



“LT Foods Limited
Q3 FY’24 Earnings Conference Call”
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**MODERATOR: MR. MEET JAIN – MOTILAL OSWAL FINANCIAL SERVICES
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Moderator: Ladies and gentlemen, good day, and welcome to the LT Foods Q3 FY24 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call please signal an moderator by pressing star then zero on your touchtone phone Please note that this conference is being recorded.

I now hand the conference over to Mr. Meet Jain from Motilal Oswal Financial Services Limited. Thank you. And over to you, sir.

Meet Jain: Thank you. Good afternoon, everyone, and a warm welcome to LT Foods 3Q FY24 post-results earnings call hosted by Motilal Oswal Financial Services Limited. On the call today, we have the management team being represented by Mr. Ashwani Arora, MD and CEO; Mr. Sachin Gupta, CFO; Ms. Monika Jaggia, VP, Financial and Strategy, Company Secretary and Compliance Officer. We will begin the call with key thoughts on the management team. Thereafter, we will open the floor for Q&A session.

I would now like to request the management to share their perspective on the performance of the company. Thank you, and over to you, Ms. Monika.

Monika Jaggia: Thank you, Meet. Good evening, everyone, and thank you for joining us on our quarter three and nine months financial year '24 earnings conference call. Before we start with question-and-answer session, I would like to highlight that certain statements made or discussed on the conference call today are forward-looking, and a disclaimer to this effect has been included in the results presentation shared with you earlier.

Results documents, including the presentation, all are available on the company's website and have also been uploaded on the stock exchange. And I'm sure all of you have read the same. A transcript of this call will also be made available on the Investors section of the company's website. As we have uploaded all the documents, now we will open the floor for question and answer, please.

Moderator: Sure, thank you very much. We will now begin the question and answer session. The first question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management.

Abhishek Maheshwari: Thank you for the opportunity. And congratulations on a good set of numbers and an improvement in margins. So I think first question would be -- I think it would be on everyone's my mind right now. Can you throw some light on the supply chain resiliency that we have, not just from India, but also from Thailand where we source our Jasmine Rice from? And with respect to Jasmine Rice, do we use the specific root? Or do we the use the Suez Canal only for exports to US? So, can you just throw some light on the supply chain situation? Thank you.

Ashwani Arora: Yes, good evening Abhishek, this Red Sea issue is only one is, supply from India and not from the -- and that is only to the East Coast of USA and Europe. That's the area where -- and somehow to some part of the Saudi Arabia, which is Jeddah where this interaction has happened. And the impact of this is it is not impacted to the West Coast of USA or supplies from Bangkok. So, there no issue on that.

Regarding the impact of this, two impacts has happened. One is that the freight rates to the East

Coast and Europe has gone up, so the shipping line has imposed emergency surcharge on that. And the other impact is the transit time has increased by 15 days. So that two impact has happened with this disruption due to this Red Sea issue.

Abhishek Maheshwari: Okay. So sir, a follow-up on that. So I think in last two, three years, this is the second time that you are facing a freight cost situation. So at the peak of container shortages during COVID, when the freight cost had gone up 6-7 times, are you seeing the cost moving up to the highest level? Or is it still very manageable at this point?

Ashwani Arora: No, not to that level. At that time, container rates has gone, to, for example, USD10,000. So the shipping line has surcharges like \$1,400 per container, they have imposed. So it's manageable. So there will not be any loss of sales because of this disruption. So the only impact is cost, and we are evaluating on pricing, how to pass on this impact. So the most critical and important is that we should not have a loss of sales. So that is not there.

Abhishek Maheshwari: So that's good to hear because we thought that maybe, the customers on the other side might think, "Okay, let's delay the sales a little bit and see where the situation leads us."

Ashwani Arora: We are a FMCG consumer company, so it's not a kind of buyer/seller where the delay can happen. So if you are not on the shelf, it's loss of sale, and we understand this. So we are making sure that as far as supply to consumer is very stable, consistent.

Abhishek Maheshwari: That's clear. Sir, one last question before I get to the queue. For instance, we are not having any loss of sales. But at the same time, freight cost has not really moved up to a level where we had seen during COVID time. So we might see some minor level of margin impact, but it should not be as severe as you know, margins going down to 10% level.

Ashwani Arora: No, no. You are right, Abhishek, you are right.

Abhishek Maheshwari: Very minor impact. So very minor.

Ashwani Arora: Minor. Very minor, yes.

Abhishek Maheshwari: Thank you, sir. I'll get back in the queue.

Moderator: The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Thank you. Sir, on the front of -- there was an announcement in December that -- where we won that case -- long-pending case of that fire incident, and the court has granted in our favour. And there is amount of some interest also, which has been granted. So post that announcement, is there any development whether -- when are we expected to receive that amount or just to understand whether the insurance company can go further to the, I mean, higher courts or anything of that sort, if you can just throw some light on that?

Ashwani Arora: So Amit, so we have won the -- in the first court. And the opposite party has option to go to the higher court. So it's 60 days, so let's see how they react. And we will come to know in the coming days that they will -- will they appeal in the next court or not. But they have the option and right to go to the

next court.

Amit Doshi: Okay. And in the meantime, do you see any sort of amounts on kind of in the interim?

Ashwani Arora: No, no. So unless and until the exhaust with -- so we have not received any amount, so I can't comment further on that.

Amit Doshi: Okay, okay. And the interest amount itself would come quite big, right, if I'm -- it would be in the range of INR60-INR70-INR80 crores plus, right?

Ashwani Arora: It's more than that, it's more than that. Yes. So we -- I think if you -- we did do the calculation, it is more than 250 something.

Amit Doshi: All right. Okay, okay. Got it, got it. Thanks Fine. In terms of, sir, the exports, which has been banned for non-Basmati, do you see -- so there are two parts to it. A, in terms of price impact to the Basmati, which I understand last time you had said no. But even post that, is there any change?

And b, in terms of what are we reading in the articles, etcetera, now that the gap between the prices is reducing. So are you witnessing any shift in the demand from probably non-Basmati to Basmati owing to its non-availability as well as the price rise? So if you can answer on both end.

Ashwani Arora: So the category is moving to -- from non-Basmati to Basmati, but that's a routine. If we have seen historically the Basmati consumption has grown in a volume term, 6% to 7%. And as per euro monitor also, this is only premium grain where the consumption is growing. If you say the total consumption globally is around 500 million tons in Basmati, it's just around 10 million tons consumption.

So we expect this category to grow. But answering your question, is pricing makes difference? Is non-Basmati goes higher than the Basmati consumption goes? So that is -- we have not seen that. We have seen that there is a big difference in non-Basmati prices and Basmati. So normally, people, as the income grow, they wanted to have a better food. So they moving to Basmati in India and across the globe.

Amit Doshi: Fair enough, fair enough. And sir, in terms of ready-to-heat category, so have we expanded anything? Are we -- because I think, we were almost on the full capacity last time we did first. So anything on that, whether it is Cuppa Rice or whether it be snacks or whether it is ready-to-heat category. So anything on that?

Ashwani Arora: You have seen in the presentation of this ready-to-heat and ready-to-cook business is growing at 23%. And we are optimistic about that. We have 4 product at the moment, which is one is heat and eat, which is in USA. Then in India, we have -- and actually globally, ready-to-cook, this Biryani Kit and Cuppa Rice.

And especially in Biryani Kit, we are getting a good response. And in the rice snacks also, we have changed our communication strategy a little bit and that -- and changed some -- the product portfolio, so -- and we are getting the good response in the rice snacks also. So all the four things are reasonably doing well. And we expect that it will...

- Amit Doshi:** My question was more on that, capacity and any capex in terms of increasing it.
- Ashwani Arora:** Capacity, we have already increased RTH capacity. And next year is not in the agenda.
- Amit Doshi:** Okay. Currently, we have already expanded. And we are far ahead, having low from the optimum capacity. Okay, okay. And last question, sir, on the dividend front, I mean, so it's good that last call, you expanded your dividend policy from standalone profits to consolidated profits. But since last couple of years, we have been receiving on an interim front. So in this -- till this data, we have not announced any interim dividends. So again, is there any change in thought process in terms of dividend policy.
- Ashwani Arora:** No, there is no change in the thought process. Whatever we have said on that consolidated, we will distribute 10% to 20% of the net income.
- Amit Doshi:** Okay. No -- so not announcing the interim, so that is the...
- Ashwani Arora:** So I think that's some stats they wanted to do. And final...
- Management:** That will be done in the final one. We will be doing in the final.
- Amit Doshi:** Okay. So no interim, only the final...
- Management:** Yes so whatever the guidance was given...
- Ashwani Arora:** We have given two dividend in the year. One will be interim, and one will be final. Already we have given last quarter, yes.
- Amit Doshi:** Okay. Thank you. I'll re-join in the queue.
- Ashwani Arora:** Thank you.
- Moderator:** The next question is from the line of Amit Jaswani from Stallion Asset. Please go ahead.
- Amit Jaswani:** Hi sir. Good evening. Sir, I've got two questions. First question is on our guidance of 20% ROE for FY24. First of all for FY25, sorry. Sir, are we on track for that? Because we'll have to do about INR730 crores PAT next year to achieve that. That is the back of the envelope calculation of...
- Ashwani Arora:** So the return on equity has already moved up. So it is 18.7%, and return on equity is 20.3%. So we're already moving to that goal. So whatever -- I think we have set up a good first 20% return on equity. So we are not far from there.
- Amit Jaswani:** Right, right, right. So my other question is about since we're generating a lot of cash flow lately, so there's been deal about Capital Foods got acquired at INR5,500 crores, Organic India got acquired at INR2,000 crores. Our market cap after 70 years of being in existence, having Big Four as our auditors, now being market leaders in rice is nowhere close to -- I still don't like the stock price of INR110, INR120. I used to ask you why you are doing buybacks.
- And that same question I asked at INR200 also. And now, you have proof of concept also that what -

- how that market value continues to go lower facing food companies. Have you given a thought that would increase the ROEs of cost? And have you given a thought of what if we do a INR500 crores kind of buyback and reduced equity by 7%, 8%? But I'm sure the markets will start rewarding the stock in a very different way once that happens.

Ashwani Arora: No, no. You're right. So we keep on evaluating this. The first goal was to reduce our -- this working capital borrowing. And now we are consistently considerably lower of our borrowing, which is now - - so maybe next year, we will look into this. We are on a comfortable position as far as our data. So we will evaluate. We'll keep on evaluating all these things.

Amit Jaswani: Because our total interest cost -- right now, our total interest cost is about INR19 crores a quarter, right? And our PAT is INR150 crores. So it will be more efficient if we could go for buybacks than reducing dividends in my humble opinion, of course, if the valuation stay, which they do. My -- sir, second question is on the Red Sea problem. Sir, if you can quantify what kind of impact are we seeing. Would it be right to say that we are losing about INR3 crores a quarter or INR6 crores a quarter?

Ashwani Arora: So the impact is roughly around this. But as I said, we are evaluating pricing strategy, how to compensate or -- so we're still evaluating is it a short term, is it a long term. So maybe in the next month, we will decide our pricing strategy. But the impact is, as you said, it's roughly INR4 crores per month.

Amit Jaswani: INR4 crores a month. So sir, if you increase prices by 0.5% also, shouldn't that be more than easy to get it done? Why so much time on increasing prices by 0.5%?

Ashwani Arora: No, no. As you know, we are a FMCG consumer-facing business, so it is not a kind of commodity that tomorrow you increase and next day, you decrease. It doesn't happen. So we are evaluating that -- we are talking to shipping lines, how long it will go. There's two-, three-month phenomenon than the -- maybe the strategy will be different. If it is something long run, then the strategy will be different. So this has just happened in this month only.

On January 1, we have seen -- starting seeing the impact. We are waiting for a month how it evolves. On to your question, we have seen historically if the cost has been increased, we are able to pass on to the consumer and -- without having impact on the growth of the business.

Amit Jaswani: Exactly my point, sir. That is a fair call, sir. So PBT impact, which is a INR204 crores PBT, there's a possibility that if we don't pass on prices, we'll have a INR12 crores kind of an impact as of today, right, sir?

Ashwani Arora: So it will not be in this quarter because we always had inventory in hand in our -- the destination. So the impact will start from the next year, first quarter.

Amit Jaswani: I'm sure, by then, you can increase prices also.

Ashwani Arora: So we'll look into, yes.

Amit Jaswani: Got it, sir. Got it. So we are clear on buyback. We are clear on -- sir, and the growth should be -- what kind of growth do we expect for Q4?

- Ashwani Arora:** So on a full year basis, we are expecting double digit, which is roughly 9% to 10% growth on a full year basis.
- Amit Jaswani:** And that's by volume or value, sir, combine you're saying? Have you ever thought of divesting some stake in -- giving some stake to this private equity company for our organic business, like the healthy business? Because that is where the high growth is there. And because we can unlock some valuation potential. I'm not thinking about the India Daawat business. I'm speaking only about the organic business because that is a business which should grow at very fast rate.
- And the kind of valuations where we trade versus where the market is valuing it, it's a very large difference. And I keep thinking and keep asking the thing that why does it get such low valuation given the kind of business that you have there.
- Ashwani Arora:** I agree with you. That, I agree with you. But on the organic company, so the answer is that we are not evaluating. There is already in that company, Rabo Equity has invested in that roughly three, four years back. At the moment, we don't need any kind of money. So we are not evaluating any investment -- private equity investment in the company already we are sitting...
- Amit Jaswani:** Sir, but we should get about INR250 crores on the insurance. When should we -- if they don't go to the higher court, if the insurance company doesn't go to the higher court, we should receive the insurance money by when? Because that will straight decrease our debt.
- Ashwani Arora:** They have 60 days from the order.
- Amit Jaswani:** Because that is -- we finished about 45 days, if I am right.
- Ashwani Arora:** No, no. I think we have just finished in, I think, 20 days. Because there is a technical clause from the certified copy -- true copy. So the day starts 60 days from there.
- Amit Jaswani:** Got it, got it. So if that INR250 crores comes in, we don't have to pay any taxes on that. That's still going to decrease our debt, and our interest cost going down by INR20 crores, right?
- Ashwani Arora:** So tax, INR250 crores. Then in our books, the outstanding is INR136 crores. So the rest of the amount, we have to pay the tax, a substantial amount that will further reduce whatever the borrowing is.
- Amit Jaswani:** Got it, done, sir. Thank you. My best wishes Arora Ji.
- Ashwani Arora:** Thank you, sir. Thank you.
- Moderator:** Thank you. The next question is from Vipulkumar Shah from Sumangal Investment. Please go ahead.
- Vipulkumar Shah:** Congratulations, sir, for very good set of numbers. So sir, in earlier presentations, we used to share the tonnage for -- from each region, tonnage and sales. So is it possible to share the tonnage and value from each region, sir?
- Ashwani Arora:** So it is not in the presentation, you said?
- Vipulkumar Shah:** Yes, sir.

- Ashwani Arora:** Okay. So you can e-mail to us. We will definitely share with you. It's not an issue.
- Vipulkumar Shah:** And sir, regarding buyback, is there any threshold in your mind for the debt? Once it falls below that particular level, then only you will consider buyback means INR1,000 crores of your INR800 crores. So do you have any debt level in the mind?
- Ashwani Arora:** That's a good question. So we want that, unless I think debt EBITDA, one is a good number for us. So -- but we are evaluating some growth opportunities. So the short answer is, we don't want to increase our borrowings to debt EBITDA 1. And after that, whatever the surplus amount, either it still gets into buyback or dividend, that depends on the -- at that time, we will evaluate.
- Vipulkumar Shah:** And sir, lastly, our organic business is not doing well since the last two, three quarters, if I remember correctly. So what are the steps we are going to take to make it grow again?
- Ashwani Arora:** So actually, for the last two quarters, although you are seeing the de-growth against last year, but our organic business is doing very well. We have got a deficit of INR200 crores from this anti-dumping duty. But we have filled it up with the other quarter. So that's more stable. So what we say that our organic business is -- has become very robust.
- And from the next financial year, you will start seeing the growth in the business. So actually, soya was big business, commoditized in nature. So it's a blessing in, I would say, disguise, I think. Now we have a more robust business.
- Vipulkumar Shah:** So which product lines, sir, soya?
- Ashwani Arora:** So we have rice, we have this oilseeds, lentils, So these are the line of product, which has grown for the strength of the business.
- Vipulkumar Shah:** So next year, we will see year-over-year growth, right, sir?
- Ashwani Arora:** Yes, yes.
- Vipulkumar Shah:** Okay, sir. Thank you. And all the best for the future.
- Ashwani Arora:** Thank you, sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ranodeep S from MAS Capital.
- Ranodeep S:** Yes, thank you for the opportunity sir. And congratulations on great set of numbers. So my question was with respect to the -- how has -- it has been a while since you have the SALIC deal, right? And LT Food promised to do around 20,000 tons, whereas the Saudi Arabia market is around 1 million tons. If I'm not lost, we are gunning for around 10% market share, which is around 1 lakh ton. So wanted to understand how have we progressed in our aspirations in the Saudi Arabia market.
- Ashwani Arora:** So I don't know some -- this 7,000 or 10%. That 10% is our growth aspiration. That's true. And these are -- as I've always said in all the calls, it's not a short-term thing, It's a medium to the long term. And we are moving towards that. We'll soon see the good initiative in that market. By the way, the Middle

East market for us has grown by 44% till -- in nine months. So we are quite active in Middle East market overall, and we are getting good response. We are investing in -- behind the consumers. So that's being rewarded, and that's where our 40% growth is coming.

Ranodeep S: Great to hear that, sir. So my next question was with respect to -- so overall, we have three revenue streams, like specialty Basmati rice, organic and process packaged foods, right, where if, I'm not wrong, Daawat and Royal being around 70% of the business. So what is our school of thought in terms of developing mega brands, right, within the brand, right? So Daawat and Royal are strong brands. So is there a school of thought on developing bigger brands in the organic and processed packaged foods?

Just to draw a parallel, like how the ITC started couple of years ago, right? Now they have 6 mega brands of each 1,000 crores plus, right, which is driving the growth. So what are our school of thought in this aspect?

Ashwani Arora: So as far as -- there's ready-to-eat and ready-to-cook, we are extending our brand equity, which is Daawat and Royal. And that's one strategy to grow our business in that segment. On the organic, as an organic company, the business is more B2B, and we wanted to focus on B2B. But having said that, we are extending our organic portfolio in the Royal brand and we will start soon in the Daawat. But as a nature biofood company, we will keep focusing on quality B2B business.

Ranodeep S: Okay, okay. Fair point. And if I can just squeeze in one last question, sir. So India business happens to be in around 30% of the total business. But I understand it's growing at 20% as against 20% of the overall company. In the long term, how do you see the contribution of India versus rest of the world shaping out, sir?

Ashwani Arora: Slowly, India contribution will grow up, as India market is growing faster than the global consumption. So in the long run -- medium to long run, we see India's contribution will improve to the -- so just I'm talking about in the Basmati segment. It will grow. We never know that if we do some inorganic growth. So in -- overall, it did change accordingly. But to the specialty rice, we see the overall India contribution changes to the higher side, yes.

Ranodeep S: When you say higher side, sir, can you quantify that, like around what kind of numbers?

Ashwani Arora: So right now, I'd say 30% to -- for example, we are expecting the international growth around 8% to 10%, whereas India, 15%. So proportionately, it will improve. So I have not done the math, but, yes.

Ranodeep S: Okay, sure. Fair enough sir. Thank you and all the best for the upcoming quarters.

Ashwani Arora: Thank you.

Moderator: Thank you. We take the next question from the line of Vincent Andrews from Geojit Financial Services Limited.

Vincent Andrews: Hi sir. Good evening. Am I audible?

Ashwani Arora: Yes, yes, yes.

- Vincent Andrews:** Sir thanks for the opportunity. And congratulations for the consistently good set of numbers. And I have a couple of questions. The first one is related to Golden Star. So you -- in the last con call, you had mentioned about 50% further stakes in the company in June 2025, you mentioned. Am I right?
- Ashwani Arora:** Yes, yes.
- Vincent Andrews:** Okay. So in the current accounting method is to our sales does not include this Golden Star revenue, right?
- Ashwani Arora:** Yes, you're right. Revenue is not included. Only the profit is.
- Vincent Andrews:** Only profit is added, okay. So can you please -- so in order to complete my model, so can you please share the nine-month revenue as well as the profit?
- Ashwani Arora:** So 9-month revenue is \$58 million and profit is \$9 million. It's all dollar.
- Vincent Andrews:** It's all dollar. Okay. Right. So how much do you expect in FY24 roughly?
- Ashwani Arora:** Sorry?
- Vincent Andrews:** In FY24, how much do you expect?
- Ashwani Arora:** This is three quarter, so you can calculate.
- Vincent Andrews:** Understood. And the second one -- the second question is the BOD has approved a INR500 crores fundraising. So the purpose for that?
- Ashwani Arora:** I could not get that question. What did you say, INR500 crores?
- Vincent Andrews:** The INR500 crores fundraising through commercial paper the BOD has approved?
- Management:** It is INR50 crores.
- Ashwani Arora:** INR50 crores, not INR500 crores.
- Management:** It is an alternative source of funding, which we aspire to raise in the coming future. So our overall borrowings won't go up. It is just an alternative source of funding, which we think to achieve in the coming quarter.
- Vincent Andrews:** Okay. Thanks for that. And -- sir I will come back in the queue. Thank you.
- Moderator:** Thank you. Well, that was the last question in queue. I will now like to hand the conference back to the management team for closing comments.
- Ashwani Arora:** Thank you so much for joining, and look forward to see you in the next conference -- quarter. Thank you.
- Moderator:** Thank you very much. On behalf of Motilal Oswal Financial Services Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect lines.