

Management Meet Note
Buy

Industry	FMCG
CMP (Rs)	91
FY24E Target Price	140
52 Week H/L (Rs)	101/58
Volumes (BSE+NSE)*	89,774,621
Shares O/S (mn)	319.8
Market Cap (Rs mn)	29617
Free Float (%)	43.2
Bloomberg	LTFO IN
Reuters	LTOL.BO
*Three month daily average	

LT Foods Ltd (LTF) is a Global Consumer Food Company which sells Basmati and Other Specialty Rice under the brand name of DAAWAT and Organic Food under the brand name of ECOLIFE in more than 50 countries.

Expansion into high growth organic segment

Over the years, LTF has emerged as a trusted supplier of authentic organic food products to the consumers of US and Europe. LTF has partnered with almost 64,000 farmers and has over 94,000 hectares of organic farms under cultivation in India, Togo, Uganda and Thailand. Over the last few years, LTF has not only established a strong foothold but was able to gain market share across its product portfolio.

Leveraging existing distribution network

LTF generates around 70% of revenues from the overseas markets. This revenue is generated on the back of a strong brand and robust global supply chain. LTF plans to leverage its existing distribution networks to launch and expand new products like regional rice, new organic food products and products in the new health and convenience segment.

Entry into new market through Inorganic route

Recently, LTF acquired 51% stakes in Golden Star Trading Inc via its subsidiary LT Foods Americas Inc. This acquisition will strengthen LTF's share in the US Jasmine rice segment.

Improvement in margins

Management expects Margins to improve in the company's core business Basmati & Specialty Rice from 13.6% to 13.8% in next 2 years. In the last few quarters, margins of the organic food segment got impacted due to higher input and logistic costs are expected to reverse over the next few years. Going forward, we can expect margins to improve by 200bps over the next 2 years.

Outlook and Valuations

The company is well placed to benefit from the expected pick-up in the domestic consumption as well as shift in consumer preference towards organic products. Increase in exports to developed countries and resolution of inventory buildup issue in Saudi Arabia would help LTF to clock 13.2% CAGR revenue growth over FY22E-24E. We also expect LTF's EBITDA margin to witness 200bps improvement over FY22E-24E, due to healthy growth in revenue and better margins from the favorable revenue mix.

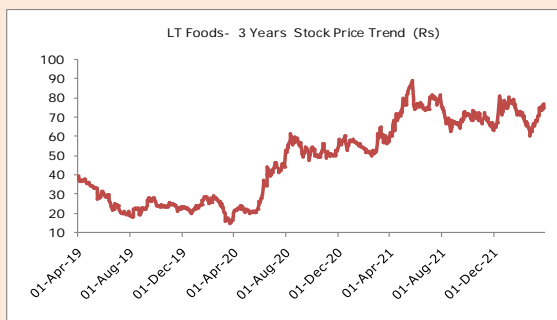
Giving a target PE multiple of 8x to its FY24E PAT of Rs 5590mn, we arrive at a target price of Rs 140 for the stock, which gives an absolute upside potential of 53.9%. We have a "buy" rating on LT Foods Ltd with a medium to longer-term view.

Share Holding Pattern (31/03/2022)

Particulars	Shares (mn)	Holding (%)
Promoters	181.7	56.8
FII's	4.5	1.4
DII's	10.8	3.4
Others	122.8	38.4
Total	319.8	100.0

Financial Highlights- Consolidated

(Rs mn)	FY22E	FY23E	FY24E
Sales	52,043	60,939	66,691
Sales Growth	12.1%	17.1%	9.4%
EBITDA	6,065	8,034	9,170
EBITDA Margin	11.7%	13.2%	13.7%
PAT	3,131	4,657	5,590
EPS (Rs)	9.8	14.6	17.5
P/E (x)	9.3	6.3	5.2
EV/EBITDA (x)	7.1	5.2	4.5
ROE	14.0%	17.0%	16.7%
RoCE	15.8%	19.4%	20.0%


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Company Background

LT Foods is a Global Consumer Food Company which deals in Basmati and Other Specialty Rice, Organic Food and Ingredient business and Health and Convenience segments that strive to deliver the finest quality food products to its consumers across 60+ countries. Riding on its robust Farm to Fork business model, today the Company has expanded its offerings to serve millions of consumers.

Product and Segment

		
<p>Basmati & Specialty Rice</p> <p>Revenue Contribution – 83% 3-Years CAGR – 8%</p> <p>Sell through distribution network and strategy private label partners</p> <p>Present across all price points from Specialty to Value range in the consumer space.</p>	<p>Organic Products</p> <p>Revenue Contribution – 13% 3-Years CAGR – 24%</p> <p>Company offers organics products like rice, cereal, flour, pulses etc under the brand name Ecolife</p> <p>Focus on increasing presence in US and European markets.</p>	<p>Health & Convenience</p> <p>Revenue Contribution – 2% 3-Years CAGR – 279%</p> <p>Company offers health products like brown rice and ready to heat products like Royal Smoky Harissa</p> <p>Expect exponential growth as this segment can leverage the brand and distribution network of “Daawat” and “Royal”.</p>

Expansion into High growth Organics Products segment

In developed countries, consumer’s preference is shifting towards the consumption of organic foods as they have become increasingly conscious about the impact that certain pesticides and fertilizers have on the environment and their own health. In the emerging market, increased awareness about organic food has led to rise in its consumption.

LTF wanted to take advantage of growth in organic food and formed a subsidiary Nature Bio Foods Limited (NBF) in 1999. NBF has over the years emerged as a trusted supplier of authentic organic food products to the consumers of US and Europe. NBF offers organic rice, pulses, beans and soya which the company procures from Asia and Africa. LTF has partnered with almost 64,000 farmers and has over 94,000 hectares of organic farms under cultivation in India, Togo, Uganda and Thailand.

Over the last few years, due to investment in supply chain and expansion in its product portfolio, LTF has not only established a strong foothold but was able to gain market share across its product portfolio in countries like Germany, Netherlands, Italy, Austria, US, Canada, Australia, New Zealand, UAE and Israel.

Chart 1: Geography wise Revenue Breakup (FY21)

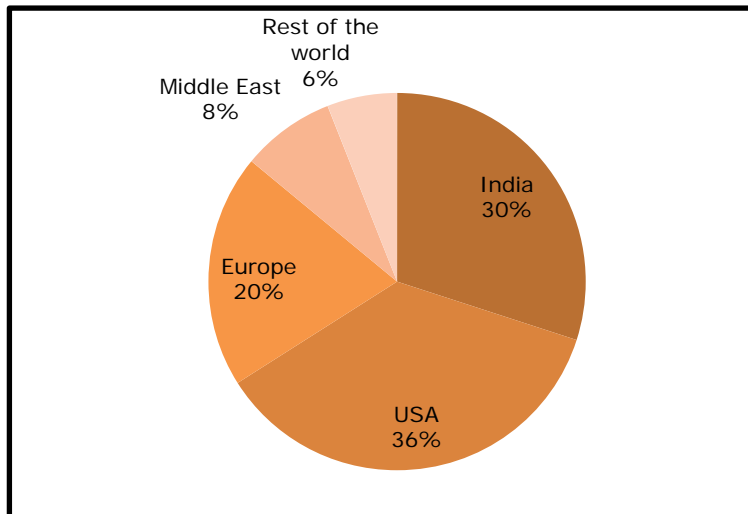
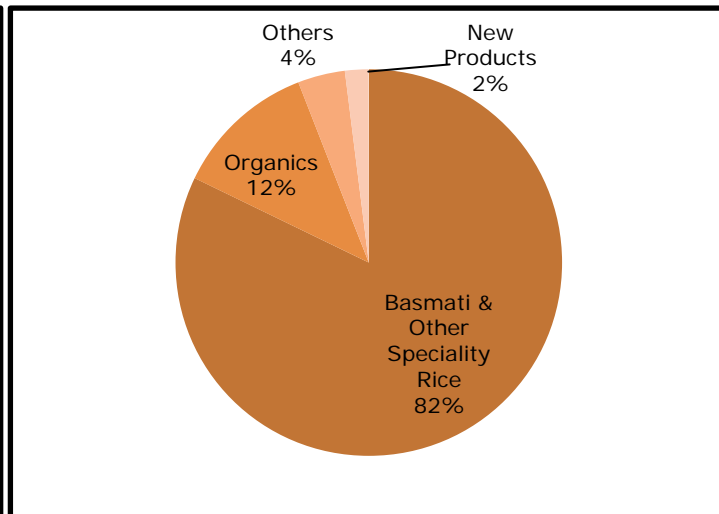


Chart 2: Revenue by Business Segment (FY21)



Leveraging existing distribution network to launch new products

LTF generates around 70% of revenue from the overseas markets. This revenue is generated on the back of strong brands like Royal and Daawat, as well as a robust global supply chain that facilitates distribution of different products across different geographies. Over the years, LTF has developed long-lasting relationships with leading supermarket chains and developed its presence across all channels.

LTF plans to leverage existing distribution networks to launch and expand the new products like regional rice, new organic food products and products in new health and convenience segments.

Taking advantage of shift in consumer preferences

Some of the trends like increasing participation of women in the workforce and shift towards nuclear families have led to increased preference towards convenience-driven products like ready to heat products. This segment is one of the fastest growing segments but accounts for only 2% of LTF's sales.

Entry into new market through Inorganic route

The US specialty rice market includes Basmati as well as Jasmine rice. In the US, Market size of Jasmine rice is 3 times bigger than Basmati rice. Golden Star is one of the strongest brands in Jasmine rice segment particularly through mainstream channels and generated revenue of \$55mn in FY21.

Recently, LTF acquired 51% stakes in Golden Star Trading Inc via its subsidiary LT Foods Americas Inc. with a call option to acquire remaining 49% stake at the end of 3 years. This acquisition will strengthen LTF's share in the Jasmine rice segment.

Improvement in margins

Management expects Margins to improve in the company's core business Basmati & Specialty Rice from 13.6% to 13.8%. Recent decline in the margin of the organic food segment due to higher input and logistic costs is expected to reverse the over next few years. Going forward, we can expect margins to improve by 200bps over the next 2 years.

Outlook

LT Foods Ltd. (LTF) is one of the leading players in the premium branded basmati and organic rice segments. The company is well placed to benefit from the expected pick-up in the domestic consumption as well as shift in consumer preference towards organic products. Increase in exports to developed countries and resolution of inventory buildup issue in Saudi Arabia would help LTF to clock 13.2% CAGR revenue growth over FY22E-24E. We also expect LTF’s EBITDA margin to witness 200bps improvement over FY22E-24E, due to healthy growth in revenue and better margins from the favorable revenue mix.

Valuations

At CMP of Rs 91, LTF trades at a P/E of 5.2x FY24E PAT of Rs 5590mn. Strong growth performance in the export market and new health and convenience segment will drive the re-rating of the stock. We remain positive on LTF for a longer term perspective and expect the financial performance of the company to improve substantially in the next 2-3 years. Giving a target PE multiple of 8x to its FY24E PAT of Rs 5590mn, we arrive at a target price of Rs 140 for the stock, which gives an absolute upside potential of 53.6%. We have a “buy” rating on LT Foods Ltd with a medium to longer-term view.

Consolidated Income Statement

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	41,351	46,443	52,043	60,939	66,691
<i>Net Sales Growth</i>	6.3%	12.3%	12.1%	17.1%	9.4%
Expenditures:					
Raw Materials Expenses	29,708	32,275	34,354	40,605	44,438
Personnel Expenses	1,986	2,578	3,123	3,778	4,268
Other Expenses	4,950	6,027	8,502	8,522	8,816
Total Expenditure	36,644	40,880	45,978	52,905	57,522
EBITDA	4,707	5,564	6,065	8,034	9,170
<i>EBITDA Margin</i>	11.4%	12.0%	11.7%	13.2%	13.7%
Depreciation	914	1,085	1,030	1,044	1,016
EBIT	3,793	4,479	5,034	6,990	8,154
Financial Charges	1,323	874	1,126	1,046	965
Other Income	379	418	469	549	601
Share of net loss of associates & joint ventures	-38	-43	-47	-52	-57
Exceptional items	-42	0	0	0	0
PBT	2,770	3,980	4,330	6,441	7,731
Provision of Tax	776	1,089	1,199	1,784	2,141
PAT	1,993	2,891	3,131	4,657	5,590

Consolidated Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Equity Capital	320	320	320	320	320
Reserves & Surplus	14,493	17,235	20,525	25,502	31,412
Non-controlling interest	1,178	1,348	1,482	1,631	1,794
Total Networth	15,992	18,903	22,328	27,453	33,526
Total Loans	14,580	12,533	14,033	13,033	12,033
Total Capital	30,572	31,436	36,361	40,487	45,559
Application of Funds					
Net Block	5,416	5,424	5,494	5,350	5,234
Capital Work-in-Progress	172	327	359	395	435
Other Long Term Asset	6,291	5,909	9,496	10,445	11,490
Other Long Term Liabilities	2,645	2,597	2,858	3,144	3,459
Current Assets:					
Inventories	17,502	22,228	23,530	26,699	26,784
Sundry Debtors	6,196	4,867	5,454	6,386	6,989
Cash and Bank	249	300	327	2,050	8,202
Other Current Assets	2,377	2,109	2,320	3,245	4,220
Total Current Assets	26,324	29,504	31,631	38,380	46,196
Current Liabilities & Provisions	4,987	7,132	7,760	10,940	14,337
Net Current Assets	21,338	22,372	23,871	27,440	31,859
Capital Employed	30,572	31,436	36,361	40,487	45,559

Consolidated Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT Before Extraordinary Items	2,769	3,980	4,330	6,441	7,731
Adjustments for:					
Depreciation	914	1,085	1,030	1,044	1,016
Interest Expenses	1,323	874	1,126	1,046	965
Other Adjustments	221	176	0	0	0
Operating Profit before Working Capital changes	5,227	6,115	6,486	8,530	9,713
Change in Working Capital	334	-537	-201	-4,371	-1,359
Cash generated from Operations	5,561	5,578	6,285	4,160	8,354
Direct Taxes (net)	-789	-1,131	-1,199	-1,784	-2,141
Net Cash from Operating Activities	4,772	4,446	5,086	2,376	6,212
CASH FLOW FROM INVESTING ACTIVITIES:					
Purchase of PPE	-887	-1,138	-1,100	-900	-900
Proceeds from sale of PPE	43	148	0	0	0
Other investing activity	37	-10	-3,619	-986	-1,084
Net Cash used in Investing activities	-808	-999	-4,719	-1,886	-1,984
CASH FLOW FROM FINANCING ACTIVITIES:					
Proceeds from long-term borrowings	364	358	230	253	278
Other financing activities	-4,402	-3,819	-438	980	1,646
Net cash from / (used in) Financing activities	-4,038	-3,461	-209	1,232	1,924
Net increase in cash and cash equivalents	-74	-14	158	1,723	6,153
Cash at the beginning of the year	43	144	1,594	120	136
Other Adjustments	-25	-9	0	0	0
Cash at the end of the year	191	168	327	2,050	8,202

Key Ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Liquidity Ratios					
Current Ratio	1.5	1.7	1.6	1.8	1.9
Quick Ratio	0.5	0.4	0.4	0.5	0.8
Leverage Ratios					
Total Debt/Networth	0.9	0.7	0.6	0.5	0.4
Interest Coverage Ratio	2.9	5.1	4.5	6.7	8.4
Working Capital/Sales	0.2	0.3	0.2	0.3	0.3
Activity Ratios					
Inventory (Days)	215	251	250	240	220
Debtors (Days)	55	38	38	38	38
Creditors (Days)	32	57	57	57	57
Profitability Ratios					
Operating Profit Margin	11.4%	12.0%	11.7%	13.2%	13.7%
Net Profit Margin	4.8%	6.2%	6.0%	7.6%	8.4%
Return on Equity	12.5%	15.3%	14.0%	17.0%	16.7%
Return on Capital Employed	14.2%	16.3%	15.8%	19.4%	20.0%
Valuation Ratios					
No. of Shares (mn)	320.0	320.0	320.0	320.0	320.0
Book Value (Rs)	50.0	59.1	69.8	85.8	104.8
EPS (Rs)	6.2	9.0	9.8	14.6	17.5
Dividend Payout	65%	100%	100%	50%	50.0%
Dividend Yield	0.7%	1.1%	1.1%	0.5%	0.5%
P/E	14.6	10.1	9.3	6.3	5.2
P/BV	1.8	1.5	1.3	1.1	0.9
M Cap/Sales	0.7	0.6	0.6	0.5	0.4
EV/EBITDA	9.3	7.5	7.1	5.2	4.5

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