"LT Foods Limited Q2 FY'21 Earnings Conference Call"

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	MR. VIVEK CHANDRA - CEO CONSUMER BUSINESS
	MRS. MONIKA JAGGIA – VP FINANCE & STRATEGY
	MR. SACHIN GUPTA – GROUP FINANCIAL CONTROLLER
MODERATOR:	**MR. SUMANT KUMAR FROM MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of LT Foods Limited hosted by Motilal Oswal Financial Services limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Sumant Kumar from Motilal Oswal Financial Services Limited. Thank you and over to you sir.

Sumant Kumar: Thank you and good evening, everyone, and a very warm welcome to LT Foods Limited 2Q FY21 post result earning call hosted by Motilal Oswal Financial Services Limited. On the call today we have LT Foods management team being represented by Mr. Ashwani Kumar Arora, MD and CEO, Mr. Vivek Chandra - CEO Consumer Business, Mrs. Monika Jaggia – VP Finance and Strategy and Mr. Sachin Gupta – Group Financial Controller. We will begin the call with key thoughts from the Management Team. Thereafter, we will open the floor for Q&A session. Thank you and over to you.

Monika Jaggia: Good evening 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. My name is Monika Chawla Jaggia, I head the Investor Relations Team at LT Foods. Joining me today is Mr. Ashwani Kumar Arora, the Managing Director and CEO; Mr. Vivek Chandra, the CEO Consumer Business; and Mr. Sachin Gupta, the Group Financial Controller of the Company.

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 investor section of the company's website.

I would like to begin by taking you through the key highlights of the 1HY FY21.

Our consolidated revenue for 1HY FY21 was up by 24% at Rs.2,439 crores versus Rs.1,970 crore last year on account of increased sales from US, Europe and Organic business. The other income was down by 17% on account of exchange fluctuation.

The gross margins also expanded by 175 bps to 29.1% due to change in product mix towards high margin products and impact of lower input costs.

The EBITDA margins also expanded by 96 bps to 13.2% versus 12.2% last year, despite the increase in the employee cost, which was on account of strengthening management capabilities in Europe to cater to increased operations. The other expenses as a percentage to sales were up by 80 bps on account of variable cost for increased sales, professional charges for digitalization of supply chain project and additional CSR spends. In absolute term, the EBITDA was up by 34% from Rs.241 crore to Rs.322 crore aided by higher gross profit.

The depreciation was up by 12 crores due to capitalization of fixed assets during the second half of the last year. The finance cost was down by 26.5% as the overall debt was down by 150 crores and the fund cost was down by 116 bps from 7.67% to 6.52%. The Profit before Tax was up by 71% to Rs.220 crore.

The PAT increased by 73% to Rs.160 crore while the margins expanded by 185 bps to 6.6% supported by savings in finance cost. The Earnings per Share was also up by 78% to Rs.4.73 per share versus Rs.2.66.

On quarterly basis, the revenue was up by 24% from Rs. 984 crores to Rs. 1,218 crores on account of increased sales across geographies and business segments versus last year.

The gross margins also expanded by 252 bps to 29.8% due to change in product mix towards high margin products and impact of lower input costs.

The EBITDA margins also expanded by 140 bps to 13.1% versus 11.7% last year, despite the increase in the employee cost which was on account of strengthening the management capabilities in Europe to cater to increased operations and one-time bonus in US entity. The other expenses as a percentage to sales were up by 70 bps on account of variable costs due to increase sales. In absolute terms, the EBITDA was up by 39% from Rs.116 crore to Rs.160 crore aided by higher gross profits.

The depreciation was up by 7 crores due to capitalization of fixed assets during the last second half of the last year. The finance cost was down by 26% as the overall debt was down by Rs.150 crores and the fund cost was down by 150 bps from 8.4% to 6.9%. The Profit before Tax was up by 83% to Rs.109 crore.

The PAT increased by 64% to Rs.77 crores, while the margins expanded by 155 bps to 6.4% supported by savings in finance cost. The Earnings per Share was also up by 71% to Rs.2.27 per share versus Rs.1.33.

The company has generated significant cash flows, amounting to Rs.436 crores, driven by strong performance in 1HY FY21.

Now, I would like to update you on all the efforts taken towards the strengthening of the balance sheet of the company. The Return on Capital Employed has also improved by 422 bps to 18.6%. The normalized Return on Capital Employed on account of funds blocked in the fire insurance claim is 19.6%. Return on equity has also improved from 12.3% to 11.1%. The debt equity ratio improved from 0.86 times to 0.64 times as the overall debt of the company was down by 150 crores to Rs.1,124 crores on year-on-year basis. Long term debt to equity has reduced to negligible levels of 0.12 times from 0.15 times last year. This is to reiterate that majority of our debt is working capital debt which is required because of the nature of the business and our focus is to maintain that Debt to EBITDA ratio between 2 to 3x. The Debt EBITDA ratio for this half year is 1.7. Current ratio has also improved significantly to 1.79 from 1.59 last year.

Because of our continued focus on working capital optimization, our net working capital days has reduced by 5 days to 195 days in this half year versus 200 days last year. I will now hand over to Mr. Chandra for further business update of 1HY FY21.

Vivek Chandra: Thank you and Good Evening.

Last quarter we reported a revenue growth of 24%, coming from all segments of our business. Growth trend has continued in this quarter as well and we have closed our first half with a 24% revenue growth.

Growth continues to be broad based. The Basmati and Specialty rice segments of our business grew at a strong 20%, bolstered by the growth in demand, especially in our international businesses. Organic business grew by 82% versus FY20. New Product business has also continued to grow and now accounts for close to 2% of our revenue.

In the first quarter during the global lock down our wide distribution reach in all our key markets, ensured availability led consumption. This gave us many new homes who tried our brands for the first time. These new trialist homes have been retained, and they continue to buy LT brands, which has resulted in a good growth in our consumer facing business even in the second quarter, resulting in a first half growth of 20%.

In the first half of the financial year, US, Europe and the Organic business have been big drivers of our total growth.

Our US business has a revenue growth of 23% in the first half and also saw an expansion in its margins. In North America our brands are available to all consumer groups through distribution across different channels of the Indian and Middle Eastern ethnic stores, the club stores and the mainstream stores. Our business has grown across all channels and therefore to all ethnicities. Our flagship brand “Royal” leads based on accounts for more than half this group.

The Ready to Heat (RTH) product experience very strong trials in the first quarter and the business has continued its momentum to register a 162% growth in the first half versus a year ago. The ready to heat business under our own brand Royal, which is about 70% of the total RTH sales have almost doubled in the first half versus year ago.

The strong growths in our brand Royal are setting a strong platform for sustained growth.

RTH continues to gain new listings and new distribution in already listed chains and does well for us to maintain its business growth in the future. We are further driving more trial and consumption with the launch of new flavors to continue RTHs broad appeal across consumer ethnicities.

Our Europe business has also been performing well quarter-on-quarter both in terms of revenue and margin profile and has also been able to strengthen its balance sheet. The revenue for this half year was up 171% on a year-on-year basis and the business has delivered another good EBITDA positive quarter. Responding to the marketing and sales initiatives which started last quarter Daawat branded business has shown a good growth in UK in this quarter, leading the Europe consumer business to grow 92% in the first half of the year.

Our key markets in Rest of the World have continued strong growth momentum. Total revenue in the Rest of the World has also delivered good growth despite muted Ramadan sales in the Middle East and impact of almost nil HoReCa sales, as eating out was impacted due to staggered opening of the lock down in these markets.

Our India consumer business continues to see good growth and in first half small pack business has grown 7% resulting in 2% share gain in this quarter as reported by AC Nielsen. We continue to strengthen our share in modern trade in this quarter. As most supermarket chains resume business activity post lockdown.

HoReCa business continues to be very muted and this impacted the overall India revenue performance.

E-commerce has grown significantly and has doubled in first half versus last year. We have partnered with the leading e-commerce players to provide availability, visibility and promotions and have also expanded our listing in more e-commerce accounts both at a national and at regional level.

Our marketing programs continue to build the consumer business and focused on the consumer trend of health with marketing campaigns on brown rice and Daawat Sehat. Second was the trend of experiential cooking at home and Daawat’s marketing campaign promoted the relevant products for this trend, namely Daawat Biryani, and Daawat Saute Sauces.

We also focused on the topical relevant themes with very widely viewed and highly appreciated digital Daawat advertising on Raksha Bandhan, which promoted celebrations while maintaining lockdown norms.

Organic businesses also registered a very strong first half growth. Demand for organic products has been very strong from US and Europe as consumers move to safer and healthier food. This led to very good demand for the NBFL and organic business. Additionally, our expansion into soya meal business has also added a very robust and strong new stream of revenue in our business, resulting in an overall strong double digit growth in the first half.

In the first half LT has made good progress on its new product initiatives. Daawat Sehat, the fortified rice which has met with very good consumer response in its lead market of Delhi NCR was expanded to other geographies of North India. Daawat Cuppa Rice, which was launched last quarter and met with good consumer response is now being expanded to e-commerce and general trade in India and has also been put in test in international markets. Daawat Rice Saute Sauces was rapidly expanded specially into e-commerce to cater to the emerging need of consumers for convenience.

Kari Kari business which was impacted with the closure of supermarkets in the first quarter, has made a very smart recovery in the second quarter, and registered a growth of 204% in the first half versus last year. We're also starting to export Kari Kari to international markets on a trial basis.

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

Ashwani Kumar Arora: Thank you Vivek Ji.

Good evening and thank you for joining us on the call today.

My colleagues have shared the results with you. We continue to deliver on three strategic pillars, that is, growth, margin expansion, and strengthening of the financial metrics with objective to build a progressive, sustainable, profitable and growing business to create a value for all our stakeholders.

We were able to capture the share of increased category growth, with the combination of the strategy adopted by the company and efforts of our people in implementing them. Along with investment in our strong brands, distribution network, supply chain and new products based on the changing consumer trends.

From the industry perspective, on the demand side, we expect some decrease in the overall Basmati exports from India due to Iran problem. But we are witnessing good demand from other geographies. LT Foods as a company is present only in a stable and growing economy and doesn't have any exposure in Iran.

On the other side, the procurement season is underway and the market is witnessing some dip in pricing of few varieties due to slowdown in demand from Iran. Although the prices of most of the other varieties are firm and we expect the average prices to stay same.

LT Foods along with its strong brands farm-to-fork approach, robust distribution network supply chain and people has demonstrated the strength of the business in COVID times.

We are positive on the outlook of the business. The stocking up of the previous quarter will impact the coming month in international market and in organic business. However, with the opening up other countries, this may be a partially offset by the opening of out of home consumption.

Overall, and on the strength of our core strategies and new products, we remain positive to continue to see growth versus year ago.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Just a few questions, in the initial opening remarks Monika mentioned about other expenses, there are some professional charges on digitalization, etc. So, can you clarify if there is onetime expense in that or is it part of a routine?

Ashwani Kumar Arora: The CSR and this digitization process is a one-time cost, but the variable cost will continue.

Amit Doshi: What could be the portion because there is a significant, approximately year-on-year there's a 40% jump?

Sachin Gupta: No, if you look at the other expenses, in the legal and professional charges there is an increase of 4 crores and in the CSR activities there is an increase of around 3 crores and the rest is because of the increased sales.

Amit Doshi: Okay. On the employee expense mentioned that in the Europe some strong management team has been appointed. So, are European operations have already been in place for quite some time. So, any specific need of new strong team or some strategic changes if you can share on thoughts on that?

Ashwani Kumar Arora: So, you know already we have started this operation two years back and we have reached a sizable business now and we have a plan to further grow our European business. So, based on that plan, we have structured the new team wherein we have hired a new Managing Director three months back to strengthen the team to take over the growth plans.

Amit Doshi: Okay, great. Anything on the increasing the capacity because I can also see some Rs,47 - 48 crore of capital WIP on the consolidated balance sheet?

Ashwani Kumar Arora: So, some are maintenance expenses, but the major expansion has gone in all geographies. In India, we have just set up three megawatts Cogen plant, that's the green energy. And we have done some investment in warehousing. For Europe and America, we have invested in the packaging facility because the smaller pack business has grown and had reached maximum utilization of the capacity.

Amit Doshi: Okay. You mentioned that the paddy acquisition has already begun, and the prices are low in variety. So, what would be our strategy considering the prices are lower and we are looking at a stronger growth going forward?

Ashwani Kumar Arora: So, we plan to cover our requirements. As I said, some varieties are cheaper and majority of that goes to the Middle Eastern countries. But some varieties are a little stronger in terms of prices, but we plan to cover our requirement.

Amit Doshi: So, what would be the year-on-year fall? We read news reports of some 20%, 30%?

Ashwani Kumar Arora: No, if you see the average pricing will remain the same, as I said.

Amit Doshi: Okay, so nothing much on that?

Ashwani Kumar Arora: Nothing much on that, there is one variety that has gone very low.

Amit Doshi: Okay. And sir about increasing in the market share. So we grew our market share by 2%, as per the Nielsen data. So that strategy, which Vivek mentioned about the small pack, is that something driving or anything else apart from it?

Vivek Chandra: Yes, Mr. Doshi when we report market share which is AC Nielsen, AC Nielsen only picks up the consumer facing packs, which are primarily the small packs. So they are therefore interlinked when we grow our small packs, that's what gets also reflected in the share.

Amit Doshi: Okay, got it and you mentioned about e-commerce is growing strongly what would be our overall contribution of e-commerce in our sales?

Vivek Chandra: The e-commerce when we say that, you have to recognize that before e-commerce was only accounting for 3% to 4% of the total grocery purchases. Now that's gone up to close to 7%-8% of our total business in India.

Amit Doshi: Got, it. Sir there is a mention about the change in the dividend policy and whereby you plan to pay out 20% or 30% of the profits that's really appreciable. Just wanted to know, would this be done on a quarter-on-quarter basis because considering that Q2, you have already announced the interim dividend?

Ashwani Kumar Arora: So that that will be on half yearly basis

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

Sarvesh Gupta: So one question sir, so this quarter our growth was similar to last quarter and this H1 also, we have been able to deliver 24% but last year in Q4 we had seen good acceleration in the business. So, my question was that for the remaining part of the year, which is the second half, do we expect a similar sort of growth on Y-o-Y basis or do we expect slightly lower growth number?

Ashwani Kumar Arora: So on Y-o-Y basis we are looking for growth going forward as well, so we will definitely grow over year-on-year.

Sarvesh Gupta: Yes, but is it similar to what we have achieved in the first half of this year?

Ashwani Kumar Arora: It will be a little muted as some impact of stock up has happened, especially in the organic business. But that may be compensated as we are expecting the out of home consumption to grow in India based on the October month's sale. If this is going to sustain then we may make up here.

Sarvesh Gupta: Okay, sir. And secondly, what my question was on the HoReCa side, are we seeing just to give you a sense, I myself in this entire lockdown for the first time we had meal outside of our house in the last week. So, are you seeing some recovery now happening, because most of the restaurants and all are open now?

Ashwani Kumar Arora: Vivek will add to this, but mainly consumption is two types, one is fine dining restaurant that for sure is not opening up and there is no consumption happening, but in B class town, there are Biryani Corner and all these things that have already opened, and we are seeing the demand.

Sarvesh Gupta: We reached like, 30%, 40% of usual in the HoReCa segment, or where are we right now?

Vivek Chandra: It's just building, because when we say HoReCa one big part of that is also to do with catering, and the big catering events whether they are weddings or parties, they are yet to start so there's a fair amount of that consumption, which has to come on stream. What we're seeing now is some eating out has started and some takeout is probably at the levels where it used to be. So HoReCa at an overall level you could say that it will be 30%, 35% but it fluctuates on a quarter-to-quarter basis, this quarter usually is a very strong quarter for weddings and catering and parties, and we will just have to see how all of that comes back.

Ashwani Kumar Arora: So, Sarvesh, just to sum up so if your question is how much we will come back, we will not come back to the pre COVID level. But, if we compare to the last six months based on our October sales, we are expecting as what Vivek said.

Sarvesh Gupta: Okay. And sir final question is, I was looking at your product wise revenues. Now, on the rice part we have displayed a steady performance as last quarter, but I was expecting a little bit more growth on the organic and the new product side from a quarter-to-quarter perspective given that they are small and these are new products, which are also related to the health. So, on the organic and the new product segment sir how are we looking at this? Because we saw some sort of slowdown in this quarter versus last?

Ashwani Kumar Arora: Sarvesh if you see our organic business that has grown by 79% on year-on-year basis and our convenience part of the product that has grown by 40%. Hope that answer your question.

Sarvesh Gupta: No, I was saying that because these are new products. I was hoping for some acceleration from quarter one to quarter two and then quarter two to quarter three and so on. So are there some seasonality aspect in this or how are we looking at?

Vivek Chandra: Actually Sarvesh in all our new products if I was to talk about them first, quarter two has come out stronger than quarter one, the reason why you see the numbers as you do it is because almost 65% - 70% of our new products is made up by the US ready to heat, ready to heat had a very strong quarter one. But if you see Kari Kari, Daawat Sehat, Daawat Rice Saute Sauces, they are all significantly higher than a quarter one in quarter two. So, when you look at organic, organic had an almost doubling of its business in quarter one, and it has sustained that in quarter two. So to that extent, you're sort of seeing the numbers to be the same, but that's creditable that it has held a very strong number.

Sarvesh Gupta: Specially I must congratulate you on paying down so much of debt and ROE has also crossed 20%. So, around that number very good performance and all the best for the coming quarter.

Moderator: Thank you. The next question is from the line of Amit Vora from TCS Securities. Please go ahead.

Amit Vora: My first question is on the absolute ad spends what would have been the absolute ad spends for the quarter?

Sachin Gupta: For this quarter the ad spend was 22 crore.

Amit Vora: And what would that number be for the first half compared to last year first half?

Sachin Gupta: So, in this first half we have made a spend of 40 crores, last year it was 38 crores.

Amit Vora: And any reason for the effective tax to go up, we have paid almost close to 35 crore on 109 crore of PBT any reason for that?

Sachin Gupta: There were certain disallowances, which were in this quarter. So we have made a provision for that.

Amit Vora: But, overall for the full year we will be in the 25% tax bracket?

Sachin Gupta: Yes, overall if you see the half year numbers, it is 26%.

Amit Vora: So we will continue to be in that bracket for the full year is what my?

Sachin Gupta: Yes.

Amit Vora: And are you revising your guidance upwards, I know you've already mentioned about that indirectly. But looking at the way we have grown in first half, assuming things are not going bad are you revising your guidance upwards which you had mentioned in Q1?

Ashwani Kumar Arora: Amit this question is about the guidance from that H2 you are talking about?

Amit Vora: Overall sir, because we have already grown 23%.

Ashwani Kumar Arora: If you talk about on a full year basis we will keep our growth momentum.

Amit Vora: Okay. And one last question if I may squeeze that in, so once the HoReCa is catching up and things get back to normalcy do you see that the branded business to get impacted and to slowdown in the momentum in that particular aspect. The way we have grown in the branded business is phenomenal. So, do you see any risk to that once HoReCa opens up that business to get impacted?

Vivek Chandra: They are actually two separate business and firstly I would like to say that we run our HoReCa business also with our brands. And therefore, that allows us to take a little bit of a premium because a brand Daawat Chef Secrets is really made for HoReCa. The momentum that we are seeing is in our small pack business, which goes to the consumers. And they run on different strategies, they run on different investments and if HoReCa comes on stream, it will only add on to what we are doing with the consumer side of our business.

Moderator: Thank you. The next question is from the line of Dushyant Mishra from SageOne Investment. Please go ahead.

Dushyant Mishra: I just wanted to know if the shipments to Europe were, they pesticide free varieties and how much was the exact quantity that we shipped to Europe?

Ashwani Kumar Arora: Okay, so at the moment, I can't give you the exact quantity how much we have shipped to Europe. So you can write it to our Investor Relations department, we will let you know.

Dushyant Mishra: Okay, sounds good but this was just pesticide free right?

Ashwani Kumar Arora: Yes, one has to sell a compliant product.

Moderator: Thank you. The next question is from the line of Vipul Kumar Shah from Sumangal Investment. Please go ahead.

Vipul Kumar Shah: So, I just wanted to know why our US business has substantially de-grown in this quarter. So any particular reason sir?

Ashwani Kumar Arora: Actually in the US business has grown on quarter-on-quarter against last year, but quarter one was an exceptional because of COVID s so a lot of stock up happened. So this has normalized but we are we are growing year-on-year there. Our first half if you see we have grown by around 20%.

Ashwani Kumar Arora:

Vipul Kumar Shah: Sir I am talking about quarter-to-quarter from 792 to we have de-grown to 674 in US. In tonnage also from 75,000 tonnes to 68,000 tonnes.

Ashwani Kumar Arora: This was not only the US, this is the total.

Vipul Kumar Shah: Sorry, it is international, I correct myself it is total international revenue, yes.

Ashwani Kumar Arora: So, international business as I said, in the quarter one everyone knows that because of the COVID stock up has happened and that's corrected, but overall we have grown year-on-year so we have increased our consumer base, we have increased our customer base.

Vipul Kumar Shah: So, my simple question is, we have not lost any market share in US in international business in last quarter?

Ashwani Kumar Arora: No, our market share is very well intact.

Vivek Chandra: It will be interesting to see the fact that after a very big quarter one, quarter two is still holding at about the levels which some of the best quarters in the previous times that you would see. So, whatever went and is gone into consumption and we've returned to some higher level of consumption. As we said, because of our superior distribution and product supply capability, the extra stock that went into quarter one in addition to stocking which was done at both consumer and trade level, it also got us new stores and new consumers and all of that has translated into a holding of a consumption at a higher level than pre-COVID.

Vipul Kumar Shah: Okay, sir that helps and my second question is sir, what do you think this impact will be on our business due to the recent changes by Union Cabinet in this farm loans will it have any impact on our business?

Ashwani Kumar Arora: So, it will have a positive impact in the long run.

Vipul Kumar Shah: Can you elaborate a little in detail sir?

Ashwani Kumar Arora: Yes, so because now with this new law we can directly buy from the farmer. So, there is no need of going to Mandi and getting an option that will further strengthen our sustainability program. And we are as a company excited on this law and as I said it will have positive impact in the long run because immediately the things will not change but it has a positive impact, both for farmer and for us.

Vipul Kumar Shah: So, already you have started buying directly from farmers sir?

Ashwani Kumar Arora: Some quantity we have already started.

Vipul Kumar Shah: So for those buys will you save commission?

Ashwani Kumar Arora: That's very nominal, that's because this is a new law and you can't change the way of buying in 15 days or one month time, as I said it will have a long term impact, not immediate.

Vipul Kumar Shah: And sir lastly status on this our court case against insurance company any update sir?

Ashwani Kumar Arora: Because of this COVID times the courts are closed and unfortunately, we are not able to speed up the case. Let's see, when courts open up and we are expecting when the courts will open up, we are expecting within six months, the first verdict will be out.

Vipul Kumar Shah: Okay, and lastly sir can you give the figures for our European business turnover and EBITDA for this quarter if that is possible?

Sachin Gupta: The turnover for this half year was 364 crores and EBITDA is 21 crores.

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

Resham Jain: So, a couple of questions, so first is if we just look at the margins, we have done very well on the margins and also at the EBITDA level, in the first half. Do we feel that this margins can be sustained now, because our objective was to improve margins over the last two, three years. And now we are actually seeing that benefit coming through. So, do you think that this margin can be sustained 12.5% to 13%?

Ashwani Kumar Arora: Resham we are very confident on that.

Resham Jain: Okay. So, my second question is, the other gentleman also asked this question, on the mandi charges so, has the mandi charges come down already in the state of Punjab and Haryana or not yet?

Ashwani Kumar Arora: Yes, in Haryana they have reduced the mandi to 3% and in Punjab to 2% and in Madhya Pradesh from 1.7 to 0.5%.

Resham Jain: Okay, so that's what percentage of your procurement cost roughly is it like?

Ashwani Kumar Arora: Same as, earlier it was on an average of about 3% now, it has come down to roughly 1%.

Resham Jain: Is it 2% benefit on procurement cost is that right way to look at?

Ashwani Kumar Arora: Yes.

Resham Jain: Right. And sir, my second question is on this freight charges, because you have a very large exports, and the overall logistic cost has gone up significantly for exporters, are you also seeing the same thing at your end?

Ashwani Kumar Arora: Resham yes, you have heard it right. The logistic costs have gone up, but we are fortunate we have a long term contract with the shipping line for full year basis. We will have a very small impact in some market like Europe and America, we have a long term contract. So some market we don't have a contact, there we will have small impact. The streamer freight is just roughly up by 1.5 times. Because more export and lower imports that has created a supply gap of containers and the prices of the freight has gone up.

Resham Jain: Right. And sir just one last question, we have launched these multiple products in the new product development and is growing fast on a smaller base right now. 5 product lines roughly. And we have seen in a lot of other FMCG companies that the new products are launched and then at some point of time, they didn't do well, and the products are pulled back from the market. So, out of this five different products, including fortified rice, Cuppa rice, what is the philosophy of giving a chance to all these brands individually in terms of growth and what kind of investments you would like to do. Because I'm sure initially they will not make money for you, but till what time you will lead this brand and invest in this brand?

Ashwani Kumar Arora: Sure. Resham, I will ask Vivek to answer this question.

Vivek Chandra: See all the products that we have launched they are firstly coming with a big research around the fact that they are relevant for the consumers. So, Sehat, or Fortified rice, or Rice Saute Sauce, Cuppa Rice, Kari Kari, etc., they all meet a very distinct consumer need, which is currently not being serviced by products in the market, some of these we are pioneering. We then take them into a limited geography so that we can further validate without having to do very heavy up front spends. And that allows us to read the market, to modify and keep the product there into change, modify it, so that it is ready for expansion as we have just done with Rice Saute Sauce and Kari Kari and we are doing it right now with Daawat Sehat, so what I'm really saying is that, we burn as we earn rather than do a very big upfront spend either in A&P or in CAPEX and really we can therefore afford to keep these products in the market and make them work.

Ashwani Kumar Arora: So, Resham I hope you got an adequate answer. So, fundamentally three principles. One is, there should be consumer need, and the second and third is that we should be able to leverage our brand equity and distribution. And fourth is, of course you know, we have a future cash flow. So, that should justify the business case.

Resham Jain: Right sir that's very helpful. And just to extend this question further, what is your let say next three to five years plan on this product they are currently less than 100 crores but the way, as you mentioned the need of the market do you have any internal plans of how big this whole basket can become?

Vivek Chandra: So, we are targeting for this to be around 12% to 15% of our revenue and these are all brands that come with a superior margin profile. So what we're looking at, you could say in this range of about 12% in five years' time of our revenue should come from new product initiatives.

Moderator: Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda: My question is, Europe is again going for lock down and US also COVID cases are surging. So whether in next two quarter, the third and fourth quarter, can we see again a momentum of Q1. So, whether we will be able to beat Q2 numbers in Q3 and Q4 as well as far as international market is concerned. And my second question is, in India how our e-commerce playing, how much sales we are doing and what is the traction over there?

Ashwani Kumar Arora: So the first answer as I said, the H2 we are expecting growth year-on-year, whatever the new customer, new consumer we have acquired and we are confident to redeem them. So we will have a little bit stock up, or the slowdown in little bit in organic business, regarding the answer on the COVID that we have to see how it behaves, but we are ready for that as well.

Sudhir Bheda: So, whether we will be able to see growth in Q3 over Q2 in international business due to the development happening?

Vivek Chandra: One thing it is a little premature as well as presumptuous for us to predict how lock down in various places will happen, how long they will be, what impact they will have and we are all praying and hoping that actually, things get better. But it's very difficult. But one thing which is there is that the first quarter had a very strong inventory buildup, even at a trade and market level. Perhaps that kind of things we may not see. But this is all in the space of being speculative. So as Ashwani rightly said, we are prepared for any eventuality, and we will see how things play out. The second question you had was on e-commerce. E-commerce has started to become much bigger. Consumers have started buying more grocery online, they've discovered that, and we do believe that this is going to stay at higher levels. In markets like India, we believe almost 14%, 15% of sales may come from e-commerce. E-commerce as we have worked very closely with all the big players as well as we've expanded to regional chains. And e-commerce is now about 10% of our total revenue in India.

Sudhir Bheda: And sir my last question is, I wanted to know how the US market is panning out right now, whether we are able to increase our market share from 57% to maybe more than 60% how things are going over there?

Ashwani Kumar Arora: We are a strong brand there and are growing. Our aspiration is to grow our market share and we are working towards that.

Moderator: Thank you. The next question is from the line of Anup Ramachandran from A&P Advisor. Please go ahead.

Anup Ramachandran: My question is with respect to Iran issue. I know we don't have any exposure towards Iran, but Basmati industry as a whole as in the India's production, So, far as I know, Iran consumes like one third, right?

Vivek Chandra: That's right. It consumes roughly whatever, the total export is 25% to 30% goes to Iran.

Anup Ramachandran: Correct. Considering the embargo on Iran, what is the management view on how far this restriction for export to Iran will impact the Basmati industry as a whole and as far as particularly LT Foods, as far as the prices will there be more competition in other geography or will there be a supply glut other geographies like that?

Ashwani Kumar Arora: Anup based on the history, now Iran is consuming Indian Basmati for the last 13, 14 years and if you have seen even because of these problems, they are able to import Indian Basmati and we are expecting that the same will happen, may not be the same quantity they used to import. They find some other ways to import, they have their other mechanism to import from other countries. So, it will definitely go with lesser quantity and as far as impact on the LT Foods is concerned, fortunately this happened, as the industry has got mature and we understand the trend how Iran is going to happen. That's how we take the position of our raw material based on the trend. So, fortunately for the last two, three, four years it has not impacted LT Foods and we are suspecting that with a better procurement strategy and understanding of the business, we will be able to manage this fluctuation in Iran business. I hope Anup that answered your question.

Anup Ramachandran: Yes, but I know, it's a very difficult thing to answer. And the second question is with respect to what's the total debt on books as per the end of quarter two?

Sachin Gupta: The total bank debts is Rs, 1,124 crores.

Anup Ramachandran: And what is the average cost of debt?

Sachin Gupta: That is 6.5%.

Anup Ramachandran: I think the debt will start increasing by Q3 right since the procurement starts from Q3 and Q4 right?

Ashwani Kumar Arora: Yes.

Anup Ramachandran: This equation of debt to EBITDA that the company is targeting 2 right, through ratio?

Ashwani Kumar Arora: Between two and three.

Anup Ramachandran: I know you guys require lot of money since you guys are scaling up which is doing extremely well. But eventually my only suggestion is, that the company target something at an absolute number, because, I am a little bit cautious, or a little bit worried but as a company progresses it's quite well, as we generate more cash and more EBITDA. And since we are scaling up and we have this ratio, the debt portion may also go up since we need more money for expansion. Eventually, I feel that the management should target on some absolute number than this ratio.

Ashwani Kumar Arora: Thank you Anup for your suggestion and advice, internally that's where we are working towards, that we should target the maximum borrowing we should have in the company. And we have a good plans how we will manage our cash flow and business and therefore the borrowings, although we saw a working capital related borrowing and not a long term borrowing, but we are conscious about that and good suggestion from your side and thank you.

Anup Ramachandran: Okay, and the last question we will end this here. Since we are also entering into this e-commerce sector. Is there any particular concern that is there any particular focus on the company as far as the strategy in e-commerce is concerned, because mostly in e-commerce the ratings and reviews, drive a major role in sales, and any quality issues are being highlighted with the wrong impression of product and all that get a lot of traction in e-commerce sales. Is company focusing anything in this aspect?

Vivek Chandra: What we do there is, ultimately whatever are the reviews and ratings, are going to be a function of the product that we are supplying, it is to do with the quality and one of the under lying and a very, very sacrosanct philosophy that we follow is a consistent quality of our product. Now, as a result of that, the ratings that we have on all the sites, they are actually pretty good, they are in very good space. So, we are happy to see them because they do reinforce our drive to give good quality consistently in every single bag that we sell.

Anup Ramachandran: Okay. But is there any added strategy or focus for this particular aspect in e-commerce sales from the company, any strategy to drive this?

Vivek Chandra: There is a channel strategy but there is never a strategy to manage reviews and ratings.

Anup Ramachandran: Not directly manipulation, as in some focus towards it?

Vivek Chandra: No, none at all, the focus is on the product and the focus is on the consumer and how the consumer behaves on this channel, say as compared to Kirana and what we will do as a company to target that. So, ratings and all of that are a follow up, directly, indirectly there is nothing that we do for them.

Anup Ramachandran: No, I got that, but is the company keeping a track on how it's doing from this?

Vivek Chandra: It's like a consumer feedback of course, feedback should always be honored.

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

Amit Doshi: Just on the Cuppa Rice, sir what do you think the market size could be considering that it would be like Nestle or many ready to eat rice or noodles, etc. So do have something in mind as to what would be your, target industry size, or what could be any number or something on that front?

Vivek Chandra: A whole set of products that we have launched right now are catering to consumers need for convenience. Now, consumers are looking for convenience in eating, they're looking for convenience in cooking, they're looking for variety, and these have all got very accelerated and exacerbated during the lockdown when people have to stay at home. So Cuppa is fitting in this space, and there is a space, which is both in home and out of home. This market is growing at very, very high speed. So, anything that we say right now is the fact is that this is a very fast growing and fast evolving market, we just see this whole space of convenience, eating, eating healthy, eating tasty, to grow exceedingly rapidly and becoming big. So today's market sizes are really not that relevant.

Amit Doshi: Okay, and when I asked about the strategy of this, whether Cappa Rice or any other this new product portfolio, since you target around 10% to 15%, as an overall contribution to your business, of course, in the next three to five years period, I believe so. Then, what my concern or my question is coming from is that these products really require a lot of marketing initiatives, and a lot of spend, etc. So since we've started improving on our margins on our core business, which is the stated target of the company, we know there could be, spend on the new products, etc., because when you say 10%, we are talking about approximately 20 times the current contribution of this new product, and that can require significant marketing expenses, as well. So, on the margin front as well as this market adspend front, what kind of strategy do we plan to grow this business to those 10, 20 times from the current levels?

Vivek Chandra: See, there is absolutely there should be no doubt whatever we do, we will do fiscally responsibly. We have said that the three pillars for us, one of them is margin expansion. Also, all the new products have a superior return profile. So as they grow, and as they become bigger part of our business, they are actually going to enhance margin. There are different approaches, when we say that there is a lot of expenditure, previously these expenditures were more in terms of awareness building, but in today's digitally connected world, these can all be achieved in very different ways, which don't require that level of investment, which new products needed in the past.

Amit Doshi: Okay, fine. And one of the question that I actually haven't had in the last quarter and this quarter as well is repeated so, the pace at which our overseas business is growing is far ahead than the domestic business. So, can you share some thoughts as to what's stopping us from growing in domestic market?

Ashwani Kumar Arora: As we have already said in our earlier comments, and I will just expand on that, the consumer facing business in India is growing at the same robust rates as the rest of our business in the world. What we are seeing in India, as we said, is the impact that the HoReCa business which is more sizeable in India as compared to international we do more business in HoReCa here, that is impacting the total growth numbers that you see, but if you were to just split out from it the small pack consumer facing business, India is registering the same kind of gross as we are in any other part of the world.

Moderator: Thank you. The next question is from the line of Vedant Khaitan from Konark Investment Agency. Please go ahead.

Vedant Khaitan: My question was, since our goal is to expand our margins, where do you think the next bit comes from, is it from cost savings or from increase in the price of final products?

Ashwani Kumar Arora: So, Vedant this is a mix of our margin expansion strategy is improving the sales of the higher margin product and bring efficiency that will be mix of two things, product mix and efficiency in buying and other things.

Vedant Khaitan: Okay, now I have a second question, you said that our interest that we're paying on the debt is around 6.5%, but also out of our profits we are looking to give 20% to 30% of dividends. So, wouldn't it be more prudent to not give a dividend and instead reduce debt?

Ashwani Kumar Arora: We are not over leveraging ourselves, we will remain in the range of 2-2.5 in terms of our Debt EBITDA ratio. We have a well-defined Capital Allocation policy also mentioned in our presentation wherein whatever the free cash flow we will generate, we have defined how much of it will be utilized in the growth of the business, how much for CAPEX, how much for debt repayment and how much will be distributed as dividends. Based on our revised dividend policy our range for dividend distribution is 20-30% of profits.

Vedant Khaitan: Okay, sure. And the third question was in our financial statement, you said something about LT International being divested to a promoter group holding how does the price for that come about, the consideration it was Rs.2.6 million or something?

Sachin Gupta: Yes, it is Rs.26 lakh that has been done. So, it has no operations and it is being sold off to the promoters at a value of 26 lakhs and at arm's length basis.

Ashwani Kumar Arora: This is a part of drive to rationalize our structure and we have done it to promoter for rational reason we don't want to close LT in name. And we said we will as a promoter we will not do any business in this company. It will be a shell company.

Moderator: Thank you. Ladies and gentlemen due to time constraints, that was the last question for today. I would now like to 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 and stay safe. Thank you so much.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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