"LT Foods
Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the LT Foods Q1 FY2021 Earnings Conference Call hosted by Equirus Securities 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 conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Depesh Kashyap from Equirus Securities. Thank you and over to you Sir!

Depesh Kashyap: Thank you. On behalf of Equirus Securities we welcome you all to Q1 FY2021 Results conference call of LT Foods Limited. We have with us today Mr. Ashwani Kumar Arora, Managing Director and CEO, Mr. Vivek Chandra - CEO of Consumer Business, Mrs. Monika Chawla Jaggia – VP Finance and Strategy and Mr. Sachin Gupta – Group Financial Controller. Now I now handover the call to the management for her initial comments and post which we will open the floor for Q&A session. Over to you Ms. Monika!

Monika Chawla Jaggia: Thank you, Depesh. Good Afternoon, everyone and thank you for joining us on our earnings conference call. I hope that you and your loved ones are all well and safe.

I would like to highlight that certain statements made or discussed on the conference call today will be forward-looking statements, and a disclaimer to this effect has been included in the results presentation shared with you earlier. Result documents are available on Company's website and have also been uploaded on the Stock Exchanges. A transcript of this call would also be made available on the Investors section of the Company's website.

I would like to begin by taking you through the key highlights of Q1 FY2021. In spite of many challenges faced by the economy, due to ongoing COVID-19, we delivered a healthy quarter with surge in demand, increased volumes and healthy margins across geographies, including India.

Our consolidated revenue for Q1 FY2021 was up by 24% at Rs.1221 Crores versus Rs.985 crores last year. The gross margins also expanded by 86 BPS to 27.9% due to change in product mix towards high-margin products and cost efficiencies. The EBITDA margins also expanded by 52 BPS to 13.3% versus 12.8% last year despite the spike in the logistic cost because of COVID. In absolute terms, the EBITDA was up by 29% from Rs.126 Crores to Rs.162 Crores, aided by higher gross profit. The PAT increased by 82% to Rs.83 Crores, while the margins expanded by 216 BPS to 6.8%, supported by 27% savings in finance costs. The earnings per share was also up by 85% to Rs.2.46 per share versus Rs.1.34.

We have performed exceedingly well in terms of the cash flow front as well. The cash flow generated from operations up by 44% to Rs.235 Crores, and a part of it was utilized to repay our borrowings.

Now I would like to update you on all the efforts taken towards strengthening the balance sheet of the Company.

ROCE has improved by 410 BPS to 18.4%. Return on equity has also improved from 12.4% to 19.6%. The debt equity ratio improved from 1.02x to 0.77x as the overall debt of the Company was down by Rs.200 Crores to Rs.1282 Crores on a year-on-year basis.

Long-term debt to equity has reduced to negligible levels of 0.12x from 0.15x last year. This is to reiterate that majority of our debt is working capital debt, which is required because of the nature of our business, and our focus is to maintain the Debt-to-EBITDA ratio to less than 3x.

The Debt-to- EBITDA ratio for this quarter is 2. The current ratio has also improved significantly to 1.6 from 1.50 last year. Because of our continued focus on the working capital optimization, our net working capital has reduced by 50 days to 183 days in this quarter versus 233 days in Q1 FY2021.

I now hand over to Mr. Chandra for the further business update for Q1 FY2021.

Vivek Chandra: Thank you, and Good Afternoon to all.

The quarter revenue growth of 24% comes from all segments of our business. The Basmati and Specialty rice segment of our business grew at a very strong 20%, bolstered by the growth in demand, especially in our international business. Organic business grew by 79% versus Q1 of FY2020 and the third segment of new product business has doubled to now become near 2% of our revenue.

All our business entities have performed well during this quarter.

Our India consumer business saw a good growth in Q1 FY2021, resulting in our increase in our market share to 27% from 24.5% in the previous quarter, as reported by AC Nielsen. Our market share, as per Nielsen, in the rural segment has also increased from 31% to 44% in Q1 FY2021 versus last year quarter.

Overall performance in India was impacted by the near-nil sales to hotel and restaurants, i.e., the HORECA segment. Sales to HORECA have been adversely impacted globally due to the pandemic, but we felt the impact was higher in India because we do a larger percentage of our sales to HORECA in India as compared to the other markets. We have seen some pickup in HORECA, but it will take a while before this business recovers to previous levels.

HORECA business also carries a higher sales realization. And this change in the sales mix away from HORECA has also resulted in a lower overall sales realization in India during this quarter.

The consumer business remains strong and has, in fact, further strengthened. In this quarter, we were able to get a significant jump in our e-commerce business based on our existing strong partnerships with the online players. Our new go-to-market approaches have been yielding positive results. And in the following quarters, these will be pushed forward more aggressively.

The Company has been working on various marketing initiatives and our recent campaigns of Pehli Daawat has received a lot of traction across social media, and many well-known personalities from all walks of life have participated in the campaign. LT Foods has also witnessed a good traction in its health and convenience products. The newly launched Daawat Sehat on the health platform and Daawat Rice Sauté Sauces on the convenience platform have received very positive response from the consumers in this time of eating at home and eating healthy foods.

The Company also launched a unique product this quarter, Daawat Cuppa Rice that provides tasty and healthy food instantly. And this too has met with a very positive response.

Our U.S. business saw a double-digit growth in revenue and also saw an expansion in its margins. We have a strong leadership share in North America and have built a very deep and wide distribution reach. The business leveraged this reach to perform well across all channels, including the traditional channels like clubs and grocery and the newer e-commerce channel. LT Foods has also worked proactively to ensure availability of its key products and was able to expand its consumer home penetration in the U.S. Our Ready-to-Heat (RTH) business that we launched last year also performed very well and is exceeding our expectations, as we saw more demand for convenience products for in-home consumption. We also received new listings in chains and have thus expanded our availability and consumer base. Our RTH business saw a growth of 250% in Q1 FY2021 on a year-on-year basis.

Our Europe business has also been performing well quarter-on-quarter in terms of revenue and margin profile. The revenue for these quarters were up 140% on a year-over-year basis, and the business has delivered another EBITDA positive quarter. Europe is working on further expanding its presence on the branded business across U.K. and supporting it with well-devised marketing and advertising plans to further strengthen the brand.

The Middle East business also registered double-digit growth. Our Middle East business has performed well across all channels, except for HORECA, which was impacted due to the ongoing COVID situation. But the HORECA channel has seen some recovery in the month of June and is expected to further recover in the next few months.

Our Far East business also saw a double-digit growth in this quarter. Dedicated marketing initiatives have been launched to strengthen our position and acquire new consumers. The Company is also working on expanding its product portfolio in line with changing consumer trends.

I would now like to hand over to Mr. Ashwani Kumar Arora.

Ashwani Kumar Arora: Thank you, Vivek. Good Afternoon, everyone, and thank you for joining us on the call today. I would like to start by thanking the LT Foods family for their continuous efforts and support over the last few months. It is truly the effort of all our team members and partners, which ensure production, supply and availability of our brands across geographies. I thank them all for their efforts, commitment and service.

My colleagues have shared the result of Q1 FY2021 with you. We have delivered a strong operating performance for Q1 FY2021. While the quarter undoubtedly carries some impact of the COVID-led consumption spike, we believe that fundamentally, the results show the impact of our strategies in action. And while we should recognize that these are uncertain and unpredictable times, we believe that the revenue margins and profit will continue at a higher level than the last year.

Our goal is to build a sustainable, profitable and growing business. Quarter-on-quarter, we are gaining new consumers, customers and the core of our sustainable business is being built. Margin expansion from efficiency, product mix and improvement in margins from scale is being delivered.

Q1 business growth has come from the result of our three strategies of Growth, Margin Expansion and Strengthening the Financial Metrics. The core is growing. Pandemic gave our brands increased penetration in new homes. While some of these may lapse in subsequent quarters, we are confident that this will retain most of the newly acquired homes and have strengthened our base growth trends.

In current times, consumer habits, preference and spend patterns have changed. The home consumption of packaged health and convenience products have increased globally. LT Foods has also witnessed this strength and has seen a good traction in its health and convenience product range.

As Vivek said, the newly launched products - Daawat Sehat, Daawat Rice Sauté Sauces, Daawat Cuppa Rice and Royal heat-and-eat in the United States have also performed well in these times and have gained many new consumers. This should form a new base for these initiatives to further expand and grow.

Now as the season is underway, I would like to give you an update about. 70% - 80% sowing of the Basmati is already completed. The crop health based on survey is normal and rainfall is adequate. As the return to the farmer was comparatively less last year, so we are expecting slightly less production of the Basmati this year to the tune of 5% to 10%. And consequently, the prices may stay firm to the extent of 5% to 10% compared to the last year.

Thank you. Now we open the session for question and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nisarg Vakharia from Lucky Investments. Please go ahead.

Nisarg Vakharia: Good afternoon to the management team. Congratulations on an outstanding result. Sir, we have seen an EBITDA margin expansion in this quarter purely because of the gross margins increasing. When do you think that the operating leverage in the P&L will start playing out for us in terms of the cost not going up as a percentage of your top line and your margins expanding even further? That is my first question.

Ashwani Kumar Arora: In this quarter, as you know that because of the COVID situation, our logistics and distribution cost have increased. But going forward, we will see some improvement of the scale in the EBITDA margin. But if you see our ROIC and return on equity has improved to 18.4% and 19.6% respectively.

Nisarg Vakharia: Sure. But we are still doing practically the same margins that we were doing at maybe one-third of the size of what we were, let us say, 4 years ago?

Ashwani Kumar Arora: Missed to answer your first question. There was another difference. This quarter, the mix has changed. If you see the India sales has declined and the export sales has increased and in export sales, the entire cost come on our books. Whereas in India, it is on the distributors end. And that's the difference. But as I said going forward, as the scale will increase, we will get an efficiency on the people cost. We are continuously working on expanding the margins and you will see the impact of the same going forward.

Nisarg Vakharia: Okay. Now this topline, generally, over the last three, four years, Sir, whenever I have seen your Company, there is not too much volatility in earnings on a quarterly basis unless and until there is some one-off here and there. So, is this more or less a sustainable number for us now in terms of margins probably?

Ashwani Kumar Arora: As I said, our growth is led by three things. One is the new product portfolio, some in organic and some on the convenience platform. The second is we have acquired new homes and some new customers. Also definitely there is some impact of COVID for this spike in consumption as people stocking up. But these parameters, which is the new portfolio, new homes, new customers, that, we are confident, is going to stay.

Nisarg Vakharia: Okay. Sir, this initiative you have taken of launching this Cuppa Rice, you just launched it, right?

Ashwani Kumar Arora: Yes one-and-a-half month back.

Nisarg Vakharia: Is there any meaningful size that right now or how big this can become over the next one year or so?

Ashwani Kumar Arora: We have just built a small factory, and this was to test the market. And we are getting very good response on this. We will see after one or two months. Of course, we are looking for any product which has this good opportunity. But in this space, if you see, it is a big space where we are entering. And we are quite confident that with the response we have got, we can make it big.

Nisarg Vakharia: Okay. And last question, Sir, what is the gross margin on this product versus your normal business gross margin?

Ashwani Kumar Arora: So normally, whatever the new product we are introducing, the aspiration and it depends on the size of the business, anywhere between 30% to 40% gross margin.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Congratulations, Sir, for a very good set of numbers in this uncertain time. I have a few questions. First is we have seen a sharp increase in your market share overall also and within the rural market also. Are there any specific players who have lost market share because of that we have gained? Or what explains this significant increase in market share?

Ashwani Kumar Arora: The category has de-grown by 11% and because of our agility in the distribution and making sure that we are available across the channels wherever possible, our market share has increased. The team has also done a good job and we were able to deliver growth in our market share.

Resham Jain: But has your competitors also, like the major competitors have they been also grown?

Ashwani Kumar Arora: We will not be able to comment on that.

Resham Jain: No, what I was trying to understand, is it that the smaller players have vacated the market or are larger players losing share?

Ashwani Kumar Arora: The larger player have lost market share.

Resham Jain: Okay. Sir, my second question is, we have seen very good season because of pre buying and consumers stocking up extra groceries, both in India as well as outside India. So how do you see the situation normalizing? Are you seeing it normalizing from Q2? Or are you still seeing a pretty healthy demand in the current quarters as well from your interaction with retailers and all?

Ashwani Kumar Arora: As I said, the home consumption has definitely increased and that I am sure it's going to stay. And the only thing which will impact is the spike in consumption because of COVID as the stocking up happening either in the homes or in the complete supply chain. That is the only correction that I foresee will come. But as far as LT Food is concerned, as I said, the growth has come from three fronts: new products, new homes and new customers. And spike is going to be corrected here but we will continue to maintain the momentum

Resham Jain: Okay. My third question is on you have reduced your debt overall since last five, six quarters. We are continuously seeing a fall in the debt level. Getting into next year, how would you strategize yourself because these are uncertain times? Will you go for growth leading to higher inventory and higher debt? Or you will have more consolidation in this year also and further reduce the absolute level of debt? How do you see debt levels, especially in the current situation?

Ashwani Kumar Arora: If you see for the last two quarters, whatever earnings we are getting, cash flow, we are reducing borrowings. And if you see whatever the growth we have given, so our capital employed has not increased. So therefore, the ROIC has also improved and return on equity also improved. But going forward, as you see, of course, in our strong market, wherever we are operating, we are growing very responsibly and making sure that our Debt EBITDA level remain under control. And in the meantime, we are not consolidating at that level that we lose our market share. So, if wherever we are operating, if the category is growing and as a strong brand, we are also getting an opportunity. But we are not doing any irresponsible business, just for the sake of adding revenue in the business.

Resham Jain: In the absolute level of debt, Sir, as far as looking at, let's say, next year or two years' time?

Ashwani Kumar Arora: So, as I am repeatedly saying that we will be in control of Debt EBITDA and will remain between 2x and 3x. It also depends on the paddy prices. But the intention is that we should reduce our borrowings and stay in the 2-3x Debt-EBITDA range.

Resham Jain: Sir, any full year guidance you like to give, just be the ballpark number? How should we look at FY2021, I suppose, because Q1 had a very high response? So how do you suppose the whole year?

Ashwani Kumar Arora: In these times, some things are very difficult to predict because you never know for tomorrow as lockdowns and all these things are happening. But broadly, we are very confident that this year, we will be growing versus last year.

Resham Jain: Sir, one final question. We have seen a very strong reduction in the interest cost. So, if you can bifurcate how much is the fall in the interest cost? Overall, what is the fall in the borrowing cost also?

Ashwani Kumar Arora: It is a mix of two things. One is, of course, the lesser borrowing and other is the cost of funding. So, it has reduced by 0.6% during this quarter.

Resham Jain: Okay. And is this run rate so sustainable that?

Ashwani Kumar Arora: On the interest cost? Interest cost, yes. Rather we are trying to improve this further.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Congratulations first for a very good set of numbers. I just had a few questions looking at your presentation. One, I missed the initial commentary, by the way. I was stuck in another call. So, if I see your Indian versus international business, I think both have got very different performance metric. So, we see almost a 22% volume reduction and 12% price reduction for the Indian market. And we will see a stable price and 47% volume increase for the international business. So if you can give some color on what is happening in the Indian market and the international market?

Ashwani Kumar Arora: Sure, Sarvesh. I think we have said in commentary, but we will repeat that. In India, we have got a hit from HORECA business, which was a substantial means 25% of our total sales in India. But we have improved in our consumer business. So as per Nielsen, we have improved our market share by 2.7%. But as far as international is concerned, we have a lesser impact on the HORECA business. And therefore, we have improved on that across all the geographies.

Sarvesh Gupta: The 211 Crores that we have got in the Indian markets. Now going forward what is the trend that we see do we expect to at least maintain this, or we see any further de-growth in pricing or volume?

Ashwani Kumar Arora: In India, the consumer business has gained share. But HORECA, we have to see, as we have started seeing the improvement in HORECA. But we have yet to see how the HORECA improves. But overall, if you talk about the Company, we are will maintain the momentum of growth in the other channels.

Sarvesh Gupta: And on pricing, Sir, like we saw a 12% decline and 14% even by your few pure foods.

Ashwani Kumar Arora: The food service which you see, so that has a higher realization whereas in consumer business, our price point is lower.

Sarvesh Gupta: Okay. So that is because of the mix change, but otherwise, prices are stable?

Ashwani Kumar Arora: Yes.

Sarvesh Gupta: Okay. And secondly, Sir, just for my understanding, your international realizations are much higher than your domestic realizations.

Ashwani Kumar Arora: So it is because of the product mix. In the international markets higher price point products are sold.

Sarvesh Gupta: Okay. But since the business has tilted in favor of international business, which is almost like 80% for this quarter, I would have expected some gross margin increase. So, if you can throw some color on that.

Ashwani Kumar Arora: The gross margin has improved. But as in international also, the product mix is different. We have got growth in organic business, in private label business and in branded business as well. And that is why you see our ROIC and return on equity has improved.

Moderator: Thank you. The next question is from the line of Jayant Mamania from Care PMS. Please go ahead.

Jayant Mamania: Congratulations for solid set of numbers. My first question is on international business. We have achieved almost 50% growth in international business. Can you give us bifurcation how the usual distribution of these figures?

Ashwani Kumar Arora: It is across geography, we have gained, America, Europe, Middle East and Far East. Across geography, we have improved.

Jayant Mamania: Can you give us the number of Europe and U.S?

Ashwani Kumar Arora: So, in our organic business, we have got a growth of roughly above 50%.

Jayant Mamania: Yes, that has grown 79%.

Ashwani Kumar Arora: Yes.

Jayant Mamania: Can you provide number for Europe and US at least?

Ashwani Kumar Arora: So, in U.S. we have grown more than double digit. And Europe, of course, it was new, and we have grown more than 60%.

Jayant Mamania: And can you tell us the realization part in case of U.S. and Europe?

Ashwani Kumar Arora: Definitely, we will provide you the realization. But at the moment, we would not be able to provide the same. Request you to send an email to our Investor Relations team and they will get back to you with the necessary information.

Jayant Mamania: In volume terms we have grown by 60% so are we going to sustain this volume in the current quarter also it is almost one-month path, with this volume continue in Q4 also.

Ashwani Kumar Arora: As stated the growth has been coming from change in product portfolio, new homes, new customers, and some is because of this COVID situation. COVID situation will get corrected, the stock-up situation, but year-on-year, we are confident that we will do better.

Jayant Mamania: So, what percent of growth will allocate the COVID situation?

Ashwani Kumar Arora: Difficult situation, but definitely, we will be doing better.

Jayant Mamania: Sir, can you throw some light on the organic business, which has grown 79%. What is your guidance?

Ashwani Kumar Arora: We have added a new product portfolio. We have added the soya meal as a new product that has given the good growth. And overall, globally, the people are becoming health conscious. And the whole portfolio has increased.

Jayant Mamania: Sir, what is the contribution from soya meal?

Ashwani Kumar Arora: On the overall revenue of you are asking?

Jayant Mamania: No, for the organic business only?

Ashwani Kumar Arora: So roughly 20% to 25%.

Jayant Mamania: Okay. So, the soya meal business added in this quarter?

Ashwani Kumar Arora: Soya meal last quarter was also there but in this quarter it has done better.

Jayant Mamania: So, this 160 Crores run rate will continue in the subsequent quarters?

Ashwani Kumar Arora: Again, organic business also has the impact of stock up, but we are confident in our organic business will also good in the coming quarters in comparison to last year.

Jayant Mamania: Okay. Sir, can you tell us the share of e-commerce business in India and in the international business?

Ashwani Kumar Arora: In India we are doing roughly 10% to 15% of our total revenue.

Jayant Mamania: And about international business.

Ashwani Kumar Arora: International businesses is small. In U.S.A., Its 2% to 3% of our total revenue.

Jayant Mamania: Sir, can you give us debtor figure as on June 30, 2020.

Ashwani Kumar Arora: 600 Crores.

Moderator: Thank you. The next question is from the line of Nitin Awasthi from East India Securities. Please go ahead.

Nitin Awasthi: Congratulations on a solid set of numbers. A lot of my questions have been answered. However, the curiosity remains after I saw your presentation, the large portion of, let us say, profitability has come in and ratio and improvement. Correct me if I'm wrong, has come in because of the organic plus the new business? Because you have a higher and better ratio in that segment compared to your traditional businesses, am I correct?

Ashwani Kumar Arora: Can you repeat what is your question, please.

Nitin Awasthi: My question is the largely the improvement which we are seeing in ratios and this was in your return ratios that you have mentioned ROCs and ROEs is on back of your organic and your new launches because that it? So, when I look at these two businesses, and we had a discussion even in the last concall that these businesses have a substantially better return ratio profile, lower working capital days and then compared to your traditional Basmati rice business. And this time around, these businesses have done exceedingly well, leading to a very good improvement in your ratios. Am I correct to look at it in that perspective?

Ashwani Kumar Arora: Yes you are right, we have seen the improvement, both in organic and our basmati rice business. Both we have improved ROIC and both parameters.

Nitin Awasthi: Okay. Sir, normally, if I look at last year, all the quarters, you had a sustainable similar run rate when it came to your organic business. This time around, we are seeing a substantial jump. You had mentioned this we can be broken down into two parts. One was newer product addition, which one was the main one, the soya meal, which is obviously a very large-term contributor to that; and the second would be stocking up. Now if you remove the stocking up of part, what would be the sustainable per quarter run rate that you are expecting? Or are you still expecting further addition of products in this category during this year?

Ashwani Kumar Arora: This year, we are not going to add any product portfolio in organic business, but the stocking up we will see in this quarter, how much impact. But more or less, it will not vary more than 10% to 15% of the organic revenue.

Nitin Awasthi: Sir, lastly, on your new launch during the quarter, Cuppa Rice, there was a newspaper article stating that you had got orders from Railways of India any other such institution orders that have flown in or inquiries that are going on?

Ashwani Kumar Arora: There is a good traction on the Cuppa Rice. But till now, we have a very small capacity. We are able to service the railway demand only. So, our marketing team is working on the other parameters. But we are getting good traction.

Nitin Awasthi: So the newspaper article only stated the initial orders?

Ashwani Kumar Arora: We are getting repeated orders now.

Nitin Awasthi: Repeated orders from railways.

Ashwani Kumar Arora: Yes.

Moderator: Thank you. The next question is from the line of Pritesh Shah from Lucky Investments. Please go ahead.

Pritesh Shah: Sir, I have a couple of questions. One, considering a little bit of country stocking that would have been there, what would be your best guess for full year volumes for the Company versus the 4,64,000 tonnes that we did last year?

Ashwani Kumar Arora: It is a little difficult to say during these times, but we are confident that we will do it better than last year. We will have a growth on full year basis.

Pritesh Shah: My second question is, would there be a mix improvement in terms of volumes sold in international within the Middle East? Usually, Iran is a slightly lower profitability business. So, would there be any mix improvement whether it would be lesser Iran volumes and more other?

Ashwani Kumar Arora: As LT Food we do not do any business with Iran. Otherwise yes there is a mix change across geographies.

Pritesh Shah: My third question is, Sir, so last year, there was a carry forward of, at the end of the year, lower paddy price, which we would buy the inventory at. So, the benefit of lower paddy price, considering its ageing for the rice, should flow in FY2022? And does lower paddy price and aging does impact the profitability in FY2021?

Ashwani Kumar Arora: Definitely, lower cost helps you to improve your profitability, but we have to see the competitive landscape, how the competition is gaining. But definitely, as I said, the target is to improve our ROIC and return on equity. And going forward, we will see the better margins.

Pritesh Shah: And do we have annual debt repayment reduction targets in place?

Ashwani Kumar Arora: So, as we said that mostly, whatever the borrowings we have is the working capital borrowing. Because the nature of the business is that you have to keep inventory for ageing purpose. But the goal is we will be in the Debt/EBITDA ratio between 2x and 3x.

Pritesh Shah: So that is the goal of being Debt-to-EBITDA at between 2x and 3x?

Ashwani Kumar Arora: Yes.

Pritesh Shah: But is there an absolute debt reduction program in place? Or you would look at only the ratio?

Ashwani Kumar Arora: You must have seen that in the last two quarters, we have reduced our borrowing and the target is to maintain the Debt-EBITDA ratio between 2-3x.

Pritesh Shah: But Sir this is seasonal right? This last two quarter reduction is always seasonal?

Ashwani Kumar Arora: March 31, is not a seasonal.

Pritesh Shah: Between March 31, and quarter one and quarter two is seasonal.

Ashwani Kumar Arora: Yes, it is seasonal. That is right. But as I said, it depends on the paddy prices and all that. But the discipline we wanted to maintain its debt/EBITDA ratio.

Pritesh Shah: Okay, maintain the debt/EBITDA ratio. Okay. Lastly, for lower paddy price, do you see a case for lower realizations also? So, for lower paddy price, which has slowed in last year, does the market also adjust in the form of lower realization on Basmati rice?

Ashwani Kumar Arora: It depends on the competitive landscape. Normally, a part of it is passed on to the consumers in the form of consumer promotion and a part of it helps in improving margins.

Pritesh Shah: Actually, I did not get it. So historically, you would have experienced, whenever there was lower paddy price, is it followed through with...

Ashwani Kumar Arora: Yes. Definitely, it helps to improve your margins, as I said.

Pritesh Shah: It improves percentage, or it improves EBITDA per kg or gross profit per kg?

Ashwani Kumar Arora: No, it is not per kg, it is in the margin.

Pritesh Shah: It improves the percentage. It does not improve the absolute numbers.

Ashwani Kumar Arora: No.

Pritesh Shah: Because which means then there is a corresponding decline in basmati price also, consumer price.

Ashwani Kumar Arora: No, consumer you do not reduce like per kg but it depends there are three, four price points which works one as the premium price point where you need not to pass on the benefit to the consumer but it depends like HORECA mid-price some price points are very sensitive to price and competitions competes in that way. So, we have a different program where the idea is to keep our market share also and improve the margin if the paddy prices are less.

Pritesh Shah: Okay. Lastly, Sir, this mix between domestic and export that we see because export is more remunerated. Do you envisage a situation where exports will grow faster than the domestic in current year and next and the mix improve?

Ashwani Kumar Arora: If you see, it depends how this economy goes. But as far as international is concerned, whatever the other governments program has, it does not impact on the consumer pocket. So, we are seeing good growth in the international market as far as India is concerned, as we said that although category has de-grown, but we have had a positive impact. So overall, yes, export in this year looks good. India, I am sure, in the coming quarter, will catch up.

Pritesh Shah: This 200,000 tonne international volumes, how much is U.S. and Europe volumes in this?

Ashwani Kumar Arora: We have grown from every base, whatever the base we have in America and Europe. Of course, America is a very mature market for us. So, we have grown in double digit. Europe, we have grown.

Pritesh Shah: No. Sir, my question is, in the last year's slightly more than 200,000 tonnes, how much will be U.S?

Ashwani Kumar Arora: At the moment, we do not have the number with us. But definitely, you can e-mail to us. We will give you a number.

Pritesh Shah: Okay. Because your presentation seems to suggest that it is a substantial volume because the presentation says America is 0.2 million tonnes, and your market share is 50%. So, is it like 100,000 that somehow, we are to calculate?

Ashwani Kumar Arora: So, like this is how much we export, you mean to say?

Pritesh Shah: 100,000 tonnes?

Ashwani Kumar Arora: No, we do it little less than that.

Moderator: Thank you. The next question is from the line of Jatin K from Alpha Capital. Please go ahead.

Jatin K: Congrats for a very good set of results Sir. My first question would be on international business is there any market share gains also there also our industry also seem to have grown there, what would be industry growth rate in international side versus our market share gains.

Ashwani Kumar Arora: So, industry has also grown in exports, but it depends. Some geography has grown faster than the other geography. It depends which geography we are strong. But overall, export has done better this quarter against whatever it was previously.

Jatin K: Sir, my next question would be on gross margin expansion. You are saying that it is because of product mix and growth in organic business. So, nothing is coming right now from the fall in paddy prices. I believe paddy prices have fallen close to Rs.4 - Rs.5 per kg, is that right? And can we expect this paddy prices fall to help us in gross margin expansion in coming few quarters or the coming few years?

Ashwani Kumar Arora: As you know that we sell aged paddy and mix of aged paddy. But then again, it depends which price point you play. Some price point, you have to be competitive to the competition and pass on the prices, especially in HORECA business and what we call is $2 and $1 business. But definitely, it will improve the margin, as you must have seen. Our gross margin has improved by 70 BPS.

Jatin K: Sir what would be the tax rate for this year?

Ashwani Kumar Arora: 25%.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Shubkam Ventures. Please go ahead.

Dikshit Mittal: Sir, just to understand a little bit on this margin, the gross margin part only. Because I think based on your disclosure of inventory, I think the inventory I think it was 20% correction, right, in terms of our Basmati pricing last year?

Ashwani Kumar Arora: Are you talking about the quarter?

Dikshit Mittal: Yes, Sir YoY basis I think this year it is 20% lower is what we had procured right?

Ashwani Kumar Arora: Last year, we procured at a lesser price. Crop 2019 we procured at a lesser price as compared to crop 2018, yes.

Dikshit Mittal: Right Sir. With certain benefit to gross margin may reflect internally well, so maybe because have you passed on anything because you mentioned that in June or July, you take all. Have you passed on this benefit maybe in the form of higher discounts? Or will the benefit be visible in second half going forward?

Ashwani Kumar Arora: We are watching the competitive landscape and we are hopeful that it will improve.

Dikshit Mittal: Okay. So gross margins can improve further maybe in second half depending on like if you decide not to pass on?

Ashwani Kumar Arora: We have to see the competitive landscape for it.

Dikshit Mittal: Sir, secondly, you mentioned this quarter, there was a high logistic cost. Can you quantify like how much was the impact on margin because of that?

Ashwani Kumar Arora: I said there are two factors. One is the high logistic cost and the second is the mix change. We have done more export and in export, the distribution and logistics cost comes to us. And in India, the distribution cost comes to the distributor books. So that is why it seems high. But, in COVID times, we must be liberal in making sure that the availability and the service level does not compromise, and we have spent some cost more.

Dikshit Mittal: Because at the start of the year, you had given a guidance of 100 BPS margin expansion but going by the current low paddy prices and going by the first quarter performance. So, I was just hoping if we can beat that kind of margin expansion guidance at least this year?

Ashwani Kumar Arora: Again, my answer will remain the same. We have to see the competitive landscape, but we are hopeful that the margin will improve.

Dikshit Mittal: Sir, in terms of pre-buying that you mentioned because of COVID, so because the first quarter, we have seen more than 20% topline growth but on a full year basis, you mentioned there will be growth. But can you quantify, will it be double-digit growth kind of thing that we can hope, maybe 10%?

Ashwani Kumar Arora: That is what we are aiming for. But as I said, it is a difficult time. Every morning, there are some new news and new things are happening on account of COVID.

Dikshit Mittal: Assuming, if there are no further lockdowns and anything, so can we grow in mid-teens kind of?

Ashwani Kumar Arora: If the situation remains improving, definitely we are confident that we will be delivering a better year.

Dikshit Mittal: So, can you give some idea how July went in terms because I think now domestic HORECA market will pick up from second half?

Ashwani Kumar Arora: Till July, we have seen a little better than whatever April and May in HORECA in India. But not to that level, which was used to. It has only improved if the sale was Rs.100, it has improved by a 10%, 20% yearly.

Dikshit Mittal: Sir, have you seen any moderation in export sales in July as compared to first quarter?

Ashwani Kumar Arora: In July little moderation yes.

Dikshit Mittal: Year-on-year it should be still, up right?

Ashwani Kumar Arora: Year-on-year, as I said, seeing July, whatever, we are hopeful that we will be able to deliver a better quarter.

Dikshit Mittal: Sir, lastly, on the inventory days, we have seen substantial improvement. Even on a year-on-year basis, we have at 162 days versus more than 200 days. So, what has led to this improvement?

Ashwani Kumar Arora: The value, if you see the quantity-wise, we are on the same, but value-wise, the inventory days has reduced.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. Sir, I wanted to understand on this 24% growth we have reported this quarter. So, is it possible for you to bifurcate, like you mentioned, that some of it might be because of stock up situation and some from growth portfolio, the product portfolio and the growth in the product portfolio? So, is it possible for you to bifurcate that how much percentage of that would be from the stock up and how much percentage would be from your natural growth that you see?

Ashwani Kumar Arora: Stock up, as you see, we have seen that whatever the first quarter has gone, the stock up in value terms is roughly Rs.100-120 Crores and the rest from new product portfolio and expansion of distribution across the globe which we believe will continue.

Deepak Poddar: So even if I adjust that Rs.100 Crores plus a kind of HORECA business segment really get added up. So, this is the base that we look forward as we go into coming quarters, some growth because of the HORECA that you might be having?

Ashwani Kumar Arora: HORECA, we have to see how it behaves. At least the metro cities where the major HORECA sales come has not come to the normal. So, we are not very hopeful that in this quarter, at least, HORECA will come back.

Deepak Poddar: Yes, right. But can we consider this as a base going forward? The overall revenue base?

Ashwani Kumar Arora: More or less, Yes.

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

Amit Doshi: Thank you. A couple of questions on market share gain on the local and the rural side. You mentioned that 11% industry is down and whereas your share has gone up. Can you share what kind of thing that has actually evolved at some low-priced brands, which has taken up well, I mean, something like that?

Ashwani Kumar Arora: We have got a growth across all price points. The share has increased because we were agile to the distribution, and we made sure that we are available across all channels. Vivek, you wanted to add on this?

Vivek Chandra: As it is reflective of the fact that our distribution and our sales organizations were actually very active and were out there in the marketplace wherever the government rules allowed the availability. Because there is a shift in the whole purchasing pattern to more to smaller neighborhood stores and our availability has been one of the major factors with the fact that

Daawat, as a brand, is a very strongly preferred brand. So both these things together has what, in the declining market, helped us to retain and which has led to improvement of share.

Amit Doshi: Okay. On the new product launch, which is this Cuppa Rice and this Kari Kari, etc. These are more like typically travel consumption, not for home consumption. So, I am sure this would require a different sort of a distribution model or different sort of strategy as far as marketing is concerned. So how are we planning on that? I mean, you mentioned I know that Cuppa Rice is currently on the testing side, etc. But because considering that our distribution would be different from travel and home consumption so how you really trying to fit this in the line of steam of business that we have?

Vivek Chandra: I think there are two parts to this. One is, you are right that a lot of this consumption does take place out-of-home. We have segmented our sales effort into verticals, which are focused on two different channels of trade. So, there is a food service, for example, vertical, which is already supplying directly, say, to airline catering, to railways catering so there is a certain segment which is there, which is going to out-of-home. The second part, however, is that all of these products also have a fairly significant in-home consumption which has only increased during this time of stay-at-home. So whether it is Cuppa Rice or Kari Kari or Rice Sauté Sauces that we launched, these are all also gone very heavily into in-home consumption, where the verticals that we have, which supply e-commerce, we have a vertical supplying modern trade and then another, which is through general trade, they have seen very good growths of these products in their portfolio as well.

Amit Doshi: Just last question while all the challenges and despite the Q1 showing one of the key reasons as in, of course, COVID and stocking up demand, what makes you confident that we will do better than previous years? I think I just had a question on inventory days is down from 214 to 162 days. But I believe you mentioned earlier that is because of price point. Did I get it right? So I mean I am just trying to say that if the volume or the inventory is low, then how do we compare that we will grow volume, right? So how do you link that both again? What makes you so confident about doing better than last year?

Ashwani Kumar Arora: As I said, we understand that what was the value which has gone into stock up that is giving us confidence and whatever the forecast we have for this quarter that is giving us full confidence that we will be doing it better than last year.

Amit Doshi: Okay. And our private label business is approximately 25%. So anything shoot up in this quarter in the private label space?

Ashwani Kumar Arora: Yes. Private label space, it has shot up mainly in Europe but not in rest of the world.

Amit Doshi: Okay. And our private level margins would be lower vis-à-vis our first branded business, logical?

Ashwani Kumar Arora: Yes. As we said that we calculate on the ROIC basis, not on the absolute margin. But definitely, we do only business which has the better returns. So even in the private label business, we have a kind of strategic partnership.

Amit Doshi: The last question is on the international business, the growth rate has been significant. Do you believe that any particular reason vis-à-vis the supply chain disruption in other countries, which could not export to whether U.S. or Europe, etc., and because of that, there was a shift from that product demand to Daawat anything on that color which you would want to add?

Ashwani Kumar Arora: So the demand growth, of course is because of active, strong supply chain, we were able to acquire new customers from the competition. So that is for sure. And the second is, as we said, that in this time, the home consumption have increased. And that has also led to this growth.

Amit Doshi: Yes. So my point, stocking up, I understand. I am just trying to figure out that because there were other countries which we were exporting, of course, not Basmati rice, or something else and because of unavailability, then they would shift quite a lot on that.

Amit Doshi: Thank you so much and wish you all the very best.

Moderator: Thank you. The next question is from the line of Ravi Sundaram from Sundaram Family Investments. Please go ahead.

Ravi Sundaram: Thank you for the opportunity. Congratulations on an excellent set of numbers. I just had one question because most of my other questions are covered. The question was, if we look at the earnings of what we have seen, because Q1 has been one of the best quarters so far. So for the current year, should we use Q1 as the high watermark? Or should it be the base from where we can grow higher in the subsequent quarters? I am looking at a full year view. So can you give us some idea on this?

Ashwani Kumar Arora: Again, so this is not the pace we can count for the next quarters. And the stocking that has happened, because of the COVID but we are confident that we will be doing better than last year.

Ravi Sundaram: Just one clarification on that if I do not know if we can attribute a number to this but how much would have stocking up contributed to this stellar performance?

Ashwani Kumar Arora: It is in the range of 100-120 Crores.

Moderator: Thank you. Ladies and gentlemen due to paucity of time we will be able to take one last question from the line of Shailesh Kumar from Inside Edge. Please go ahead.

Shailesh Kumar: Thank you for the opportunity. I have three, four questions. First is Mr. Arora, what is the progress on this price cycle as one thing? I mean what are steps, domestically we are taking and other domestic branded rice companies are taking? And where do we expect our export route to Europe to normalize that is 4 lakh tonne per annum?

Ashwani Kumar Arora: In LT Food, we have a farming extension team. For the last 10 years, we are working with the farmers, wherein we guide them what to use and what not to use. And that is giving us little competitive advantage. We are able to work on that. As a Company, we are working to control the MRL levels to the extent that they are fixed. So huge awareness has gone to the farmers and everyone. We are confident that in the coming year, we will be able to improve on that.

Shailesh Kumar: So, you think in next two, three years, things would come back to normalcy? Or it will take longer?

Ashwani Kumar Arora: So, normalcy means, you mean to say export to Europe, if it's possible?

Shailesh Kumar: Yes, exactly.

Ashwani Kumar Arora: As you know, we are seeing the government's support to the industry and the farmer's awareness. Yes, of course, two, three years' time, we should be back to normal.

Shailesh Kumar: My second question is what has been Europe business profitability for this quarter?

Ashwani Kumar Arora: Rs. 12 Crores is EBITDA.

Shailesh Kumar: Third question is we have seen working capital improvement. So, do you think on full year basis, this is sustainable? And where do you see, on a full year basis, our working capital to stabilize? And what is the scope for further improvement?

Ashwani Kumar Arora: Full year, as far as working capital cycle is concerned, in terms of the quantity, we have to maintain the same working capital.

Shailesh Kumar: So, you are suggesting in terms of number of days, we do not expect much difference on Y-o-Y basis on full year.

Ashwani Kumar Arora: Of course, when we will go to the March, it will increase, because now this is off-season. So, it reaches its peak on December 31, on the inventory level.

Shailesh Kumar: My final question is, if you could help maybe volume breakup of our inventory levels between rice and paddy that will be very helpful?

Ashwani Kumar Arora: How much rice and how much paddy quantity-wise?

Shailesh Kumar: Yes.

Sachin Gupta: We have a paddy of 1, 03,000 tonnes and a rice of 1, 61,000 tonnes.

Moderator: Thank you. Ladies and gentlemen that was the last question I now hand the conference over to the management for closing comments.

Ashwani Kumar Arora: Thank you, everyone, for your continued support. Hope we were able to address all your queries. Should you have any further questions, please feel free to contact our Investor Relations team. Thank you and we look forward to connecting with you again in the next quarter. Thank you. Stay Safe. Thank you so much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Equirus Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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