



“LT Foods
Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the LT Foods Q2 FY2020 Earnings Conference Call hosted by Antique Stock Broking 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. Manish Mahawar from Antique Stock Broking. Thank you and over to you!

Manish Mahawar: Thanks Steven. On behalf of Antique Stock Broking, we welcome all the participants in the earning call of the LT Foods Limited. From the management, we have with us Mr. Ashwani Kumar Arora, Managing Director and CEO, Mr. Vivek Chandra, CEO, Global Branded Business, Ms. Monika Chawla Jaggia, VP Finance and Strategy and Mr. Sachin Gupta, General Manager, Finance. Now, I would like to handover the call to Ms. Monika for initial comments. Thanks and over to you Monika!

Monika Chawla Jaggia: Good Afternoon everyone and thank you for joining us on LT Foods’ H1 & Q2 FY20 earnings conference call. My name is Monika Chawla Jaggia and I am part of Finance, Strategy and Investor Relations Team at LT Foods.

I will begin the call with a brief update on the financial performance for the half year and the quarter followed by a strategic overview which will be given by Mr. Ashwani Kumar Arora and an update on our growth strategies to be given by Mr. Vivek Chandra. This will be followed by an interactive Question & Answer (Q&A) session. I would like to highlight that certain statements made or discussed on the conference call today may be forward looking statements and a disclaimer to this effect has been included in the results presentation shared with you earlier. Results documents are available on the Company website and have also been uploaded on the stock exchanges. A transcript of this call would also be made available on the investor section of the Company’s website.

Moving to an update on our H1 and Q2 FY20 performance:

I am very happy to share with you that we have delivered a strong second quarter and strong first half of the year performance.

Will now take you through the key highlights for our H1 FY20 performance:

Our revenue grew by 10% year on year to Rs.1, 970 Crores. Revenue of our branded business grew by 14% to Rs. 1,281 crore with growth of 11% in our India branded business and growth of 16% in our international branded business.

Gross profit was up by 14% to Rs.531 crore with GP margin of 26.9%, c.90bps improvement year on year. This was driven by improved realizations in the US, reduced COGS in Europe and overall increase in sales of our higher GP brands. With better controls, our “Other expenses” as a % to sales also declined by 40 basis points helping in improvement of EBITDA margins.

EBITDA was up by 17% to Rs.241 crores with margins improving by c.70bps to 12.2%. The reclassification of our lease rentals to depreciation and finance costs as per the new accounting standard on leases which is Ind AS 116 also contributed to an increase of Rs. 7.74 crore to our EBITDA which however balanced out in the depreciation and finance costs.

Our PAT grew by 20% to Rs. 93 crores driven by combination of EBITDA expansion as well as benefits from the decline in Indian corporate tax rates.

A significant result has been an improvement in our cash generated from operations which grew by 58% to Rs. 521 crores against Rs. 330 crores in the previous half year. Since the company does not have any major investments apart from maintenance capex, there will be an overall improvement in our cash flows going forward.

Further, majority of our debt is working capital debt which is required because of the nature our business but company is conscious and making efforts to reduce the debt levels. This is reflected in our reduced debt to EBITDA ratio to 2.6 times. This is the lowest debt to EBITDA ratio we have had in the past 3 years.

Our net debt at Rs. 1,223 crores is lower by Rs. 105 crores on a year on year basis and Rs. 238 crore on Q-o-Q basis

On the working capital side, our net working capital has reduced by 26 days driven by various efficiencies.

Moving to our quarterly numbers, to give you a few key highlights

Our revenue grew by 6% year on year in Q2 20 to Rs.984 Crores. This was driven by growth of 15% year on year in our branded revenue. Our market share in our branded business in India also grew from 24% to 32%.

Though the sales increased by 5%, the gross profit for the quarter grew by 11% year on year to Rs.265 crores. Gross Profit margin improved by 140 bps on y-o-y driven by:

- Improved realisation in US
- Reduced COGS in Europe
- Change in sales mix

As mentioned earlier, company has been trying to focus on keeping its costs under check. The other expenses to revenue improved by 20 bps on a year on year basis.

Our EBITDA for the quarter was Rs. 116 crores, up by 16% year on year. This included the positive impact of Rs. 3.85 cr on account of IND AS 116. The EBITDA margin improved by 100bps on a year on year basis. Our other expenses to revenue dropped by 20 bps on a year on year basis. Quarter on quarter, there was a dip in EBITDA and EBITDA margins primarily driven by increased spend in Q2 in our advertisement and promotional expenses. The increased investment behind our brands and in innovation is clearly paying off with our brands growing ahead of the categories and gaining market share, despite the challenging operating conditions. The additional spend shall also help us in leveraging a relatively higher growth in Q3. We have seen that most of the food services sector witness a higher growth in Q3 which has also been helping us in the past.

Our finance costs have also declined by 16% quarter on quarter as we have managed to keep our working capital under check.

Our profit for the quarter was Rs.47 crore, up by 25% year on year.

I would now like to handover to Mr. Ashwani Arora for the strategic overview

Ashwani Kumar Arora: Good afternoon everyone and thank you very much for attending our H1 and Q2 FY20 earnings call.

I would also like to take this opportunity to thank all our stakeholders for their continued support to the LT Group.

As detailed by Monika, we have delivered a strong operating performance for H1 and Q2 FY20. This has been made possible because of the continuous focus on our key strategic pillars as outlined in our earlier calls. Growth, margin expansion and strengthening our financial metrics are the main drivers of our strategy. Our H1 and Q2 FY 20 earnings are reflecting the execution of these strategies and I would like to briefly outline demonstrated progress against each of these:

- Our growth strategies are to strengthen our brand, further widen our distribution network and increase brand penetration across all consumer segments. We have demonstrated progress against all of these with our branded revenue in our key geographies of US growing by 17%, Europe by 50%, Middle East up by 13% and ROW growing by 11%. Our Market share in India increased to 32% from 24% as on September 30th 2019. Mr Vivek Chandra will give you further details on this.
- Margin expansion strategies are to focus on change in product mix towards higher margin brands, manufacturing cost efficiencies and to realize economies of scale. Both gross margins and EBITDA margins have improved on a half yearly and quarterly basis in comparison to the same period of the previous year. I am also happy to report continued progress in our European operations. We achieved breakeven EBITDA in Q4 '19 and the operation has been EBITDA positive in the first 2 quarters of this year.
- 82% of our debt is working capital debt which is required because of the nature of the business as we need to age the paddy from 6 months to 2 years. The company is conscious of this and is continuously making efforts to reduce the debt levels gradually. This is reflected in the improvement in our debt to EBITDA ratio and our return ratios. Our debt to EBITDA ratio is now at 2.6x – a 3 year low. Our net debt at Rs. 1,223 crores is lower by Rs. 105 crores on a year on year basis.

On the working capital side, our net working capital has reduced by 26 days on Y-o-Y basis. We worked on reducing unproductive inventory levels across the board without affecting our aging process.

I will now handover to Mr. Vivek Chandra - CEO Global Branded Business who will take you through our various growth initiatives.

Vivek Chandra:

Thank you Ashwani Ji. Our focuses have been to:

- Grow our core business through marketing programmes aimed at acquiring new consumers and expanding distribution
- Expansion of product portfolio in our core business and
- Expansion of portfolio in rice-based convenience products and rice health plus products

- Grow our Organic business

In this year we have made strong progress on all aspects. Core business in this year has grown by 12%, with branded business growing by 14%.

India has a branded business growth of 11%. In India our focus has been on growing the consumer facing and higher GP premium and mid-price brands. These brands have grown 14% with strong digital and TV campaigns, supported with new distribution expansion by the sales coverage expansion and more efficient working by distributor salesforces.

In the first half, US has a strong branded business revenue growth of 17% with a price increase of 9% and additionally strong underlying volume growth of 8%, delivered with marketing initiatives of Royal to our core consumer base.

Europe has a delivered a volume growth of 50% with new customer acquisition supported by a more streamlined factory operation in Rotterdam.

Rest of the world has continued its momentum with 11% growth in the first half of the year. Key markets are being supported with advertising and consumer promotions.

Our new product agenda is progressing strongly with launch of 2 rice convenience-based brands. In the US we have launched Ready to Heat rice which continue to gain traction. In India we have expanded Daawat Rice Sauté Sauces nationally across all Modern Trade chains. The results are very encouraging.

We have also started the launch of Rice Health Plus initiative of Iron and Vitamin Fortified Rice. Fortified Foods are a government priority and a big consumer need. Daawat fortified rice has been launched in Delhi and in test routes has grown the business by 10%. Over the next 2 quarters will be expanding this initiative to other geographies.

Based on the initial feedback on the Kari Kari snacks, our Japanese partner Kameda and ourselves have taken a decision to set up a dedicated facility for these snacks in North India. I am pleased to state that the facility will start commercial production during this financial year. This should go a long way in the company's goal to move into the value added segment.

Our third growth focus is the organic business. There has been good growth in the core basmati business. However; the organic soya bean business from India has suffered due to fall in global prices. We have switched our focus to the more value

add organic soya meal and we should be seeing this segment driving growth starting from January 2020.

Now we open the session for Q & A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

Vipul Shah: Congratulations for good set of numbers. What is the status of our insurance case?

Ashwani Kumar Arora: Insurance case is under hearing, and we are expecting the outcome of the first court in the next six months, till date everything is going positive.

Vipul Shah: No hearing has taken place till date?

Ashwani Kumar Arora: No, during the last three months there were two dates and the witnesses are being produced and the process is happening.

Vipul Shah: Sir Can you give contribution of Europe to the EBITDA in this quarter?

Sachin Gupta: EBITDA during the first half of current financial year in Europe was Rs.4 Crores.

Vipul Shah: And in this quarter?

Sachin Gupta: In this quarter, it is Rs.2 Crores.

Vipul Shah: Rs.2 Crores and what is the turnover?

Sachin Gupta: The turnover during this half year was Rs.173 Crores.

Vipul Shah: Rs.173 Crores and now on your slide number nine, you have put paddy inventory value at Rs.765 Crores, so I think they do not match up and your inventory is 121,000 tonnes slide number nine, so it gives a value of around Rs.65, 000 per tonne of paddy while your selling price in India is Rs.63, 000 tonnes, am I missing something?

Ashwani Kumar Arora:

Vipul Shah: Sorry it is Rs.176 Crores sorry, sorry I got it. The rice is Rs.765 Crores.

Vipul Shah: What is the advertising spend in this quarter and generally what percentage of sales do we spend as advertisement?

- Sachin Gupta:** During this quarter, we have made an advertisement and sales promotion expenses that is to the tune of Rs.20 Crores.
- Vipul Shah:** What I meant to say is our ad spends are tied to turnover as a percentage of turnover means what percentage of turnover we generally spend as advertisements?
- Vivek Chandra:** The ad spends are actually decided on the basis of the marketing programs that the different business present at the start of the year to support their revenue and brand growths. Where it comes out as a result is about 4% to 5% or about 4% of the sales.
- Vipul Shah:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.
- Dixit Mittal:** Sir my question is on this ad spend that you mentioned is Rs.20 Crores in your opening remarks you mentioned there is an excess ad spend, so what is the normalized spend in any quarter?
- Vivek Chandra:** The point that we were making was ad spend in Q2 in comparison with the ad spend from Q1 so it is higher compared to Q1 and it is not excess. Again, the spending is actually in line and will only grow because the results of these are there in the branded business growth and in the market share growth that we are seeing.
- Dixit Mittal:** This should be the annual phenomenon right so every Q2 should be having higher ad spends?
- Vivek Chandra:** This is again as we said as the phasing of the different marketing programs are so to repeat our ad spends are not time based or revenue as a percentage base, but are more program based. So there is no rule about which quarter we will be spending more.
- Dixit Mittal:** Sir in first quarter what was the ad expenditure?
- Vivek Chandra:** It is about Rs.17 Crores.
- Dixit Mittal:** Sir secondly there have been concerns in the industry about the Iran issue because being importing India Basmati so we have been hearing that lot of stock is pending in Indian ports and lot of money is getting stuck I think to tune of Rs.1500 Crores, so what will be the impact of this issue on our overall operations? I know we are not exporting to Iran, but there may be some like indirect issues right so if there is excess Basmati available in India so that may find it higher supply in India or other markets where we are servicing?

Ashwani Kumar Arora: As far as the inventory lying for Iran for Q2, I think that issue will be sorted out. As far as the excess stock of crop Year 18 as we sell aged, there is no carry forward stock of Year 18 crop, so we will not have impact of raw material prices. There will impact of this neither on the prices we are getting from the consumers nor on the stock we have. As far as crop 19 is concerned, that has opened at a lower price because of that. That should have a positive impact on improving our gross margin in the coming years.

Dixit Mittal: In that sense your older high cost inventory so should that see any inventory marked out considering?

Ashwani Kumar Arora: As I said there is no availability of 18 crops, so there is no carry forward stock of 18. That is on the prices of crop year 18.

Dixit Mittal: Sir coming back to this Iran issue, currently India is not importing oil right from Iran so there that was helping to clear the dues of rice exports so if that issue does not get resolved so do you see any excess supply in Indian markets of Basmati?

Ashwani Kumar Arora: Iran has a net deficit of rice, so they must import, but how much and when is the question mark. That is why the price opening of crop 19 is lesser by roughly 10% to 15% against the last year prices. That has already impacted the opening price of crop 19.

Dixit Mittal: Will that have an impact on our operations?

Ashwani Kumar Arora: As I said that is the positive impact, as we are a branded player, and we can see the positive impact of this reduction in raw material prices on the gross margin.

Dixit Mittal: Sir lastly what is the status of the Rabo exit from the Daawat Foods? Is there any timeline we have to give for their exit?

Ashwani Kumar Arora: The time has come, so that can be anytime.

Dixit Mittal: Will the company be giving them exit or how will it pan out?

Ashwani Kumar Arora: I think the third party; we are exploring to give it to third party.

Dixit Mittal: Sir any time line for that, what can be the maximum?

Ashwani Kumar Arora: I will say anything between two to three months.

Dixit Mittal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Dharmik Patel from ActiveAlpha. Please go ahead.

Dharmik Patel: Good evening. On page number 30 of the presentation, it is mentioned that Rabobank has made an investment in the organic food business, so I wanted to understand how Rabobank's is strategically with us and how they are helping us in developing our products and other value added?

Ashwani Kumar Arora: As we said in the earlier call also that Rabobank is big fund focused on agri and processed food-based industry. Apart from the money they have and they invest, they have a very big network in Europe, as Europe is one of the bigger markets for organic food, so we are expecting that it will help us in the long run.

Dharmik Patel: How long they are committed?

Ashwani Kumar Arora: Normally the fund age is 8 to 10 years.

Dharmik Patel: I have certain questions on the balance sheet side first other current assets have increased significantly from March 2019 to Rs.262 Crores, so I wanted to understand what has changed here?

Sachin Gupta: These are the advances, which we have given for the procurement of crops, so these are all advances to the suppliers, so in the current season, as the procurement will take place, all this will be liquidated.

Dharmik Patel: Other financial liabilities in the long term side that has increased from Rs.0 Crores to Rs.151 Crores?

Sachin Gupta: That is the lease accounting.

Dharmik Patel: Even in the other current liabilities side, which is more than double from Rs.22 Crores to Rs.58 Crores was it with respect to this lease thing?

Sachin Gupta: That is also related to the lease accounting. This is the short term part and the other one is the long term part.

Dharmik Patel: This right of use assets, which shows Rs.165 Crores how, does this work?

Sachin Gupta: That is basically on account of the lease accounting. We have the asset part and the liability part, so this is basically on account on the Ind-AS 116.

Dharmik Patel: Thank you.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus. Please go ahead.

Viraj Mehta: Sir if I look at the inventory on our books it is at around Rs.63 a kg and if I look at the realization in our best business, which is branded export we sell at around Rs.78? Now the overall gross margin of our entire company is around 26% to 27% when I tally these two numbers, our best business even if we are able to sell it at the highest realization that we do, which is our branded export business?

Ashwani Kumar Arora: First of all we need to correct the average export selling price?

Sachin Gupta: Our average export selling price is Rs.104.

Viraj Mehta: This data from the presentation you have uploaded?

Sachin Gupta: That is the average selling price of whole, India as well as the international one.

Viraj Mehta: Ok, Branded is India and international both. Sir all I was coming to is do you think you will be able to maintain this kind of gross margins with such high pricing for the current inventory that we have?

Ashwani Kumar Arora: Normally the inventory we keep is the aged rice and some products like the parboiled rice, which sells more in India. We buy paddy and all these things just on time and process it, so whatever the stock is kept is one to two year age so majority of it comes from \$3 and the export, which is sold at more than Rs.105 per kilo.

Viraj Mehta: If we compare our inventory to the largest export of basmati from India we are at a significant disadvantage because their inventory is at Rs.52 and our inventory is at Rs.62?

Ashwani Kumar Arora: It depends on company to company policy what kind of product they keep and what kind of product we keep. Like-to-like product will be the same valuation.

Viraj Mehta: Sir Do we sell at the same price as the leader in market today in the export market? How is the pricing in the export market?

Ashwani Kumar Arora: Wherever we export we are almost on a leadership position. In USA we have a 45% market share and the next player is 3% to 4%. In India; we are 4% to 5% difference in market share with the immediate competition and almost on different price point we market and we are almost competitive.

Viraj Mehta: Sir just last question is it fair to assume to that we will not see any write down in the inventory over the next one to two years?



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Ashwani Kumar Arora: No.

Viraj Mehta: That answers my question. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Monika Chawla Jaggia: Thank you. So we remain on track to achieve our annual guidance for the FY2020, which is an EBITDA margin of 12.5% and debt to EBITDA ratio of less than three times. We remain focused on our key strategic pillars of growth, margin expansion and strengthening our financial metrics and we are also confident of a stronger second half. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.