kg while in international it stood at Rs.96/kg.
- Branded business has increased to 61% from 56% in overall revenue.
- The company's market share of branded basmati rice in domestic market has grown to 29%.
- The company's consumer pack business has grown by 14% but the bulk pack business has de-grown because of GST.
- The company raised Rs.4000 Mn through QIP with the objective of de-leveraging and strengthening balance sheet.
- The total inventory value stands at Rs.18000 Mn whereby paddy inventory is at 220000 tonne and rice is at 115000 tonne.

**Exhibit 7: Comparison of Financial Estimates**

YE Mar (Rs. Mn)	FY18E			FY19E			FY20E	Comments
	Old	New	% Change	Old	New	% Change	Introducing	
Net Sales	36974	36974	0.0	42150	42150	0.0	48894	The quarterly sales performance of the company has been consistent with our estimates and hence we are retaining are Sales for FY18E and FY19E while introducing FY20E. The management has given to understand that it would improve upon EBITDA margin which will have positive bearing on PAT and EPS.
EBITDA	4116	4116	0.0	5082	5082	0.0	5980	
EBITDA Margin(%)	11.1	11.1	3 bps	12.1	12.1	(4) bps	12.2	
PAT	1461	1626	11.3	2049	2324	13.4	2951	
EPS (Rs.)	5.5	5.1	(7.6)	7.7	7.3	(5.6)	9.2	

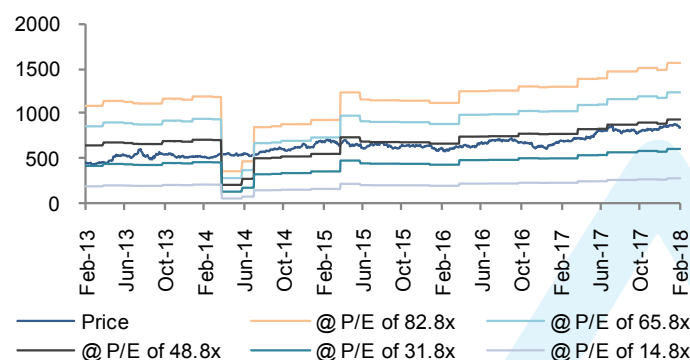
Source: Company, Karvy Research

**Exhibit 8: LT Foods 1yr forward PE Band**



Source: Company, Karvy Research

**Exhibit 9: Consumer Staples - Agricultural Producers**



Source: Bloomberg, Karvy Research

## Financials

### Exhibit 10: Income Statement

YE Mar (Rs. Mn)	# FY16	# FY17	FY18E	FY19E	FY20E
Revenues	29734	32865	36974	42150	48894
Growth (%)	8.7	10.5	12.5	14.0	16.0
Operating Expenses	26168	29187	32857	37068	42914
EBITDA	3566	3678	4116	5082	5980
Growth (%)	35.2	3.1	11.9	23.5	17.7
Depreciation & Amortization	515	542	561	608	658
Other Income	62	356	320	393	453
EBIT	3051	3137	3555	4474	5323
Interest Expenses	1478	1546	1437	1397	1371
PBT	1635	1947	2439	3469	4404
Tax	471	644	813	1145	1453
PAT	725	1287	1626	2324	2951
Growth (%)	(5.3)	77.6	26.3	43.0	26.9

Source: Company, Karvy Research, \*Interest Expenses including other borrowing cost, # As per IndAS

### Exhibit 11: Balance Sheet

YE Mar (Rs. Mn)	# FY16	# FY17	FY18E	FY19E	FY20E
Cash & Cash Equivalents	323	412	3386	2058	807
Trade receivables	3757	4629	4893	5962	6630
Inventory	12996	14483	16256	18607	21834
Loans & Advances	3565	3303	3633	3997	4396
Investments	64	53	62	62	60
Net Block	3856	4101	4368	4695	5073
Other Assets	81	246	257	279	304
<b>Total Assets</b>	<b>24643</b>	<b>27227</b>	<b>32855</b>	<b>35660</b>	<b>39105</b>
Current Liabilities	3340	4412	5079	6031	6850
Debt	15578	15774	15124	14708	14436
Other Liabilities	358	478	529	531	535
<b>Total Liabilities</b>	<b>19276</b>	<b>20665</b>	<b>20732</b>	<b>21270</b>	<b>21821</b>
Shareholders Equity	267	267	320	320	320
Reserves & Surplus	5101	6296	11804	14071	16964
<b>Total Networkth</b>	<b>5368</b>	<b>6562</b>	<b>12124</b>	<b>14390</b>	<b>17284</b>
<b>Total Networkth &amp; Liabilities</b>	<b>24643</b>	<b>27227</b>	<b>32855</b>	<b>35660</b>	<b>39105</b>

Source: Company, Karvy Research, # As per IndAS

**Exhibit 12: Cash Flow Statement**

YE Mar (Rs. Mn)	# FY16	# FY17	FY18E	FY19E	FY20E
PBT	1635	1947	2439	3469	4404
Depreciation	515	542	561	608	658
Net Interest	1404	1441	1437	1397	1371
Tax Paid	(338)	(439)	(813)	(1145)	(1453)
Inc/dec in Net WC	(689)	(1226)	(1708)	(2852)	(3497)
Others	445	(72)	(320)	(393)	(453)
<b>Cash flow from operating activities</b>	<b>2972</b>	<b>2191</b>	<b>1596</b>	<b>1085</b>	<b>1030</b>
Inc/dec in capital expenditure	(537)	(867)	(828)	(935)	(1037)
Inc/dec in Others	1	(15)	311	393	455
<b>Cash flow from investing activities</b>	<b>(536)</b>	<b>(882)</b>	<b>(517)</b>	<b>(542)</b>	<b>(582)</b>
Inc/dec in borrowings	(930)	230	(650)	(416)	(271)
Dividend paid	(63)	(48)	(58)	(58)	(58)
Interest paid	(1406)	(1443)	(1437)	(1397)	(1371)
Others	46	0	4041	0	0
<b>Cash flow from financing activities</b>	<b>(2353)</b>	<b>(1260)</b>	<b>1896</b>	<b>(1871)</b>	<b>(1700)</b>
Net change in cash	82	48	2974	(1328)	(1252)

Source: Company, Karvy Research, # As per IndAS

**Exhibit 13: Key Ratios**

YE Mar	# FY16	# FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	12.0	11.2	11.1	12.1	12.2
EBIT Margin (%)	10.3	9.5	9.6	10.6	10.9
Net Profit Margin (%)	2.4	3.9	4.4	5.5	6.0
Dividend Payout Ratio (%)	6.6	3.1	3.0	2.1	1.6
Net Debt/Equity (x)	2.8	2.3	1.0	0.9	0.8
RoE (%)	14.5	21.6	17.4	17.5	18.6
RoCE (%)	14.5	14.5	14.3	15.9	17.5

Source: Company, Karvy Research, # As per IndAS

**Exhibit 14: Valuation Parameters**

YE Mar	# FY16	# FY17	FY18E	FY19E	FY20E
EPS (Rs.)**	2.7	4.8	5.1	7.3	9.2
DPS (Rs.)**	0.2	0.2	0.2	0.2	0.2
BVPS (Rs.)**	20.1	24.6	37.9	45.0	54.0
PE (x)	8.3	13.7	18.2	12.7	10.0
P/BV (x)	1.1	2.7	2.4	2.1	1.7
EV/EBITDA (x)	6.1	9.1	10.2	8.4	7.3
EV/Sales (x)	0.7	1.0	1.1	1.0	0.9

Source: Company, Karvy Research, # As per IndAS, \*\* Split Adjusted from face value of Rs.10 to Re.1

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

## Connect & Discuss More at

 1800 419 8283 (Toll Free)

 [research@karvy.com](mailto:research@karvy.com)
 Live Chat


## Disclaimer

- **Analyst certification:** The following analyst(s), **Kiran Shankar Prasad**, who is (are) primarily responsible for this report and whose name(s) is/are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.
- **Disclaimer:** Karvy Stock Broking Limited [KSBL] is registered as a research analyst with SEBI (Registration No INH200003265). KSBL is also a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production, profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. Actual results may differ materially from those set forth in projections.
- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts, primarily responsible for this report and whose name(s) is/ are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Kiran Shankar Prasad**, Research Analyst did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

### Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India  
 Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

For More updates & Stock Research, visit [www.karvyonline.com](http://www.karvyonline.com)