



“LT Foods Limited Q3 FY16 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and welcome to LT Foods Limited Q3 FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the Company which are based beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantee of future performance and involve risk and uncertainties that are difficult to predict. As a remainder, all participant lines will be in the listen-only mode. 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 ‘*’ and then ‘0’ on your Touchtone Phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwani Arora. Thank you and over to you, sir.

Ashwani Arora: Good morning, everyone. A very warm welcome to our Quarter Three FY2016 and Nine Months FY2016 Earnings Conference Call. Along with me, I have Mr. Som Chopra - CFO and Ms. Monika Jaggia - VP Finance and Strategy and also members from Strategic Growth Advisors, our Investor Relations Advisors.

As this is our maiden call, I would start by giving a brief introduction of our company LT Foods Limited. We are known world over through our two flagship brands Daawat and Royal. Royal, enjoys the leadership position among branded basmati rice in USA with over 40% market share. Daawat is a leading brand in India with market share of approximately 18% among branded basmati rice players.

Let me begin by talking to you through our journey which began in 1978 with the setting up of our first rice mill. Over the years we have evolved from rice traders in 1978 to a branded specialty food company that we are today. With the launch of Daawat brand in 1980’s the company started moving away from private label business towards majority of our branded business. From the late 90’s to early part of the new millennium, the company increased focus on expanding the branded proposition and establishing a presence across the entire value chain that is value to premium product. During the same time, Daawat was launched internationally and as of today we are present in more than 60 countries.

Another key milestone in our journey was acquisition of Royal brand from Kusha Incorporation in the late 2007. Since the acquisition the revenue of that company has increased from \$35 million to \$130 million showcasing our strength in transforming and capitalizing the brand strength. We also launched the value added staples through our brand Devaaya with a proposition of “Safe bhi, Saaf bhi” sourced responsibly which is in line with present need of the consumer.

Over the years we have build a sustainable business model and strong company by bringing professionals in all the key businesses and departments and empowering them to run their business units professionally.

In our journey so far we have also associated ourselves with the top notch professional firms like McKinsey, EY for consultation, improving and optimizing productivity, procurement, packaging and growth opportunities.

Now coming to our manufacturing units, we have five state of the art manufacturing units in India with a total capacity of 82 metric tonnes per hour. We have strong presence in major rice producing region in the country. We also have two packing unit in U.S. to cater to that market with focus in the Middle East to tap the growing potential of branded basmati in this geography.

Our integrated business model spans entire value chain right from farm to fork and has remained the back drop of our sustainable growth over recent times. In this theory we focus not only on the forward integration but also backward integration. Our idea is to work in tandem with the farmers at the back end to enable them to produce safe products and improve their productivity for the sustainability. It is this access and control over the entire value chain that enables us to deploy best level of quality assurance thereby ensuring consistent product quality in line with the brand expectations.

In-house expertise to determine paddy quality helps us to optimize procurement while modern milling facilities and packaging plants deploy global best practices. Our steady and sustained focus on creating a strong distribution network has led to brand gaining prominence in major part of the country.

In India alone our brand features at more than 110,000 retail outlet and reaches 93% of the towns with over 2 lakh population. We have access to more than 2500 modern trade stores, 121 hypermarkets, 298 supermarkets and 1462 mini markets making Daawat a widely trusted brand. We are the first rice company to launch quick cooking brown basmati rice in India which is full of fiber and low GI and we have approximately 70% market share in this category.

Our distribution and marketing investments are all targeted towards creating a robust brand with a strong impression for product quality and the finest. Our brand campaign featuring dual ambassadors the legendary superstar Mr. Amitabh Bachchan and celebrity Chef Sanjeev Kapoor, helped us further increase brand recall which had led to the growth of our premium products.

Daawat ranked the best in terms of consumer perception as the finest basmati on quality parameters such as aroma, taste, and grain separation. As regard to the future growth of the Company, I would like to reiterate our three pillar approach; the first is to strengthen our core business and keep investing in building our brands Daawat and Royal. We intend to leverage this existing brand strength by introducing products across spectrum and introduce products at different price points. Second, we intend to continue our geographical expansion in new

territories and also widen our hold in existing market this will enable us to grow our business. Third, to diversify in India and our diversification approach is twofold in which one is to how we can increase our distribution reach and the second is how we can improve our bottom-line. We also see strong growth potential in organic foods, hence we plan to launch organic product at B2C level through our brand ECOLIFE. The organic products already have seen increased acceptance globally due to the perceived positive health aspect and also offer improved margin compared to traditional product.

We plan to launch organic product on B2C basis by financial year 2017 in both India and USA. Also very recently, we have initiated a dialog with DSM Nutritional Products to introduce fortified rice as new offering in the health range.

Before I hand over the call to Mr. Chopra for the financial detail of the quarter I would like to inform you all about the fire accident that has occurred in 2014. This fire had resulted in the loss of stock of raw material worth Rs.180 crores, the stock was fully insured. The Company has filed an insurance claim with the insurance company for Rs.190 crores, the said claim has been unfortunately repudiated by the insurance company on contestable grounds. Based on legal advice, the Board of Directors of Daawat Food Limited has decided the company should strongly challenge the order passed by the insurance company in various from as determined by the lawyers, the management is very, very confident of successful recovery of this insurance claim and it will not affect day to day operations of the business of the company.

With this I would now request Mr. Chopra to present result for the quarter 2016 and nine months 2016. Thank you, everyone.

Som Chopra:

Good morning and very warm welcome to everybody. I believe you must have had an opportunity to see our results and the presentation that have been circulated and uploaded on our website. I would now present the results for the quarter ended December 31st, 2015.

Revenue for the quarter was Rs.726.8 crores, as against Rs.709.2 crores registering a growth of 2.5% on a year-on-year basis. EBITDA for the quarter came in Rs.76.7 crores, as against Rs.62.9 crores suggesting an increase of 21.93%. EBITDA margin was 10.55% which is an improvement of 170 basis points over last year. PAT for the quarter was Rs.18.5 crores, as against Rs.11 crores suggesting an increase of 68% on year-on-year basis. The PAT margin currently stands at 2.55% which is an improvement of close to 100 basis points over last year.

Now coming to our results for nine months ending 31st December, 2015. Revenue for nine months stood at Rs.2,173 crores, as against Rs.2,063 crores registering a growth of 5.31%. EBITDA for nine months came at Rs.263.97 crores as against Rs.221.62 crores registering a growth of 19.11%. EBITDA for nine months stands at 12.15% as against 10.74% which is registering a growth of 141 basis points. PAT for nine months was Rs. 72.8 crores as against

Rs.54 crores suggesting a growth of close to 35%. PAT margin for nine months stands at 3.35% an improvement of 73 basis points over last year.

Now on to our consolidated balance sheet. As on December 31st, net worth is at close to Rs.580 crores and total debt is at Rs.1,621 crores as against Rs.1,730 crores during last year of same period. The company has been able to reduce debt by more than Rs.110 crores in spite of funds blocked under insurance claim. We are able to reduce this debt through optimum utilization of working capital, overall efficiency and control. Cash and bank balance is close to Rs.30 crores. Inventory for the period stands at Rs.1,430 crores and debtors at Rs.295 crores.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Vinod Malviya of Florintree Advisors. Please go ahead.

Vinod Malviya: I wanted to understand the gross profit, so your realization has come down both Y-o-Y as well as sequentially but if I look at your gross profit, this has actually improved sequential so, is it like your raw material price have come down more than your finished goods prices. Just wanted to understand what is the reason for improvement in the gross profit margin for this quarter.

Ashwani Arora: Yes, this is only through the strength of the brand that we are able to achieve good margin, we are consistently investing behind the brand and now we are in a position where we can earn better margin. Certainly, the commodity prices are down which is also helping a bit but the strength here is of the brand.

Vinod Malviya: So can you explain like you know relative to the non-branded basmati, what your prices would have been for the quarter?

Ashwani Arora: Yes, as against non-branded our branded prices are 15% higher so... Yes.

Vinod Malviya: Okay. And what was it in the previous quarter that is September end quarter?

Ashwani Arora: Yes, it is, we are maintaining this brand strength which is giving us an extra 15%.

Vinod Malviya: Okay. And I see that there is a lot of increase in the purchase in trade for this quarter so can you explain like what is this purchase in trade mostly for?

Ashwani Arora: Yes, we have basically, during this year we got one big business from Iraq through tender where we did 40,000 metric tonne of that business and partly 1% or 2% business is of non-basmati business where we are doing with the strategic partners so, that is the only two pieces. Though Iraq business is 50% to 70% is our through brands but 20% to 30% is through traded

business so, this trading is the strategic business only, there is nothing trading per say anything.

Vinod Malviya: Okay. And sir, one thing on the organic business so, can you explain me what was the growth for this quarter and previous quarter?

Ashwani Arora: Yes, the growth consistently has been in the range of 25% to 30% and we are maintaining this momentum.

Vinod Malviya: Okay. And sir, last question on the prices, what is your outlook on the basmati prices because they have really come down so what do you expect going forward about the basmati prices.

Ashwani Arora: So at present, you know the prices at we believe that the very bottomed prices so, we are expecting to firm up the prices.

Vinod Malviya: Okay. And will it be fair enough to assume that since you would be procuring paddy at lower prices this quarter and even if the same prices maintain in your branded basmati the next year margin should be even better than this quarters margin.

Ashwani Arora: That is what we are expecting.

Moderator: Thank you. Our next question is from the line of Gaurav Punjabi of East India Securities. Please go ahead.

Gaurav Punjabi: Just wanted to understand one thing our other expenses this quarter as compared to last quarter have jumped more than 50% so what would be the reason behind that?

Som Chopra: Yes, as I told in my earlier call as well that there was one Iraq business so, mainly on account of that there will be a major chunk.

Gaurav Punjabi: It has nearly jump from Rs.80 crores to Rs.125 crores...

Ashwani Arora: Yes.

Gaurav Punjabi: Majorly because of the Iraq business?

Ashwani Arora: Yes, partly it was in Q3 and partly it was in Q2, Yes.

Gaurav Punjabi: Okay. So tax rate has been a little higher in this quarter so, probably 38% what do we expect going forward this going to be normalized probably at 33% for the full year?

Ashwani Arora: You see in our case we have one U.S. subsidiary so there are basically two rates, one is the state, one is a FED rate so, at U.S. certainly our rate is higher and India our effective tax rate is

close to 29% to 30%. Certainly we are working to bring some optimization and efficiency in the effective tax rate there.

Gaurav Punjabi: Okay. So what would be the like a full year assumption that a reasonable assumption going forward?

Som Chopra: Yes, historically we are in the range of 35% so, and even in the finance budget last year there is a reduction of 1% every year so to that extent in next five year 5% reduction will be there and beyond that we are also working to bring some optimization.

Gaurav Punjabi: Okay. Sir, on the fire update what is the expected time line for recovery of the insurance money an update from the legal or probably you are...

Ashwani Arora: Yes, I think it is in the range of two years to four years so this I how we are expecting to Yes.

Gaurav Punjabi: Okay. So are we expecting any impairment charges or any provision for the same in the coming quarter or year?

Ashwani Arora: You see we have only received repudiation letter so, the moment we get any back up paper how they have repudiated and what is the assessment they have done then certainly we will review that position.

Gaurav Punjabi: But nothing on provisioning for now?

Ashwani Arora: This nine month or this quarter we have not done any provisioning.

Gaurav Punjabi: Yes, so no provisioning...

Ashwani Arora: So far no, but the moment we get the back-up then certainly we are going to review the situation.

Gaurav Punjabi: Okay. Sir, in the Press Release we have mentioned that the domestic volume grew 9% Y-o-Y so just wanted to confirm is this nine months or is this for the quarter?

Ashwani Arora: It is even for the nine months there is a growth of 9% in volume growth.

Moderator: Thank you. Our next question is from the line of Sachit Kheda of Smart Equity. Please go ahead.

Sachit Kheda: Sir, just sir to go back to the insurance claim I mean considering that the claim lodged by you it has been lodged for quite some time I am sure you have had a lot of correspondence with the insurance company. So sir, the letter I mean I understand that you do not have the back-up but there must be you at least must have a sense as to why they rejected the claim because

considering that it is was such a large claim I mean it is not you know they cannot sort reject it without having some concrete reason to do so...

Ashwani Arora: I can only say the ground you know is a very weak ground they are taking and we have a very, very strong case and all the state government investigation everything all are in our favor and I think they have a appointed two surveyor or three surveyor and all the surveyor has also given us very positive report and let the detail information come. But we are, as a management, we are very confident that we will recover that and in day to day operations and whatever the plans for the quarter we have and we will achieve that. Definitely it will hurt in terms of interest and everything but at the end of the day I think we will come as winner.

Sachit Kheda: Sure, sir. And I really hope you do. But just to go back to sort of the liquidity situation because considering this is sort of your season for accumulating stock. Do you have any plans to sort of ease out your liquidity position by let us say in FPO or something like that?

Ashwani Arora: No, we are not thinking on that line also but just to update you, we have whatever the target we had to procure to back-up our business so, we have done that and we are sitting on a very good inventory position to back-up our business. Bankers are there to support us.

Sachit Kheda: Absolutely, sir. And regarding the growth of your domestic business especially the Daawat brand would you be able to quantify that for this quarter and the nine-month period?

Ashwani Arora: That is what we said we have grown our domestic business 9% till time and I think this financial year we will be doing 13% to 14% growth.

Sachit Kheda: Okay. Would you have the figures for this quarter specifically over the previous quarter?

Ashwani Arora: Yes, this quarter the business is around 58,000 tonnes as against last year is around 47,000 tonnes.

Sachit Kheda: Brilliant sir, and the realization have held up or have they also taken a slight decline?

Ashwani Arora: Yes, that slight decline is there though the margins are maintained.

Sachit Kheda: Okay, sir brilliant. My one last question if you will allow me, sir I was reading the Annual Reports and I realize that Kusha procures its rice from Daawat your subsidiary, 70% subsidiary right?

Ashwani Arora: Yes.

Sachit Kheda: So where does Daawat procure its rice from?

Ashwani Arora: It is from the farmers only.

- Sachit Kheda:** Okay, from the farmers directly.
- Moderator:** Thank you. We will take the next question from the line of Hitesh Ladiya of Girik Capital. Please go ahead.
- Hitesh Ladiya:** Sir, just question when the insurance has repudiated the claim?
- Ashwani Arora:** It is just three days - four days back.
- Hitesh Ladiya:** Okay. And any grounds you are not aware of as of now?
- Ashwani Arora:** No, we are in the process of getting this.
- Hitesh Ladiya:** Okay. And who is our this general insurance company?
- Ashwani Arora:** The Oriental Insurance Company.
- Moderator:** Thank you. The next question is from the line of Nitin Mukhi of BW Investments. Please go ahead.
- Nitin Mukhi:** Sir, once again on the insurance, basically there was some news in August 2015 that is there is a MP Court orders wherein the council from the insurance company has agreed to pay the claim within next three months and recently we get this information that the claim is repudiated. So what happened between this interim period from August 2015 to February 2016 sir?
- Ashwani Arora:** No, I think from insurance company you said, there is a letter.
- Nitin Mukhi:** No, sir I saw an update on internet.
- Ashwani Arora:** Okay, we have filed because the insurance company was not taking any decision and was lingering on, so we went to the court that whatever the insurance company wanted to decide so that we can take the next course of action, so in that the High Court has said to the insurance company that whatever the discussion you wanted to take, take in three months time so that is what has been filed here.
- Nitin Mukhi:** Okay. So it was basically the decision to be taken not the payment of the...
- Ashwani Arora:** Yes.
- Nitin Mukhi:** Sir, one second I will go on that question basically it was on order funds with this increase of 40 crores quarter-on-quarter sir can you please explain?

- Ashwani Arora:** Can you repeat your question?
- Nitin Mukhi:** Sir, that question on other expenses I know you have already replied but the answer was not audible. This 40 crores increase quarter-on-quarter in other expenses sir what exactly is that?
- Ashwani Arora:** Yes, that was on account of the selling expenses of our big tender so, were the steamer freight and other expenses are there so that is the exceptional business and those exceptional expenses are there and if it is adjusted then it is in line with last year expenses.
- Nitin Mukhi:** So you are trying to say for quarter four we may not see such a jump...
- Som Chopra:** Certainly, it is all because of that tender business only.
- Nitin Mukhi:** Okay, sir. In FY15 volume growth was 7.4% and in nine months FY16 we are all 21%, wherein India is growing at 9% so obviously there is some other country which is growing at a higher rate.
- Som Chopra:** There is one tender business which has contributed 41,000 tonne of business even if it is adjusted even then we are having a growth of in export segment more than 15% volume wise.
- Nitin Mukhi:** Okay. And what is the contribution, I mean we already have India and U.S. as a big contributor but we are also trying to make way in Middle East which is one of the biggest consumers, so what is the contribution from Middle East sir for the nine months, apart from the one-off order that we have got.
- Som Chopra:** Yes, the contribution in terms of revenue is about 8% to 10% in the Middle East business.
- Nitin Mukhi:** And a growth rate of sir?
- Som Chopra:** Yes, we are growing at more than 20%.
- Nitin Mukhi:** Middle East is basically volume business or it is also branded it is also brand conscious business, sir?
- Ashwani Arora:** No, it is totally brand conscious business so, we are in Middle East we are only selling our brand.
- Nitin Mukhi:** So we are also doing marketing and promotions in Middle East just like India?
- Ashwani Arora:** That is what we are doing, we are focusing at the moment through trade marketing and the consumer marketing.

- Nitin Mukhi:** Sir, in terms of CAPEX sir, what would will be the estimate for FY17 and how do we plan to do it?
- Som Chopra:** Yes, in the coming year we do not have any expansion plans in terms of CAPEX so wherever modernization is required certainly we will do that. So otherwise, we have a sufficient capacity to cater the growth.
- Nitin Mukhi:** Sir, basically in last two years we have expanded close to Rs.100 crores that is FY14 and FY15. So that Rs.100 crores was basically for silos, if I understand correctly.
- Som Chopra:** Yes, you said it, Yes.
- Nitin Mukhi:** And sir, we start advertisement Devaaya in India sir? When do we start seeing those advertisements?
- Ashwani Arora:** We are going very cautiously in this category to understand the dynamics of distribution so we are launching it regionally and advertising regionally also and I think in the next six-month we will be very clear how to move this business forward.
- Nitin Mukhi:** And sir, it was in pilot base in three states to four states how has been the performance?
- Ashwani Arora:** I think the performance was good that is why we are rolling it city wise and region wise.
- Nitin Mukhi:** So you are satisfied with the performance in the pilot base?
- Ashwani Arora:** Yes, we were you know so, there were some challenges in distribution and we are addressing that and we are taking corrective action whatever we have learnt in that state and we are going in like we are now launching in north.
- Nitin Mukhi:** Sir, any plans to use social media to engage customers because we several FMCG companies may not be in rice but other FMCG who were actively using social media to create that stickiness and loyalty among customers so do we have something on that line in our strategy?
- Ashwani Arora:** Yes, we have allocated 10% of our total advertising budget to the digital marketing.
- Nitin Mukhi:** Okay. Sir, on that Devaaya advertisement I have seen that advertisement on YouTube basically if I compare that advertisement with Daawat brand advertisement I think, that sense of emotional point is missing that Daawat brand's ad is far more emotional than the Devaaya brand.
- Ashwani Arora:** Yes, Daawat is a 25 years' brand and that needs to have an emotional connect with the consumer.

Nitin Mukhi: Hoping that we will have an advertisement which is far more emotional I mean sir the messages carried very well that it is “Saaf and Suthra” but if you can have some more some more emotional element just like the Daawat advertisement that will be that will be useful...

Ashwani Arora: If you see the brand building process so, Daawat is a 25 years’ old brand and it needs emotional connect with the consumers. As far as is Devaaya is concerned, first you have to say the reason to buy and then you know slowly you build the emotional connect with the people so that was the need of the Devaaya brand where we should tell why would the consumer should buy so that is why these are the two different approaches we have taken.

Nitin Mukhi: Sir, when is the next rating from ICRA hopefully this time they might upgrade us given that the balance sheet position has improved even though we have those insurance issues.

Som Chopra: Yes, rather you will be happy to know that our rating has been improved, it is there in the public domain now.

Nitin Mukhi: Okay. So we will have that information in public domain?

Som Chopra: Yes, the rating has been rather improved because of the consistent growth in the business, consistent improvement in the margin and even in spite of this insurance claim we are able to reduce our net debt as well.

Nitin Mukhi: Yes, sir one final thing, there was an observation we read that Chairman in his introduction in Annual Report that we have appointed several consultants including McKinsey to look into our productivity issues, the operational complications and corporate governance issues. In fact we were very much happy that the additional independent directors have been brought in but we also have suggestions in terms of I mean providing for commission to these independent directors because we feel that it is going to contribute to the overall development of the company so we need to motivate them in terms of providing commission to independent directors and also we noted that even the full time directors they are not taking the entire commission which they are eligible for under the Companies Act so we also recommend that the full time directors need to also be motivated and they should pay full remuneration which is available to them and that is will be the interest of the company because I understand there are a lot of complexities in terms of so many subsidiaries within India itself wherein the purchase and sales transaction with the same subsidiary so, sometimes it becomes very difficult to get a trail of the transaction and I think that impacts the sentiment of minority stock holder so what the Chairman highlighted we hope that good work in terms of reducing the complexity and enhancing the corporate governance will continue moving forward.

Ashwani Arora: So as far as your first we have to improve the board performance we are working with Hay Group, how we can have the best board performance and we will whatever input you have

given we are evaluating that. Regarding the subsidiary I think we are working again how we can make it efficient and not so many what you call is complex.

Nitin Mukhi: Basically I am trying to say there is no reason why an aspirational brand like Britannia sells at least 50x net profit and an aspirational brand like Daawat sells at 5x. It is all about investor sentiment and with that reduction in complexity; I think the sentiments will surely improve going forward. Thank you.

Ashwani Arora: Yes, that is what our concern is that we are very strong brand leading at such a low multiple so Daawat if you see the five years - ten years performance the branded business is going up, the margins are improving so on every parameter where FMCG business is working so we are complying to that and we think that our business deserve that.

Nitin Mukhi: Of course sir, that is what we believe. Thank you, sir.

Moderator: Thank you. Our next question is from the line of Jagjit Singh of Bay Capital. Please go ahead.

Jagjit Singh: Could you tell me the composition of the inventory please?

Som Chopra: Yes, you know our main inventory is paddy and rice only, so our total inventory as on 31st December, 2015 is around 1,400 crores out of which 1,300 crores is paddy and rice.

Jagjit Singh: And rice is 100 crores?

Som Chopra: No, both put together. 50% is rice and 50% is paddy.

Jagjit Singh: And volume wise?

Som Chopra: We are close to 3 lakhs tonnes of paddy and close to 1,40,000 tonnes is rice.

Jagjit Singh: Okay. And what is your current debt and net worth?

Som Chopra: So the current debt is close to 1,500 crores, exactly it is 1,600 crores and the year end will close to 1,500 crores.

Jagjit Singh: Okay. And net worth?

Som Chopra: So in the net worth which I stated is 575 crores. This is all consolidated numbers.

Jagjit Singh: All right. So paddy is valued at what price 3 lakh tonnes?

Som Chopra: Yes, it is close to Rs.21,500.

- Jagjit Singh:** 21, and rice would be at?
- Som Chopra:** Rice is close to 39.
- Jagjit Singh:** 39. And do you think this news that came regarding the GI Tag it is going to have positive impact on basmati trade?
- Ashwani Arora:** So I think it is not going to impact any basmati business because India is a monopoly so that is good thing which has happened so it is not going to impact the business as basmati.
- Jagjit Singh:** So since MP has been chucked out of that case, do you think it is going to impact your business?
- Som Chopra:** I think it has been chucked out, if you see, the court has asked to consider MP in adding that and MP has a very strong case, Yes because it has won in the lower court and the state has not said that we should exclude, they said consider it.
- Jagjit Singh:** So is it sub-judice?
- Som Chopra:** Yes.
- Moderator:** Thank you. Our next question is from the line of Rupal Sethi of Kavya Investments. Please go ahead.
- Rupal Sethi:** Sir, actually you had answered a couple of questions ago on comparing us with some key brands in the industry. Just dwelling on the point a little more, considering that we are the space of rice and other grains and the thing is there has always been some certain level of negativity towards this industry in the market. So how are we looking at addressing at this, how are we taking ourselves one step ahead and creating the clear differentiation with how we handle the industry and how the other players are handling it?
- Ashwani Arora:** In this industry there are two kind of player, one are who have strong brand they are doing well and the other is who are doing on private label. So you know there is a little distress on the companies who are dependent on the private label but the company who are like they have their own strong brand they are doing very well because if you see the results are improving.
- Rupal Sethi:** Sir, my question was more in terms of equity market perception, how do we define you as a different player than the other players and market has generally had negative experiences and there is an overall negativity surrounding how the business is conducted so anything in terms of us relieving us is the negativity and how we should look at it you as a branded player.
- Ashwani Arora:** Yes, that is what Rupal I said, if you see the history the companies have not performed and the company who have performed the differentiator is the brand so, as LT Foods, LT Foods has a

very sustainable strong brand this is what I can say, this is what our performance is also indicating.

Rupal Sethi: Sure. No, sir, definitely your performance has been something that we have definitely been liking. Just one more question on few key top players who had earlier entered the industry have recently said they want to exit so any thoughts on that?

Ashwani Arora: Which player you said?

Rupal Sethi: Recently there HUL has said they are looking to exit industry.

Ashwani Arora: HUL that is not their core so their core is something different.

Rupal Sethi: So we see a sustainable business out of this.

Ashwani Arora: Yes, that we believe and that is what our performance is showing.

Moderator: Thank you. Our next question is from the line of Chintan Sheth of SKS Capital. Please go ahead.

Chitan Sheth: Sir, on organic part, how much it contributes currently on the overall scheme of business?

Ashwani Arora: Organic business for us is approximately 10% of our total business.

Chitan Sheth: 10% current and we are into two products one is oil and other is basmati along with the other products.

Ashwani Arora: No, we are in rice and mainly soybean.

Chitan Sheth: So how many products and where do you see this segment growing going forward and what is the plan?

Ashwani Arora: As globally if you see the organic market is a \$90 billion and growing at the rate of 10% but if you see India, India is at a very developing stage and is growing more than 20% to 30% as the awareness of this health thing is coming up and we believe that it is a very promising business, very growing business and both in terms of top-line and bottom-line so, we are in this business for the last 15 years and I think that will be one of the strong driver to grow our revenue and bottom-line.

Chitan Sheth: Okay. So with a \$90 billion market what will be our addressable market?

Ashwani Arora: That is a global market that includes everything dairy, cotton, everything.

- Chitan Sheth:** So what should be our addressable market?
- Ashwani Arora:** For us is a food market and to start with the grains, and rice is one of our strength and we are growing from there and adding the new product.
- Chitan Sheth:** Okay. And sir, you mentioned our exports have volume side and domestic volume has grown but our realization has declined and also guided that given the low paddy prices even the realization does not move up from here, we can maintain our margin going forward. So any trajectory in terms of how the volume growth can Pan out going forward because that will determine our top-line growth.
- Ashwani Arora:** No, volume growth is as I said our branded growth is more than 15% that we believe that, that should continue and as far as margin we are expecting to improve on the margin also.
- Chitan Sheth:** Okay. And what will be the contribution of the traded side this quarter, the Iraq one what will be the?
- Som Chopra:** Iraq is around 40,000 tonne that is around Rs.250 crores.
- Chitan Sheth:** Which came in Q2 and Q3 together, right?
- Som Chopra:** Yes, that is right.
- Chitan Sheth:** Okay. What will be in Q3?
- Som Chopra:** Q3 will be half of the quantity, yes.
- Moderator:** Thank you. We will take the next question from the line Shankar Dutt of Kanav Capital. Please go ahead.
- Shankar Dutt:** One thing I wanted to understand, Annual Report Kusha sales were roughly around Rs.800 crores last year 2015, out of those if I say LT provided only roughly around 125 crores to the Kusha, so just wanted to have some understanding on that part.
- Som Chopra:** Yes, that is the top-line of our U.S. business and you will see that there is a value addition which U.S. business is doing. So the value addition is their S&D expenses and then their margins so there is about 35% value addition is there and it is not only the LT which is selling to this U.S. Company even the other subsidiaries are also selling.
- Shankar Dutt:** Other as in Daawat.
- Som Chopra:** Others like Daawat Food, who then, our other subsidiaries if you will find the list even the organic company is also selling to that U.S. Company.

- Shankar Dutt:** But for Rs.800 crores what is the quantum that our company selling and what is the quantum that they are procuring from other suppliers globally?
- Som Chopra:** Yes, it is 90 percentage to 95 percentage from our Indian company's only.
- Shankar Dutt:** But in the list which you are telling about I do not see that numbers I will have to check it.
- Som Chopra:** No, but you will see that those companies are not, you will see only the standalone numbers and consolidated numbers, so your referring is the standalone numbers.
- Shankar Dutt:** Okay. So you are selling roughly 90%-95% worth of goods to Kusha and then they are probably value-adding.
- Som Chopra:** Yes, the value addition is around 35%.
- Shankar Dutt:** 35% and then they sell it?
- Som Chopra:** Then they sell it, yes.
- Shankar Dutt:** Okay. And sir, another question was on foreign exchange gain last year we had roughly Rs.28 crores of gain, for the nine months ending this year what is the quantum of that gain?
- Som Chopra:** Yes, that is also in the range of (+10) crores but actually this is a not a gain, this is business basically we do. Since we have export and because we have to hedge, it is only the accounting which suggest us to make an entry in the P&L. So it is a part of business only, just to clarify that this is not a FOREX gain.
- Shankar Dutt:** Right, sir, it is just accounting entry. And other thing was the capacity which we have in metric tonnes, if you could tell us?
- Som Chopra:** Yes, 82 TPH.
- Shankar Dutt:** 82 and the production was?
- Som Chopra:** Yes, we are utilizing that production to the tune of 80%
- Shankar Dutt:** Okay. So no capacity addition plan?
- Som Chopra:** Yes, at this moment we are not planning as such expansion.
- Shankar Dutt:** Okay. So then volume growth would not be....
- Som Chopra:** Yes, we will be able to, we have a sufficient capacity to cater another two years.

- Shankar Dutt:** Sure, sir. I am saying on the overall branded segment of basmati, how much share do we have?
- Ashwani Arora:** If you talk about India as I said, in my opening remarks is 18% share we have in the branded market. In USA we have 40% market share.
- Shankar Dutt:** On the USA part do you plan to procure materials from other than your company as well in the Kusha?
- Ashwani Arora:** Not, India, you know yes are, have plan to source 5% to 10% from other companies. But if you see the other businesses yes, we source from Thailand and other part of the world.
- Shankar Dutt:** Okay. So the value-added products not just basmati. See Kusha is already an established brand Royal, so you will plan to leverage that?
- Ashwani Arora:** Yes, we are leveraging and we have a very successful track record on that. We have just launched the Atta there and we earned 15% market share in that market in one year's time.
- Shankar Dutt:** So is it going forward we can see part of...
- Ashwani Arora:** Yes, that is what the plan is to as I said, you know the strategy is to leverage our strength both in distribution and brand and extended wherever it can go.
- Shankar Dutt:** Okay, sir. Sir, just one last question on the Kusha, when did you acquire this company?
- Ashwani Arora:** December 2007.
- Shankar Dutt:** And if you could provide us for the purchase price of the company?
- Ashwani Arora:** \$18 million.
- Moderator:** Thank you. The next question is from the line of Vinod Malviya of Florintree Advisors. Please go ahead.
- Vinod Malviya:** Sir, you have a private equity which has been there since 2008 and generally they try to exit after seven years so while they are exiting they take help of the management to for a road show or anything so, I just wanted to know have they approached you till date.
- Ashwani Arora:** Yes, they have approached us and yes, we are facilitating.
- Vinod Malviya:** Okay. And second thing on the private equity they also hold 13% stake in one of your subsidiary Daawat.
- Ashwani Arora:** Yes, the Daawat Food they have 30% stake.

- Vinod Malviya:** How would you providing the exit over there?
- Som Chopra:** That we are discussing with them and they have full confidence and they are ready to wait for two years to three years.
- Vinod Malviya:** Okay. But what would the options available will you merge the company or...
- Ashwani Arora:** No, we are not, we will not merge that company so we will work on the different models, we are evaluating.
- Moderator:** Thank you. Our next question is from the line of Avnish Chandra of East India Securities. Please go ahead.
- Avnish Chandra:** Sir, one question if I take your TTM revenue and your even number for inventories your inventory days calculates around 180 days which is way below your last presented 240 days so, what led to such a drastic decline in inventory days?
- Som Chopra:** No, it is if you do the adjustment of our Iraq business it is close to 240 days only.
- Avnish Chandra:** Okay. So 240 is what sustainable?
- Som Chopra:** Yes, 240 is what the industry norm is, that is what the experience we have.
- Avnish Chandra:** Okay. And sir, what is the exact adjustment you are talking out for the Iraq business?
- Som Chopra:** Yes, Iraq business is around 41,000 tonnes. That is one-time tender business.
- Avnish Chandra:** Okay. So adjusting to that it will come round days.
- Som Chopra:** Certainly.
- Avnish Chandra:** And sir, what is the payable days?
- Som Chopra:** It is 12 days to 15 days.
- Avnish Chandra:** So that will remain, that is sustainable to us?
- Som Chopra:** Yes, that is what you know we are in to the agri business dealing with farmers we have to almost pay in cash.
- Avnish Chandra:** Okay. And sir, last question, the debt you have talked about what is the short-term part of the total debt?
- Som Chopra:** So it is basically 90% piece is the short-term only.



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Avnish Chandra: Okay. Only 10% is the long-term debt.

Som Chopra: Yes.

Moderator: Thank you. Ladies and gentlemen, that was our last questions. I now hand the floor back to Mr. Ashwani Arora for closing comments.

Ashwani Arora: Yes, thank you very much this was our maiden call, first analyst call and thank you everyone who have participated. Thank you, everyone.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of LT Foods Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.