



“LT Foods Limited Q4 FY-16 Earnings Conference  
Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to LT Foods Limited Q4 FY16 Earnings Conference Call.

This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of our future performance and involve risks and uncertainties that are difficult to predict.

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 conference, please signal an operator by pressing ‘\*’ and then ‘0’ on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwani Arora, Managing Director and CEO. Thank you and over to you, sir.

**Ashwani Arora:** Good morning everyone. A very warm welcome to our quarter and year ended March 2016 Earnings conference call. Along with me have Ms Monika Jaggia, Vice President Finance & Strategy.

I hope everyone had an opportunity to look at our results. The presentation has been uploaded on the stock exchange and company website. The year gone by had witnessed huge volatility movement in basmati prices. This shook farmers and importer confidence. Despite such a challenging environment our brand strength of Daawat and Royal helped us in maintaining our growth momentum. We have registered strong volume growth of 24% in India market and 24% in international market as compared to last year.

The industry as whole saw a drop in realizations. Prices of paddy has gone down by 18% however due to our brand strength our realization had dropped by only 14%. Benign raw material prices and operational efficiencies led to EBITDA margin expansion of 1% to 12% from 11% a year earlier. We are confident of sustaining this profitability expansion going forward through increased focus on branded products and improving demand scenario.

Now coming to our performance in various regions:

We export to more than 65 countries around the world with sizeable presence in US through our brand Royal which is the No. 1 brand there and have more than 40% market share. During the year, US business saw a revenue growth of 22% year-on-year. We are taking initiative in this region like expanding our distribution, expanding product portfolio and making consistent investment on the brand. Presently Middle East contribute around 20% of the total revenue in FY16. We are taking steps to increase our presence in this region.

We have opened offices in Dubai to tap this high Basmati rice consuming market. The region is critical for strengthening LT Foods’ overall growth strategy, international footprint and brand recall. In line with this, we have recently acquired two iconic brands Gold Seal Indus

Valley and Rozana of HUL which enjoy high recall value in Middle East region. We are happy to announce that we have received CCI approval for this acquisition.

This acquisition will help in gaining a stronger foothold in the region with a broader offering of brands that have high recall value. These brands have access to all the modern retailers through a well established distribution network. This acquisition will help us penetrate and establish in countries like Oman, Qatar and Bahrain where we have no presence. This will also reduce lead time in establishing a dominant position in these regions.

We would benefit from lower channel margins with key distributors and will be able to develop relations with large key distributors. This will also benefit our existing brands in the area. The deal envisages acquisition of brand and inventory for a consideration of Rs. 25 crores. This will be funded through debt and internal accruals. The brand registered a turnover of Rs. 51 crores in FY15. Through the benefit of synergies and our expertise in Basmati rice, we will be able to make substantial addition to the topline as well as bottomline of these brands.

As regard to the future growth of the company I would like to reiterate our three pillar approach. 1. Strengthening our core business with expanding distribution reach and making consistent investment behind the brand globally. 2. We intend to continue our geographical expansion in new territories and also widen our hold in existing markets.

This will enable us to reduce our dependence on the few regions and along with the product diversification strategy enhance the prospective of maintaining our current growth rate. 3. Growth through new product launches like recent launch of staples in the brand Devaaya and launch of organic product at B2C level through Ecolife.

This expansion would be through an asset light outsourcing model and requiring large working capital. We also see strong growth potential in organic food hence we plan to launch organic products at B2C level through our brand Ecolife. The organic products already have an increased acceptance globally due to the perceived positive health aspects and also offer improved margins compared to traditional products. We already have organic products in US in our brand and getting very good response from the market. We plan to launch organic products on B2C in FY17 in both India and US.

I would now like to update you on the fire accident that had occurred in 2014. The accident that had happened in company's subsidiary Daawat Food Limited plant resulted in the loss of stock of raw material. The stock was insured and the company had filed an insurance claim with the insurance company. The said claim has been repudiated by the insurance company on several contestable grounds. Based on multiple legal advices the Board of Directors of Daawat Food Limited has decided that the company should strongly challenge the order passed by the insurance company in various forms as determined by the lawyers.

However, on the basis of claim assessment report issued by the surveyors to the insurance company obtained by the management of the Company under the Right to Information Act

(RTI), as a prudent accounting measure DFL has decided to make a diminution in the value of claim by Rs. 44 crores during the year. Although we are very confident that the full amount would be recovered with interest and in future there will be no provision after that.

I will now take you through the financial detail of the year. I would now present the results of the quarter ended March 31 2016. Revenue for the quarter was Rs. 806 crores compared to Rs. 715 crores in Quarter 4 2015 registering a growth of 13%. EBITDA for the quarter came in at Rs. 99 crores compared to Rs. 87 crores in quarter 4 2015, an increase of 13%. The EBITDA margin for the quarter 4 2016 was 12.3%. PBT excluding exceptional item was Rs. 50 crores compared to Rs. 30 crores in quarter 4 of 2015 which is a growth of 68%.

Now coming to our result for the full year financial year 2016. Revenue of financial year 2016 stood at Rs. 2,979 crores compared to Rs. 2,779 crores in financial year 2015 and growth of 7%. EBITDA grew by 17% to Rs. 363 crores in financial year 2016 as against Rs. 309 crores in financial year 2015. The EBITDA margin in financial year 2016 stands 12.2% compared to 11.1% in financial year 2015. So an improvement of 106 bps over financial year 2015.

PBT before exceptional items for financial year 2016 was Rs. 163 crores compared to Rs. 111 crores in financial year 2015, a growth of 47%. Now on to our balance sheet. As on March 31, 2016 the standalone net worth is Rs. 333 crores and standalone gross debt is Rs. 862.8 crores. The cash and bank balances on the standalone basis is Rs. 12.5 crores and the net debt to equity is 2.59 times. Inventory for the period stands Rs. 657 crores and debtor Rs. 266.5 crores.

With this we now open to the floor for question and answers. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Deepak Jatwani from ICRA Limited. Please go ahead.

**Deepak Jatwani:** I have two questions. Sir, my first question is on like you have already indicated that there was a significant correction in paddy prices in the last crop year. So what would be the overall guidance for this particular financial year I mean with respect to paddy prices what is the outlook of the company on that?

**Ashwani Arora:** So this year the prices forecast first of all the prices forecast will remain firm because the forecast is that the paddy crop next year will be lesser by 20% to 30%. So this is the overall outlook we are looking for.

**Deepak Jatwani:** So a follow up question on that would be so what would be the overall I mean buying an acquisition policy in that case I mean if prices were to sort of stay firm in this case, so the requirement would be met in the paddy procurement season itself?

**Ashwani Arora:** Yes. As you know we have to source every season according to our demand so we will be sourcing as per our procurement policy.

- Deepak Jatwani:** Okay and my second question would be on if you could give us some revenue guidance for the entire year to follow what kind of growth in terms of value and volume is the company is targeting?
- Ashwani Arora:** So next year we are targeting the volume growth in the range of 20% and that will result in the utilization of the plant and the fixed cost and we are looking for similar bottom line also.
- Moderator:** Thank you, Mr. Jatwani. We have the next question from the line of Vaibhav Gupta from SKS Capital. Please go ahead.
- Vaibhav Gupta:** I just wanted to check a couple of things. One is quantitative side, the increased figures was as on 31 March compared to the debt?
- Ashwani Arora:** Can you repeat that please?
- Vaibhav Gupta:** What was your inventory amount as on March 31 compared to the debt?
- Ashwani Arora:** Let me give you numbers. On the standalone.
- Vaibhav Gupta:** Because I understand large part of your debt is backed by our inventories which is seasonally high in March?
- Ashwani Arora:** So this is the nature of the industry. I will give you the total inventory, we have Rs. 1,300 crores.
- Vaibhav Gupta:** Okay.
- Ashwani Arora:** Precisely it is at Rs. 1,299.57 crores.
- Vaibhav Gupta:** Are there any potential inventory gains?
- Ashwani Arora:** You know we have to see as I said we are looking for firm prices going forward so hopefully we should get benefit out of that.
- Vaibhav Gupta:** Okay so if you net off the debt against inventory how does the debt vary I believe typically September end is the lowest period for the inventory right for your half yearly rent, so how much does the debt usually drop by?
- Ashwani Arora:** In the month of September?
- Vaibhav Gupta:** Yes, typically seasonal in nature I mean I am not asking for specific number I am just?
- Ashwani Arora:** Yes, so it will be lower by around Rs.300 crores to Rs. 400 crores, because we sell aged rice so we have to carry inventory, average aging is minimum one year and maximum two years.

- Vaibhav Gupta:** The inventory levels dropped by you have a basically your half yearly debt usually comes down compared to March, right?
- Ashwani Arora:** That is right.
- Vaibhav Gupta:** Okay so what is the typical average debt that you carry in to throughout the year?
- Ashwani Arora:** Average we carried around Rs.1,500 crores to Rs. 1,550 crores.
- Vaibhav Gupta:** Of debt? I thought your debt is in March end which is Rs. 800 crores you mentioned?
- Ashwani Arora:** No, that is on a standalone basis but I am telling you now on the console basis.
- Vaibhav Gupta:** Okay so console debt, what is console debt number as on March?
- Ashwani Arora:** This is Rs. 1,597 crores.
- Vaibhav Gupta:** Our consolidated debt and what is your?
- Ashwani Arora:** And this is something exceptional happened because the debt otherwise although we have reduced our debt over last year by Rs. 94 crores even we have insurance claim pending this year by Rs. 140 crores. So we are improving on reducing our debt if you see on year-on-year.
- Vaibhav Gupta:** Right but what is the main difference between the standalone and console what is your main subsidiary?
- Ashwani Arora:** So we have our US subsidiary which contribute around 25% to 30% of our total revenue.
- Vaibhav Gupta:** Okay and that has a balance Rs. 700 crore of dollar denominated debt?
- Ashwani Arora:** No, then we have Daawat food which has more debt, Daawat Foods Limited which is a 70% subsidiary of LT Foods. So we have three or rather four operational entities, one is our organic business Nature Bio Food and then Daawat Foods Limited, and then our US company and then LT standalone.
- Vaibhav Gupta:** So the core business LT Standalone is basmati and that is where you carry most of the inventory right?
- Ashwani Arora:** Yes, both in Daawat Foods as well as in LT Foods.
- Vaibhav Gupta:** Okay and what is the difference essentially, why are they not one company Daawat Foods and LT Foods?
- Ashwani Arora:** That is a good question. We are in the process of restructuring the things.

- Vaibhav Gupta:** Okay so looking at merging the two it is a 100% sub right now Daawat Foods?
- Ashwani Arora:** No, Daawat Food 70% is with LT Food, 30% is with Rabo Equity.
- Vaibhav Gupta:** That is a private equity?
- Ashwani Arora:** That is a private equity.
- Vaibhav Gupta:** And we also have some private equity invested in your parent company listed one?
- Ashwani Arora:** Yes, again 15% is with Rabo Equity.
- Vaibhav Gupta:** Okay so they are both at the parent as well as the sub level?
- Ashwani Arora:** That is right.
- Vaibhav Gupta:** So are you looking at simplifying the structure are they come in the shareholdings gets merged and they have one consolidated entity as a holding and the interests are more align....
- Ashwani Arora:** Yes, we are evaluating.
- Vaibhav Gupta:** And how would that impact the overall financials would that make any difference in terms of the reported financials or?
- Ashwani Arora:** No, it will not affect any of our financial numbers.
- Vaibhav Gupta:** Right and if such a consolidation would happen your promoter holding would come down by how much?
- Ashwani Arora:** Though I have not done the maths but definitely it will not have any major impact.
- Vaibhav Gupta:** Okay and since you talked about branding are you looking at renaming once you merge the companies perhaps renaming the main company as Daawat Foods?
- Ashwani Arora:** The branding all the sales and marketing are managed by LT Foods Limited and that is the parental company.
- Vaibhav Gupta:** Yes, that is what I was asking if the parent entity is likely to be renamed to Daawat Foods or something like that?
- Ashwani Arora:** No, LT Food is our flagship name and we want it to remain LT Foods. LT Foods owns two very strong brands and we are coming with new brands as well.

- Vaibhav Gupta:** Right and so what do we see as the main growth drivers in the next year or two maybe even longer for the company is it the core business of basmati rice or it could be the other products that we are looking to launch?
- Ashwani Arora:** Of course the main growth driver is our core business basmati and then we are adding the new products also which I mentioned just now the staples and organic foods and we are coming up with value addition in the rice category also.
- Vaibhav Gupta:** And how are we planning to balance the profitability versus the growth the investments that will happen which will entail costs in high costs, etc., and brand building, etc., so it's going to take your margin....
- Ashwani Arora:** No, Daawat is a very strong brand in India and Royal is a very strong brand in USA. So we will protect our profitability by improving margins and adding efficiencies.
- Vaibhav Gupta:** Okay and so what did you say was the current year guidance you mentioned something earlier?
- Ashwani Arora:** We are looking for volume growth in the range of 20% and we will improve on the bottom line also.
- Vaibhav Gupta:** Okay so you mean in terms of margin you are looking at improved profitability in terms of margins?
- Ashwani Arora:** Yes.
- Vaibhav Gupta:** Okay because the 20% could translate to a 10% bottom line growth which may not be?
- Ashwani Arora:** No, I am saying 20% on the volume growth and we are looking for the bottom line growth also. I have not mentioned the percentage.
- Vaibhav Gupta:** Okay but improvement in margins overall?
- Ashwani Arora:** Yes, that is right.
- Vaibhav Gupta:** Okay so the key profitability ratio should improve and what is your debt items for the current year when you see debt, how do you see debt?
- Ashwani Arora:** As I said we will maintain the same debt level.
- Vaibhav Gupta:** Okay so the absolute debt levels will be maintained which means your net debt to equity may go down slightly. And you are comfortable with the current level of debt do you think it is easily serviceable given your I understand that most of your debt is backed by high inventories which is the nature of the business right?

- Ashwani Arora:** Yes, that is right because service is not an issue in this industry and if you see the working capital debt is not a long term debt if you see in our balance sheet the long term debt is only around Rs.37.56 crores.
- Vaibhav Gupta:** Okay and it is usually it is across the season right?
- Ashwani Arora:** So it is all backed by raw materials.
- Vaibhav Gupta:** So this Rs. 1,500 crores debt drop this is the peak debt during the year I understand?
- Ashwani Arora:** That is right.
- Vaibhav Gupta:** And how much does it drop to, in answer to my earlier question you mentioned your standalone debt drops to about Rs. 200 crores, Rs. 300 crores investment in terms of consolidated debt what is the bottom during the year typically? This is the peak, will it come down?
- Ashwani Arora:** As I mentioned in the September it reduced around Rs. 300 crores.
- Vaibhav Gupta:** Okay only by about Rs. 300 crores, which means it will be about Rs. 1,200 crores as on September?
- Ashwani Arora:** Yes, because we are in the business where we sell the aged basmati rice minimum one year and maximum two years. So we have to maintain that kind of inventory.
- Moderator:** Thank you. We have a next question from the line of Preeti Lalwani from Kanya Investment. Please go ahead.
- Preeti Lalwani:** Sir just having a look at the numbers slightly worried on the balance sheet side. Sir, we have taken a provision for the insurance claim of approximately Rs. 44 crores, right? So the insurance claim the total amount is approximately Rs. 190 crores. So how confident are we that the balance will be recovered?
- Ashwani Arora:** Yes, we are very confident in my speech also I said we have a very strong case and we have taken the advice of all the senior lawyers so we will get our full money with the interest we are very confident.
- Preeti Lalwani:** I mean do we foresee any more provisioning?
- Ashwani Arora:** No, we are not going to make any provision in the coming years. This we have done as a prudence because different surveyors have given their reports, one surveyor has given Rs. 162 crores, then other surveyor has given Rs. 134 crores so as a prudence we have taken the bottom and made a conservative provision.

- Preeti Lalwani:** Okay sir now looking at your debt profile that we have currently like we have working capital loans or as you previously mentioned approximately Rs. 1,500 crores. And so if I have to reduce my debt like the cash flows do not really indicate any surplus to do that and in case I have to take another provisioning my debt equity ratio from your, it weakens further. So if you can just give some comments on that?
- Ashwani Arora:** As I said we are not going to make any provision in the coming years on this insurance and the other is so we as I said the future also we see a good cash flow coming in from internal accruals and I am sure we will not raise any debt level from the present level.
- Preeti Lalwani:** So the cash flows do not really indicate any surplus where we can reduce the debt and to which like it is increasing fare?
- Ashwani Arora:** Like this year we have surplus cash of more than Rs. 90 crores and in the coming years we will have growth in the profits also so that will have surplus cash.
- Preeti Lalwani:** Like if we have to increase our sales the working capital they will also increase in absolute terms also like we will see a jump in the numbers like this Rs. 1,500 crores number may go up which then basically I deduce that like it is more about working for the debt providers rather than the equity shareholders. So how do we create value there because we will simply be with growing share if working capital goes up in absolute terms in days then it is like servicing that. So how do we see something coming on to the equity stakeholders?
- Ashwani Arora:** If I have understood your question correctly then as I said we have improved our debt equity ratio than last year. Last year was 3.4%, this year is 2.8% and we are going to see the improvement in the next year also. So as far as servicing of the loan is as I said all the loans are working capital and not the long term. So long terms loans are very minimal it is only Rs. 40 crores, Rs. 37 crores precisely. So it will be serviced because if you see our cash profit this year, it is Rs. 168 crores.
- Preeti Lalwani:** Okay so I mean going ahead we actually do not see much like the ratio not worsen I mean what is take on it?
- Ashwani Arora:** Yes, sorry?
- Preeti Lalwani:** No, I was basically coming at the DE ratio how it will impact my DE ratio so you are saying that it will either be maintained or it will improve?
- Ashwani Arora:** No, it will improve as I said. Last year was 3.4%, this year we are 2.8% and next year we will further improve our debt equity ratio.
- Moderator:** Thank you, Ms. Lalwani. We have our next question from the line of Gaurav Punjabi from East India Securities. Please go ahead.

**Gaurav Punjabi:** Sir, can you detail me the cash flow from operations and CFI like the bottom line numbers?

**Ashwani Arora:** Okay I will give you. If you see the cash profit is Rs. 168 crores this year, and PBT is Rs. 164 crores.

**Gaurav Punjabi:** Okay so would the change in working capital and other adjustments what is the CFO of the company for the full year?

**Ashwani Arora:** Sorry?

**Gaurav Punjabi:** What is the cash flow from operations for the full year?

**Ashwani Arora:** Cash flow from operations is Rs. 329 crores EBITDA you mean to say?

**Gaurav Punjabi:** No, from the cash flow statement like after adjustments from working capital and other items which you might have the non-cash items, appreciation and exceptional items?

**Ashwani Arora:** Can you give me a minute? Rs. 329 crores.

**Gaurav Punjabi:** Sorry how much is it?

**Ashwani Arora:** Rs.329 crores.

**Gaurav Punjabi:** Rs. 329 crores. Okay. Sir your other operating income has declined considerably so was there any exceptional other operating income in 2015?

**Ashwani Arora:** In other operating income last year there was a fluctuation profit exchange fluctuation profit of Rs. 28 crores. And this year it is a loss of Rs. 7.45 crores. So that is the reason it has come down.

**Gaurav Punjabi:** Okay. Sir, what is the cost of borrowing what is the rate we borrow from the banker for the short term loans?

**Ashwani Arora:** Our average funding cost is below 10%.

**Gaurav Punjabi:** Sir, there is a long term loans and advances on your balance sheet which has increased a lot from about Rs. 26 crores to Rs. 167 crores?

**Ashwani Arora:** That is because of insurance we have taken Rs. 140 crores in there.

**Gaurav Punjabi:** Sorry what is that? I did not understand?

**Ashwani Arora:** Insurance claim which is pending with the insurance company.

**Gaurav Punjabi:** Okay.

- Ashwani Arora:** So that has been taken into long term loans and advances.
- Moderator:** Thank you, Mr. Punjabi. We have the next question from the line of Nitin Mukhi from BW Investments. Please go ahead.
- Nitin Mukhi:** Sir, I think the volume growth of 20% guidance given is an understatement given the fact that we already did 24% this year. From next year we are going to have HUL brand we are going to have DSM Nutrition, we are going to have Future Group collaborations, we are going to have Devaayaand we are going to have Ecolife. So all this put together, I think it should be more than 20%?
- Ashwani Arora:** No, I am talking about our core business that is what our plan but the rest are the new initiatives like DSM is all about the other things, it is not the main line thing. It is manufacturing the extruded nutrition rice and Nature Bio and the guidelines I have given you is the core business thing.
- Nitin Mukhi:** The core business. And next year we also believe we also know that the pricings are going to be firm so there would not be a major impact because of the falling prices plus we are going to have some improvement in the margins because of the various efficiency measures that we are taking with the help of the consultants that we have appointed. And of course the interest cost is also going to come down. So is it reasonable to assume that profits before tax for next year would be at least double if not more?
- Ashwani Arora:** Definitely we will improve on that.
- Nitin Mukhi:** Okay sir and you gave a number for cash flow from operation which is Rs. 329 crores out of that Rs. 140 crores went for interest payments, how the balance Rs.150 crores is utilized, is it for loan repayment?
- Ashwani Arora:** Rs. 50 crores is depreciation, the rest is the profit before tax.
- Nitin Mukhi:** So cash from operation you said is Rs. 329 crores I think from that we would have utilized Rs. 140 crores for interest payment, Rs. 93 crores for loan repayment where is the balance Rs. 50 crores utilized?
- Ashwani Arora:** Loan payments are not Rs. 100 crores. I will give you. Rs. 93 crores is the loan repayment/reduction.
- Nitin Mukhi:** So how is this Rs. 329 crores of operating cash we generated last year was utilized sir, if you can just give us some light on that?
- Ashwani Arora:** So Rs. 140 crores is the interest and Rs. 34 crores is the tax we have paid.
- Nitin Mukhi:** Rs. 34 crores okay.

- Ashwani Arora:** Yes, and Rs. 93 crores is the loan repayment/reduction and rest has come into our business.
- Nitin Mukhi:** Sir, this Rs.34 crores of CAPEX was in relation to?
- Ashwani Arora:** No, Rs. 34 crores is the tax.
- Nitin Mukhi:** So basically no major CAPEX last year right and same will be applicable even for this year since we said that we are going to....
- Ashwani Arora:** The CAPEX will be we have planned Rs. 22 crores and for FY2015-16 Capex is Rs. 52 crores.
- Nitin Mukhi:** Okay which is not significant. Mr. Somnath Chopra he was with us for past ten years and this resignation information coming up in this Board Meeting was a bit of a surprise for us. Any reason why?
- Ashwani Arora:** I think he has taken this decision for his personal future growth whatever he wanted to, so he wanted to pursue his own thing.
- Nitin Mukhi:** Okay so is he joining your competitor or what?
- Ashwani Arora:** That I cannot comment, I do not know.
- Nitin Mukhi:** Okay and sir in terms of salary and other expenses the hike this year has been on the higher side even higher than the gross profit growth rate. So any specific reason for these two elements in your P&L account salary and other expenses if I look at the year-on-year figures?
- Ashwani Arora:** Yes.
- Nitin Mukhi:** It is more than 40%?
- Ashwani Arora:** Because in our US business we are recruiting more people, we are diversifying our portfolio, we are adding value added products so we are recruiting more people and if you see 10% is the normal growth we give to our people.
- Nitin Mukhi:** So Rs. 74 crores went up to Rs. 97 crores which is a growth of close to 21%?
- Ashwani Arora:** Yes, and 10% is the normal growth we give to the people and the rest you know we are recruiting the new team in our US business here.
- Nitin Mukhi:** Is this for the organic Ecolife?
- Ashwani Arora:** It is for our different initiatives. We are getting into the value added product we are getting to the organic thing so for the different initiative we have recruited the people.
- Nitin Mukhi:** Which will reflect in the top line probably next year?

- Ashwani Arora:** Next to next year, yes.
- Moderator:** Thank you, Mr. Mukhi. We have the next question from the line of Dhruv Bhimrajka from Crescita Investment Management. Please go ahead.
- Dhruv Bhimrajka:** So my question to you is regarding the abroad markets sir what percentage do Iran, is Iran presently contributing any percentage to our revenues right now?
- Ashwani Arora:** Iran contributes only 3.2% of our total revenue. And we are seeing good future in Iran so that is a regular market for us.
- Dhruv Bhimrajka:** So do we have plans to expand our presence in Iran market going forward because I assume it is a very big market for basmati, because as it comes in the Middle East region?
- Ashwani Arora:** Yes, we have a plan. Already we have launched our Daawat brand in Iran and we are getting good response.
- Dhruv Bhimrajka:** Okay so you are ramping up the distribution presence over there in Iran we can assume that?
- Ashwani Arora:** Yes, we have an associated distributor partner who is one of the best distributor partner in Iran.
- Dhruv Bhimrajka:** Okay, my second question is regarding like just yesterday we read in the news in The Economic Times that India is going to finalize the rice export deal with Indonesia that will be on a government to government basis. But it will be on the non-basmati side. So do we have any plans to exploit this opportunity if at all this deal goes through?
- Ashwani Arora:** LT Foods we are not much big in non-basmati so our focus is the basmati only and we are not participating in that.
- Dhruv Bhimrajka:** Okay and if you have any idea, will any Basmati deal of this type going to go through if you have any idea?
- Ashwani Arora:** Basmati I do not see any deal. Iraq was the major tender but it is not happening at the moment.
- Dhruv Bhimrajka:** Okay so Indonesia as a market does it interest you or is it contributing anything presently to the sales numbers?
- Ashwani Arora:** We will evaluate when it will come we will evaluate that.
- Dhruv Bhimrajka:** Okay sir my last small question is regarding the organic business that we are ramping up right now. So any traction on the India market because as I understand organic business organic food is a big market in the US which we have already launched long time back. And we have started promotions in India regarding our organic Devaaya brand. So any updates on the India market regarding organic business?

- Ashwani Arora:** India organic business is picking up it is growing at the rate of 30% 40% as you know globally the awareness of the organic food is growing. So as in India so we see a promising future for organic in India.
- Dhruv Bhimrajka:** Okay so this 30%, 40% is a market which is growing and if any number which you can give on the Devaaya how is it doing in the India market year-on-year?
- Ashwani Arora:** Last year we have done Rs. 14 crores, this year we have a plan to do Rs.150 crores.
- Dhruv Bhimrajka:** Rs.150 crores so that will be almost 11 times?
- Ashwani Arora:** Yes, 11 times because last year was a test for us in the market and we have learnt from there.
- Dhruv Bhimrajka:** Okay and so what is the premium percentage over the normal rice that we sell sir in organic?
- Ashwani Arora:** Organic is normally 1.4 to 1.5 times of the regular rice.
- Dhruv Bhimrajka:** Okay so that is the only thing in that we get?
- Ashwani Arora:** Yes
- Dhruv Bhimrajka:** Okay and will we be targeting a pan India presence on certain sections like for example North East is much ahead in organic so will we?
- Ashwani Arora:** Basically organic is we are going to launch in the major cities only.
- Dhruv Bhimrajka:** Okay in the major cities?
- Ashwani Arora:** Yes, premium thing and Yes,it reflected out mainly in modern trade and the key outlets.
- Dhruv Bhimrajka:** Okay.
- Moderator:** Thank you, sir. We have the next question from the line of Aman Vig from Astute Investment Management. Please go ahead.
- Aman Vig:** Sir, I have two questions. One question is could you give the region wise revenue for FY16 as well as growth? You talked about US business grew about 22% so what was the share of the US business?
- Ashwani Arora:** The overall revenue has grown by 7%.
- Aman Vig:** Okay contribution as well if you can give for regions like say India business, US business as well as Middle East?

- Ashwani Arora:** Sure. India business the branded business has grown by 15% in volume terms, and US business has also grown by 22% in volume terms.
- Aman Vig:** Okay and Middle East is?
- Ashwani Arora:** Middle East has not grown for us but it has improved on the bottom line.
- Aman Vig:** And my second question is basically regarding who are our competitors in this organic first as well as the normal basmati apart from India Gate nearest competitor?
- Ashwani Arora:** I think in India the only competition we have is from KRBL and organic is we are going to launch, the 24Mantra India is a strong brand here.
- Aman Vig:** Okay apart from KRBL who is the third, we are second right?
- Ashwani Arora:** Yes, we are lesser by 2% market share so we are very strong in the western region of India, the number 1 in Western region of India.
- Aman Vig:** Okay so any highlights of the third player who is it who else may be coming close to us?
- Ashwani Arora:** If you see Neilson sometime it is Kohinoor sometime other brands. 70% of branded segment is being held by KRBL.
- Aman Vig:** Okay actually one small question if I can fit in. Recent order of this Iran ban which happens every two, three years so this you believe is only say for six months one year or it is?
- Ashwani Arora:** No, this happens every year as this is a temporary because when their crops come normally they put a ban to for the benefit of their farmers. So this is a regular thing and the business has adopted according to this you know.
- Aman Vig:** So going forward you believe this will be one of your target or growth market?
- Ashwani Arora:** Yes, Middle East is one of our next growth drivers for us as far as geography is concerned.
- Moderator:** Thank you, sir. We have our next question from the line of Aditya Yadav from Transcend Capital. Please go ahead.
- Aditya Yadav:** Sir, my question is that the pricing environment has been weak as you also mentioned in the past 12, 15 months with the basmati industry. Could you give us some understanding of how your gross margin and EBITDA margins both have moved up in spite of weak pricing environment?
- Ashwani Arora:** So first of all as far as the consumption of basmati that is growing and the people who have a strong brand they are doing very well in terms of the growth of the business and as far as margins are concerned. Our gross margin is this year is 29%.

**Aditya Yadav:** It is being a good jump from around 25%...

**Ashwani Arora:** 25% last year and our EBITDA margin has also improved by 1% and our cash profit has also grown by 37%.

**Aditya Yadav:** Okay so can you provide me some data on what is your average cost of inventory right now and your average selling price?

**Ashwani Arora:** Okay so our average cost is Rs. 40,965 for rice and for paddy Rs. 22,967.

**Aditya Yadav:** Rs. 22,967?

**Ashwani Arora:** Yes, this is per metric ton I am telling you.

**Aditya Yadav:** Okay. And your average blended selling price this year?

**Ashwani Arora:** Sorry average selling price?

**Aditya Yadav:** Yes.

**Ashwani Arora:** It is in the range of this is Rs. 60,956.

**Aditya Yadav:** Rs.60,956 so close to Rs. 60 a kg is your average selling price?

**Ashwani Arora:** Selling price and our rice is valued at Rs. 40, average Rs. 41. This is apart from our US entity stock here.

**Aditya Yadav:** Okay this is apart from the US entity stock. Okay so second part is everybody all across the industry everybody had to take mark downs on their selling prices like you also said on an average LT Foods to come down of 10% to 15% on their SKUs. So can you give us a sense of what was the mark down in the aged rice or rice which were above 12 and 18 months old?

**Ashwani Arora:** See you mean to say how much premium we get this is what you mean to say?

**Aditya Yadav:** No, how much mark down we took as compared to the last year because of the weak pricing environment how much mark down we took on the aged rice SKUs?

**Ashwani Arora:** Sorry I could not get your question properly?

**Aditya Yadav:** Okay so let me try to clarify once more. So among all the SKUs we have, I am sure the mark down on the premium rice we have?

**Ashwani Arora:** Okay you mean to say price point wise how much we sell; this is what you mean to say?

**Aditya Yadav:** Yes,

- Ashwani Arora:** Okay so in India we have three price point and we sell around 25% of our value comes from the top end which sells more than Rs. 100, and we have a mid-price we call it that it sells in the range of Rs.50 to Rs. 60 and 30% comes from there. And then we have our Rozana range we call it that around 30% comes from there and then we have a food service 20% comes from there.
- Aditya Yadav:** Okay. Sir on the top-endsegment how much was the mark down we took with the rice which sells about Rs. 100 a kg?
- Ashwani Arora:** You mean to say margin or retailer margin or what?
- Aditya Yadav:** The markdown in the sense the prices we have to decrease owing to the weak pricing environment in the market?
- Ashwani Arora:** Okay that we have to reduce by I think not much 7% to 8%.
- Aditya Yadav:** But our cost of paddy was much, much lower and that is why our margins are expanded nicely?
- Ashwani Arora:** That is right.
- Aditya Yadav:** And one more thing do we expect to ramp up our ad expenses this year?
- Ashwani Arora:** Yes, that is what we have the plan here.
- Aditya Yadav:** We plan to ramp it out by a certain percentage. Can you give us some idea or?
- Ashwani Arora:** Yes, we will maintain our, the voice of share and we will be doing investment in the brand.
- Aditya Yadav:** And how much did we spend this year for the overall at a consolidated level?
- Ashwani Arora:** Last year we have spent Rs. 53 crores on a global level.
- Aditya Yadav:** On a global level?
- Ashwani Arora:** Yes,
- Moderator:** Thank you Mr. Yadav. We have the next question a follow on question from the line of Aman Vig from Astute Investment Management. Please go ahead.
- Aman Vig:** Sir, you gave the numbers for this year in terms of inventory of rice and paddy as well as selling price could you give it for same numbers for last year as well?
- Ashwani Arora:** No, this I had given you for the closing year.

- Aman Vig:** Yes, so FY 15 if you could?
- Ashwani Arora:** Okay, you mean to say last year 2015?
- Aman Vig:** Yes.
- Ashwani Arora:** At the moment it is not with me but we can send you.
- Aman Vig:** Sure we can take it offline and second question is this rice price which you said your procurement was around say Rs. 41 per kg. So if my memory is right, one other competitors like KRBL had much lower procurement price in the range of almost less than even Rs. 30. So is there a reason because you also maintain an inventory of one to two years. So this 30% to 40% price difference of inventory?
- Ashwani Arora:** It depends because lot of varieties are there and what kind of variety, what kind of broken you have so it depends on that. So it depends on company to company which kind of rice inventory they keep. We keep paddy more in inventory and I think we evaluate Rs. 22,967 that is at par with the industry.
- Aman Vig:** Yes, that is at par so that was the reason that rice there is the?
- Ashwani Arora:** It depends what variety you keep in the stocks. So that the valuation depends and we have done in a prudent way.
- Moderator:** Thank you, sir. We have the next question from the line of Sunny Agarwal from Emkay Global. Please go ahead.
- Sunny Agarwal:** Just want to know how much our new initiative like staples and organic food or snack contribute to the top line and the EBITDA level?
- Ashwani Arora:** At the moment it is not in much as I said as far as staple is only Rs. 14 crores but organic business as a whole on the top line is approx. Rs. 250 crores revenue last year approximately. The PBT is Rs. 18 crores.
- Sunny Agarwal:** Okay so when you say Rs. 250 plus 40 so that goes to 264 top line and PBT of, sorry what number you told?
- Ashwani Arora:** No, I told the top line is Rs. 232 crores of organic and PBT is Rs. 18 crores and EBITDA is Rs. 22 crores.
- Sunny Agarwal:** Okay and going forward organic and staple I mean for FY17 and FY18 the growth will be much higher here, right?
- Ashwani Arora:** Yes, that is what we are projecting the staple we are projecting Rs. 150 crores. Bottom line it will not contribute much because that is in the investment phase.

**Moderator:** Thank you, Mr. Agarwal. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Ashwani Arora for closing comments. Over to you, sir.

**Ashwani Arora:** Thank you everyone for listening patiently and also taking out time to participate in our earnings call. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of LT Foods Limited, that concludes this conference call. Thanks for joining us and you may now disconnect your lines.