



“LT Foods
Q4 FY2020 Earnings Conference Call”

May 29, 2020

ANALYST: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. ASHWANI KUMAR ARORA - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – LT FOODS LIMITED**

MR. VIVEK CHANDRA – CHIEF EXECUTIVE OFFICER - GLOBAL BRANDED BUSINESS - LT FOODS LIMITED

MRS. MONIKA CHAWLA JAGGIA - VICE PRESIDENT - FINANCE & STRATEGY - LT FOODS LIMITED

MR. SACHIN GUPTA – GENERAL MANAGER – FINANCE - LT FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2020 Earnings Conference Call of LT Foods Limited hosted by ICICI Securities. 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. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: On behalf of ICICI Securities we welcome you all to Q4 FY2020 and FY2020 results conference call of LT Foods Limited. We have with us today Mr. Ashwani Kumar Arora, Managing Director and CEO, Mr. Vivek Chandra, CEO Global Branded Business, Mrs. Monika Chawla Jaggia, Vice President Finance and Strategy and Mr. Sachin Gupta, General Manager, Finance. Now I handover the call to the management for their initial comments on the quarterly performance and FY2020 results and then we will open the floor for question and answer session. Thanks, and over to you Monika madam!

Monika Chawla Jaggia: Good afternoon everyone and thank you for joining us on our earnings conference call. I hope that you and your loved ones are all well and safe. I would like to highlight that certain statements made or discussed on the conference call today will be forward-looking statement and a disclaimer to this effect has been included in the results presentation shared with you earlier. Result documents are available on the 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 our financial year 2020. In spite of many challenges faced by economy due to ongoing COVID-19, we have finished the fiscal year on a strong note with a healthy demand, robust volume growth across India and the international markets and healthy margins.

I would like to give an update on our Q4 financial year 2020 performance. The revenue was up by 20% to Rs.1,217 Crores on year-on-year basis. The gross margin also expanded by 190 bps to 26.5% on year-on-year basis. In absolute terms, the gross margin was up by 29% to Rs.323 Crores. This was also on account of both changing the product mix and the increased share of international branded and organic business. The EBITDA was up by 54% to Rs.150 Crores versus Rs.98 Crores and EBITDA margins were up by 275 bps to 12.3%. This was on account of higher GP and operational efficiencies. The PAT for the quarter increased by an impressive 167% to Rs.58 Crores versus Rs.22 Crores on year-on-year basis. The PAT margin expanded by 265 bps to 4.8%.

Our consolidated revenue for the financial year 2020 was up by 7% at Rs.4,184 Crores. As mentioned on our earlier earnings calls, our strategic intent has been to focus on our branded

business. With continued focus, our branded business was up by 14% and the share of our branded rice portfolio increased to 74% versus 69% last year.

The gross margin also expanded by 174 bps to 26.7% due to increase in the contribution of branded business and strong growth from all the geographies. This is to further highlight that our premium and mid-price product range achieved double-digit growth on year-on-year basis.

The EBITDA margin also expanded by 140 bps to 12.2% versus 10.8% last year. In absolute terms, EBITDA was up by 21% from Rs.421 Crores to Rs.509 Crores, due to better gross margins and the operational efficiencies. PAT increased by 45% to Rs.199 Crores while the margins expanded by 125 bps to 4.8%.

Now I would like to update you on all the efforts taken towards strengthening the balance sheet of the Company. The Company's net worth was up by 11.5% to Rs.1,599 Crores led by strong accruals. The overall debt of the Company was down by Rs.235 Crores to Rs.1,435 Crores. The debt equity ratio improved from 1.16 times to 0.90 times. Long-term debt to equity has reduced to negligible levels of 0.13 times from 0.17 times last year. This is to reiterate that majority of our debt is working capital debt which is required because of the nature of our business and our focus is to maintain the debt to EBITDA ratio to less than three times.

I would also like to give you an update related to the continued interest from the international investment community. After a rigorous due diligence and negotiations, SALIC, Saudi Agriculture Livestock Investment Company, has acquired stake in Daawat Foods Limited which is a subsidiary of LT Foods Limited, through its subsidiary United Farmers Investment Company. SALIC as you may be aware, is a strategic partner and Public Investment Committee of the Saudi Government. The transaction in Daawat Foods Limited entails acquisition of 29.81% stake of India Agri Business Fund which is sponsored by Rabobank and 0.1% stake of the Real Trust, by the United Farmers Investment Company, which is a subsidiary of SALIC, for an amount of \$17.23 million. Please note that there is no dilution in the listed LT Foods Limited. Also, there shall be no impact on the shareholding of LT Foods Limited in Daawat Foods Limited which shall remain intact at 70.09%. Company was able to provide a rewarding exit to Rabobank, which has been partner in the subsidiary for more than 10 years. This new strategic partnership will open up new opportunities and help LT Foods strengthen its position in the Middle East region.

I now hand over to Mr. Chandra for further business update for this financial year. Thank you.

Vivek Chandra:

Thank you Monika. The branded business revenue of Rs.2,631 Crores in FY2020 registered a growth of 14%, this is higher than the total business growth of 9% due to which the share of the branded business in total improved to 74%.

Q4 was particularly strong quarter with a growth of 20% in the branded business.

All our business entities have performed well during this financial year.

Our India branded business saw good growth in FY20 with the premium and mid-price segments registering double-digit growth. LT Foods had launched various marketing initiatives for these segments on the Daawat brand and specific premium variants like Daawat Biryani and Daawat Traditional. India also strongly promoted its unique product offering of Quick Cooking Brown Rice.

In Q4 of FY20 we extended this health franchise by launching the Iron, Folic Acid and vitamin fortified Daawat Sehat product in the test market. This was supported with print and digital advertising and launched only in the Q4 of full year 2020 and has quickly built up to a good level of consumer demand. You will be glad to note that during this pandemic Daawat Sehat tied up with an NGO “Feed My City” to provide meals to the needy. Our Regional Rice business continues to receive good response from the market. Sona Masoori has now created a niche for itself in the quality segment with both the retail consumers and the foodservice customers.

In order to cope up with the twin challenges of manpower and logistics availability posed by the unprecedented crisis of COVID-19, the Company has identified and nimbly executed a number of innovative go-to-market approaches. The Company joined forces with Zomato and Swiggy to use their platforms for direct delivery to customers. Post enforcement of complete lockdown a telecaller facility was set up to directly reach top retail outlets in the country and take orders from them.

Moving to our US branded business - US branded business also saw a double-digit growth in revenue terms. The business has performed well across all channels and there was a significant increase in the sales for the month of March due to the ongoing pandemic. E-commerce as a channel continues to see a surge in demand in the last few months. Our recently launched Ready-to-Heat products are very well accepted by the consumers and experienced a huge increase in demand. The RTH sales have more than doubled in Q4 FY20 on a year-on- year basis.

Our Europe business has also performed exceedingly well on a quarter-on-quarter basis and it gives me great pleasure to share with you that our Europe business has become PAT positive in FY20. The business has also seen a surge in demand for packaged rice as people are giving preference to packaged brands taking into account the safety aspect.

Our organic business has also seen a growth of 15% in Q4 on a year-on-year basis. While its major product categories continue to grow, the business had experienced a fall in its soybean business in the first half of the year. The Company decided to move from the commodity-based soybean business to the value-added soy meal processing-based products. The business has seen a ramp up in the second half with the installation of a dedicated organic soy meal processing plant done in a record time of around three months. The plant is running at full capacity to cater to the large orders received from global customers. Another expansion of this facility is now

planned in the current financial year, which will help the Company achieve even higher growth in the current financial year 2021.

I would now like to hand over to Mr. Ashwani Arora. Thank you.

Ashwani Arora:

Thank you Vivek. Good afternoon everyone and thank you for joining us on the call today. I hope that you and your loved ones are all well and safe.

As we all know over the last two months, worldwide economy and various industries across India and International market have been facing a unique situation due to the COVID-19 pandemic. Our primary focus during this challenging period, was to service and make our product available to our consumers along with assuring the safety of our colleagues and manage our operations in the changed scenario with agility.

We are proud of our colleagues in the manufacturing unit, distribution, the front liners and the support function, who also ensured smooth operations while working from home as well. During these trying times all the employees have come together, and the Company have been able to demonstrate its true values through its actions. Needless to say, that all the norms prescribed by the Government and WHO have been strictly followed at our manufacturing facilities and distribution centres across the globe.

The Company's growth has accelerated in the wake of very strong consumer demand for our products and trusted brand name. Our international subsidiary plants are also functioning in line with increasing demand. There have been surge in demand in India as well as globally.

From industry perspective, the export of the Basmati Rice from India are approximately same in FY20 and we had seen a growing trend in Saudi, Iraq, Europe, Americas and Rest of the World. Iran has shown negative growth. Anyway our exposure to Iran has been nil and our global presence is helping us to keep up the growth momentum. India consumption till last year was growing at c.13% and we have been part of this growth journey. The branded business contributed c.26% of market share.

We believe that in the current ongoing COVID situation consumer demand for packaged rice will increase because of the rise in home consumption especially in the health and convenience segments globally. The HoReCa segment however has seen a decline. However, the HoReCa's focus on online deliveries and with government announcing opening up of outlets on selective basis in few states, we have seen some pickup in this category.

As far as inventory is concerned, we have procured enough during the last procurement season and are geared to meet the expected demand in the current year. As far as the next production is concerned, as per the current market data availability the sale of Basmati seed is more or less following the same trend. The transplantation process is expected to start in mid-June. The

farmers might experience some problems with respect to the shortage of labor, but they are working to find out alternative solutions to minimize the impact on the Basmati production.

As far as operations are concerned, there were challenges in the initial phase, but the companies having control on complete value chain and having highly mechanized infrastructure, have been able to overcome the challenges and deliver their performance.

We have delivered a strong operating performance for FY20 and Q4 FY20. As mentioned in earlier calls, Company has been extensively working on its three strategic pillar of Growth, Margin Expansion and Strengthening the Financial Metrics which is visible in our financial performance and will continue to do so in the future. To add to these three pillars, Company also continue to strengthen its management capability. We have hired a couple of senior level positions across its operation. We will be separately updating on these positions from time to time. Thank you.

Now we open the session for question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Congratulations for a good set of numbers and particularly on the repayment of debt. Just on coming year FY21 with most of the businesses are actually showing a positive trend, this year we have paid almost like Rs.230 - 240 Crores of debt and next year what will be the plan on the debt repayment front?

Ashwani Arora: As I said we will be keeping the same trends and we will maintain the Debt EBITDA ratio less than three times and that is what we are focusing on.

Resham Jain: Okay but from just on capital allocation perspective this year you generated like close to Rs.400 Crores of free cash after the capex?

Ashwani Arora: The plan is to reduce the borrowings only; you know internal accruals will come. But I am just making this statement that we will maintain the Debt EBITDA ratio, because if the paddy prices will go up in the coming years then we may not be able to reduce our borrowings. So, the goal is to reduce the borrowing going forward.

Resham Jain: Okay and what would be the capex plan for FY2021?

Ashwani Arora: So next year we have set Rs.60 Crores our capex plan.

Resham Jain: And what will be the broader breakup of this Rs.60 Crores?

- Ashwani Arora:** It means where we are spending?
- Resham Jain:** Yes?
- Ashwani Arora:** So mainly, we are spending, one is on we are putting the power plant, which is Cogen Power Plant. Other is we are spending on the Warehousing and thirdly we are investing in more mechanization and automation. So, these are the three broader areas where we are investing. Repair and maintenance capex is very low. So, mainly it is the mechanization and based on whatever growth we have seen in this quarter, we are expecting that more packaged rice will grow and we need more packaging machines, so we are investing in that. So, at the moment all our consumer pack machines are running at full capacity.
- Resham Jain:** Sir my last question is on overall margins trajectory how we had panning out in FY21 and what will be the levers for this?
- Ashwani Arora:** So, you know in the coming year our Gross and EBITDA margin will grow and the strategy is same, that our product mix will change and in the gross margin there will be impact on the lower cost of the COGS and the scale. Broadly these three things will help us to improve our margins.
- Resham Jain:** Any specific geographies where you see that you were playing out more positively compared to other regions? For example; Europe you have clearly turned around in the last one year from negative trajectory to a positive side. So, within various geographies and various segments?
- Ashwani Arora:** Of course, it will play across geographies, but the major play will be Europe, America and the Rest of the World. And in India because of this HoReCa impact we may see little degrowth in HoReCa business. Of course, you know the consumer business will grow.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir my question is on inventory, you have given absolute level of inventory of paddy and rice so can you give the volumes also?
- Sachin Gupta:** Our inventory levels during this year paddy is 1.93 lakh tonnes and rice is 1.4 lakh tonnes.
- Dikshit Mittal:** Okay and similarly for last year if you can give for comparison?
- Sachin Gupta:** It was 2 lakh tonnes of paddy and 1.27 lakh tonnes of rice.
- Dikshit Mittal:** Okay so that is the reduction that we are seeing that is purely because of the lower prices of paddy that was leading to a lower inventory right this year?
- Sachin Gupta:** Yes.

Dikshit Mittal: Okay and so can we assume that this lower cost of inventory will help you improve margins in FY21?

Ashwani Arora: That is what I said you know, it will be a mix of all the things, the lower COGS, change in product mix and the scale. All three will help us to improve the margins.

Dikshit Mittal: Because we think 15% to 20% reduction in per unit inventory holding right as compared to last year?

Ashwani Arora: Yes.

Dikshit Mittal: So, to that extent may be something will be passed on but if you can quantify what kind of margin benefit that can accrue from this?

Ashwani Arora: Normally we change the prices after June so we have to see the competitive landscape in the month of July, but definitely it will help us to improve the margins. How the competitive landscape reacts in July, August, only then how much of this cost we will pass, how much we will keep, will depend on the competitive landscape.

Dikshit Mittal: Sir secondly in your growth we have seen flattish growth in domestic market, we have seen like 30% growth overseas so is there any impact because of logistic issues that restricted the growth in domestic market?

Ashwani Arora: So, if you see our consumer business, we call it consumer packed business, which is one to ten kg and then there is a 25 kg business. We have seen the growth in 1 to 10 kg that is our strategic intent, so we are growing. Our export business has grown better because the Europe operations are running now fully, also US also has shown good growth, but India is growing as per the category is growing so we are in line with the category growth.

Dikshit Mittal: Okay and Sir in terms of prices we have seen sequential big jump in volumes so that is one time or maybe that will be maintained for next quarter as well?

Ashwani Arora: As far as the latest trend is going, we are expecting the same trend to be there.

Dikshit Mittal: Because Sir, earlier we were trying to reduce trading to improve the balance sheet, but suddenly we have seen like big increase in volumes in this quarter so will that impact the balance sheet next year in terms of higher trading volumes?

Ashwani Arora: That is more private label sales and not trading. So, there are three types of business we were in, one is the consumer business or branded business, there is the private label and the third is the trading. Trading of course we are reducing, but the private label business is where you know the growth is coming. That is our strategic intent. Wherever you know the sustainable business is

there so any business which we are doing private label is all strategic in nature and that is a very sustainable business.

Dikshit Mittal: Sir lastly from my side can you give Europe numbers this year EBITDA and PBT numbers?

Sachin Gupta: Europe had EBITDA of Rs.17 Crores, had a PBT number of Rs.4 Crores.

Dikshit Mittal: Okay and last year if you can?

Sachin Gupta: Last year there was a loss of Rs.11 Crores and there was a PBT loss of Rs.24 Crores.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Sir three questions. On these European operations, good part is that you have reported a positive PAT, but can you give some sort of direction for FY21, what are your internal targets for the margin for the European operations that is one? Second you had a very high other income in this current quarter if you can give a further breakup of the other income will be helpful and third is this recent transaction wherein even though it is at a subsidiary level, but can you share some more data on what was the revenue and what multiple did this deal happened and what was the earlier investment by Rabobank and they are existing at 17 million from 30% stake what was there investment so these three questions basically?

Ashwani Arora: Sure, the first question is on the Europe Operations. This year the target of EBITDA is in the range of 6% to 7%, which is the industry touch point.

Subhankar Ojha: Okay what was the revenue Sir for European operations that EBITDA number was Rs.17 Crores?

Sachin Gupta: Revenue for this year was for Rs.468 Crores.

Subhankar Ojha: Rs.468 Crores, okay so you have done a 3.5% EBITDA and you are looking for 7%?

Ashwani Arora: That is in the range what we are targeting.

Subhankar Ojha: Okay, second question other income?

Sachin Gupta: The other income includes majorly exchange income and this is a part of the operations income only, so this as per the accounting we have to disclose in the other income. Otherwise, it is exchange income.

Subhankar Ojha: My question is basically is as per your press release it had a 20% revenue contribution to the parent Company so that is about some Rs.550 Crores odd and the deal is happening 30% stake for \$17 million so my question is basically what was the Rabobank investment?

- Ashwani Arora:** 10 years back Rabo invested in Indian rupees Rs.25 Crores and in dollars \$5 million.
- Subhankar Ojha:** Okay so is it the right way to rate it, I mean 20% percent of your revenue coming from Daawat Foods and that is getting valued at say about \$55 million right and that is about?
- Ashwani Arora:** One thing is that, it's a purely manufacturing subsidiary and all the brands everything is in LT Foods. So that is a purely manufacturing arm of the Company.
- Subhankar Ojha:** No Sir so my question is that business is getting valuation higher than the parent Company which is not value addition?
- Ashwani Arora:** That answer lies with more on the investor's side. But as far as we evaluate our Company, the kind of business models we have, sustainable and profitable with a global footprint, normally the companies globally have a valuation of 15-16 times of EBITDA.
- Subhankar Ojha:** I missed the initial part of your answer what is your plan for deleveraging I mean what is your plan for reduction of debt in current financial year?
- Ashwani Arora:** As I said just now, the broader plan is to keep the Debt EBITDA ratio less than three as the business will grow, and we are in the business of rice. But broader plan is, in normal circumstances, all the accrual will not go in capex and either reduction in the borrowings or, if needed to increase the inventory. So broadly the more focus is in the reduction of the borrowing and take to the level of 2.5x or less than 2.5x to EBITDA.
- Moderator:** Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy Services. Please go ahead.
- Sudhir Bheda:** Congratulations on a super set of numbers. Sir one thing, I am also consumer of your brown basmati rice and it is superb. Sir my question is you have done international branded business of around Rs.1,645 Crores, so what are the major geography? Does it include Iran and those kinds of countries?
- Ashwani Arora:** Our major geographies outside India is US, Europe and then Middle East and then Rest of the World. As I said, we do not have any exposure for the last three or four year to Iran. So that is the Company's strategy.
- Sudhir Bheda:** So, we do not foresee any threat as far as our exports are concerned?
- Ashwani Arora:** To Iran, no.
- Sudhir Bheda:** Sir another question, is what is the proportion of rice and non-rice, because you have certain other business also like organic revenues and all?

- Ashwani Arora:** We have two businesses one is the Basmati Rice and other is organic ingredient business. So out of the total revenue, approximately 10% to 11% come from organic ingredient business and the rest is all basmati rice business which is all supported by our strong brands which is Daawat and Royal.
- Sudhir Bheda:** Lastly your major improvement has come, I think in the margin and in the cost control. Is it because of the branded businesses have picked up well in India, as well in US and Europe? Are the becoming popular over there?
- Ashwani Arora:** That is one lever. Brand is already very popular all over. It's only we are doing the acquisition of new consumer and new markets. So, brands are very, very popular that is how from where the growth is coming.
- Sudhir Bheda:** Thank you and all the best Sir. From the consumer I will also become a shareholder.
- Ashwani Arora:** Thank you. I will tell you in this COVID time. We got an e-mail from our one of the loyal consumers in Bombay who wanted Quick Cooking Brown Rice. He said, his wife is pregnant, and she does not like any other rice, and he was not able to get Daawat brown rice and we made sure that in 24 hours we delivered the Daawat Quick Cooking Brown Rice to their home.
- Sudhir Bheda:** Great and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Congratulations on good set of numbers. So, first question on the domestic branded side, we have seen some dip obviously because of maybe HoReCa segment and all that. But, how has been the market shares movement, if at all, in our favor or against us? Have you gained or lost any market share?
- Ashwani Arora:** You are talking about the post COVID or pre COVID?
- Sarvesh Gupta:** I wanted about Q4. But if you can give us some indication.
- Ashwani Arora:** Post COVID it is too early because you know Nielson gives a quarterly data. But, estimated number of our internal data is telling us that we are doing good. We are able to maintain our share even in the difficult times and we are trying our best to be available in all channel as Mr. Vivek said. We are trying to find new innovative ways to reach the trade and therefore you know our consumer will get us, we have done the whole digitization in reaching to the dealers.
- Sarvesh Gupta:** Sir broadly we have maintained market share in domestic business?

- Ashwani Arora:** The data will come in the June, but we are sure that we are maintaining our share. We have a great presence in online, modern trade and as I said we are trying to find innovative ways to reach our customers.
- Sarvesh Gupta:** Understood and Sir this investment by SALIC into LT subsidiary, so what are the financial metrics for this Company? Maybe I can take it offline also?
- Ashwani Arora:** We can do that.
- Sarvesh Gupta:** Okay understood. Now thirdly, there was this news about one of the large basmati trader you know SBI case against, that so because of this environment of leverage or you seeing some of the competition dying or going away you know in a way which will help players like you?
- Ashwani Arora:** I have told in earlier conferences, there are two types of model in Basmati Rice industry. If you see globally, approximately 15 brands which hold 100% of basmati market. And India as an industry, is mainly dependent on private label and there are only two companies who have the complete value chain in their hand. And as manufacturing, sometimes is getting disturbed and will improve our margin because of the less competition and our brand is also helping us.
- Sarvesh Gupta:** Understood Sir and this other income that you mentioned is mostly forex gain is it the higher other income?
- Ashwani Arora:** Yes.
- Sarvesh Gupta:** Understood Sir. Sir what is the capital deployed in Europe as of now?
- Ashwani Arora:** Approximately €25 million.
- Sarvesh Gupta:** Okay and Sir if you look at the cash flow statement in the last two years, we have done capex of Rs.120 Crores. In the last two years so if you can just give a broad indicator of what is split of this Rs.90 Crores and Rs.120 Crores that we have spent on plant, property and equipment?
- Sachin Gupta:** In the previous year the cash outflow of capex was Rs.60 Crores and the remaining part is exchange fluctuations. In that Rs.60 Crores the major capex was in India. In India we have installed new silos and there was mother warehouse that was installed at Bahalgarh facility.
- Ashwani Arora:** So, we have built a highly mechanized distribution center near Delhi, from there we will supply to the whole of India, to improve our service level and less dependence on labor. The last year's CAPEX was either on silos, mechanizing or distribution. That is how we were able to service even in these difficult times. We as a Company now have highly mechanized operations.

Sarvesh Gupta: Understood Sir and Sir you had mentioned in an earlier interview I think that we will come to know by end of May what is the impact because of COVID on paddy production so do we have some visibility Sir in terms of A getting sown this crop season and B what is the likely impact on the paddy prices that we will have to procure?

Ashwani Arora: As I had just told the initial survey saying that the seed is selling more or less the same and the transplantation will start happening in June 15, 2020 and we are expecting that there will be some problem on the labor shortage. But I think farmers are making the alternative arrangements so in nutshell we are not seeing much impact on the production as of now based on the indications or trends we are seeing.

Sarvesh Gupta: So, if I look at your private label business two to three quarters back it was on a higher trajectory and then we kind of lowered it and then of course in Q4 I think we got a very good opportunity to scale it up back, so that is understood from an opportunity point of view but from a strategy point of view we wanted to also increase our margins on a sustainable basis to increase the return numbers. What is the strategy around private labels, are we you know going to increase it in equal proportion to branded business or how do we look at our private label I mean trading parties understood that you want to decrease it and private label strategy something that I was not very clear?

Ashwani Arora: So private label as I said we have two areas where we will grow business. One is the brand, there will acquire new consumer, new distribution. Private label is business we do from the ROIC perspective and as far as ROIC is concerned we have set benchmark below which we will not do a private label business. And in the private label business we do business which is sustainable in nature, so we do not do any private label business which is transactional in nature. That's how major private label business happens in Saudi Arabia. If I talked about the industry in Iran and Iraq and we do not have much exposure on this, whatever the private label business we have is either in Europe or America and that too with the organized stores and a little bit in the Saudi Arabia.

Sarvesh Gupta: Understood Sir what is this target ROIC that below which you would not do what is that number if you have a range or a number?

Ashwani Arora: We will not do any business in private label with a ROIC less than 15%.

Moderator: Thank you. The next question is from the line of Chintan Desai from Param Capital. Please go ahead.

Chintan Desai: Sir I just wanted to understand the insights on how the situation has been post COVID in India as well as overseas markets. Has the offtake been increased or how is the current scenario?

Ashwani Arora: Whatever the trend we are getting is, across globe, the home consumption is growing, only HoReCa is impacted. But whatever the home consumption has grown as far as our Company is concerned, we are able to offset. So, overall if you see as a category 25% to 30% of basmati consumption is in HoReCa and 70% in home, but that depends on geography, like in India has more dependence on HoReCa business, Middle East has more dependence on HoReCa business but our market, which is India, USA, Europe we have less dependence as compared to the industry on the HoReCa segment. But the consumption at home is growing that is a clear-cut trend we are getting.

Chintan Desai: Sir I believe, FY2020 was kind of a year of consolidation for our US business so how has been the US business in Q4 and will we start looking at strong growth numbers from this year onwards?

Ashwani Arora: US business is always a growing business for us. Only Europe business, which we have started three years back and which last year turned to positive, is seeing good growth in this year both in topline and bottom line.

Chintan Desai: Okay, and so what will be the capacity utilization at our Europe facility?

Ashwani Arora: This year we will be above 80% because of increased demand post COVID.

Moderator: Thank you. The next question is from the line of Rakesh Rai from IMPEC. Please go ahead.

Rakesh Rai: Sir my first question is regarding supply chain and logistic part, can you highlight how the supply chain and logistics in the market scenario Sir?

Ashwani Arora: Supply chain initially there was a disruption but now with the government interventions everything is getting back to normal, but as far as LT Foods is concerned, from the day one as I said with high mechanization and a great team, we were able to manage our supply chain efficiently.

Rakesh Rai: Sir my second question is can you highlight on the discounted from your side so market to gain the market share or to gain the market in the current market scenario Sir?

Ashwani Arora: Right now, there is no talk on discount. Currently, the talk is on supply and we are focusing on that.

Rakesh Rai: Right Sir any price increase?

Ashwani Arora: As a brand also, we do not want to get into some marketing mindset and demand. So, as a brand the first focus is to make sure that you have availability. Neither we are decreasing price, nor are we increasing price at this moment.

Rakesh Rai: Last question as you mentioned you are now focusing more capex in automation, so how much margins expansion you are seeing after automation in Company or industry Sir?

Ashwani Arora: Power generation. So, we are putting to 2.5-megawatt plant in our Bahalgarh unit, which is a Cogen plant and then the mechanization. So, what is your question now?

Rakesh Rai: How much margin expansion you are looking in the near future after doing this capex?

Ashwani Arora: Capex is more for the growth not the margin expansion but yes, absolutely when the growth rate comes the margin will improve on the scale.

Rakesh Rai: Sir my question is regarding after automation and margin expansion happens. So how much margin are you expecting?

Ashwani Arora: If I understood your question currently, for the automation we are not looking at savings, we are looking at efficiency so that we are able to supply our consumer, less labor dependence and trend that is coming, where you have to run your business with great efficiency and lesser people. So, that is what we are focusing and regarding the packaging in Europe where we are investing, there basically with the increased demand, we need more packaging so with the scale the margin expansion will happen.

Rakesh Rai: I was asking what improvement you are seeing in the next two to three years from here?

Ashwani Arora: So, we have defined our plan, we wanted to take our EBITDA margin to 15% in the next two years.

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

Nitin Awasthi: My question is regarding your subsidiary Nature Bio Foods Limited which I believe is your organic division. Could you please throw some light on this Company, because I believe Rabobank has an investment in this Company and you are making subsidiary across Europe and US for this Company? Is that only like capital investment in their facilities or is that only for branding which is going to happen in Europe and US and whole manufacturing happens in India plus whatever kind of ROC you look at this business the newer product including this business, so if you could shed some light on this Company overall?

Ashwani Arora: Let me explain you that the organic model of our group. So, this Nature Bio-Food which is now owned by LT and Rabo. And the business model is we are supplying the ingredient, which is used for either the brands or making ingredients like baby food, rice milk, rice cake and all these things and then making organic protein. We used to have the feed of soyameal, so this business is all B2B business and which is mainly in America and Europe. And all the manufacturing

capabilities are in India, because we have a very strong network with the farmers where we grow our organic produce and this Company is 25-year-old Company. We are in this business for the last 25 years

Nitin Awasthi: So, in your presentation and on your website, I see there is brand within the Nature Bio-Foods Ecolife?

Ashwani Arora: Majority B2B business. EcoLife business is small, only roughly total revenue is 10% of the business.

Nitin Awasthi: Okay and just 1% of your total topline if I am correct?

Ashwani Arora: As a group you are saying?

Nitin Awasthi: Yes, as a group LT food?

Ashwani Arora: As a group you can say 1.5%.

Nitin Awasthi: Okay and you will be getting into the oils also in the segment?

Ashwani Arora: So, in organic EcoLife brand there is a complete portfolio of organic foods which is lentil, rice. We have flaxseed oil, so the complete portfolio of organic basket.

Nitin Awasthi: Okay and which is also manufactured in India?

Ashwani Arora: We have already launched this brand in Northern of India and USA and doing well and is picking up well.

Nitin Awasthi: Okay Sir and what are the kind of margin that you we see the Nature Bio Foods like ratio if I put up ROC?

Sachin Gupta: ROIC in organic business is 18%.

Nitin Awasthi: Okay, and I believe the working capital days will be also much out of that because there will be no aging involved as in the traditional business?

Ashwani Arora: Yes, there is no aging involved.

Nitin Awasthi: Okay is there a push coming from the management in this business segment? Do you wish to take this from more than 10% to a big share?

Ashwani Arora: This is organic businesses one of the focus, we have good plans to grow this business in this year. We are working in Europe and America to use the stock and sell model.

Moderator: Thank you. Due to time constraint we will take our last question which is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir I wanted to understand first on the growth part, basically 7% growth we have seen overall for the year and this quarter was abnormally high at 20%. So, what sort of sustainable growth one should look at over the next maybe year or two?

Ashwani Arora: As I said pre-COVID plan was to grow in double digits and post COVID we have to see how this HoReCa business goes, but first quarter trend says we will be able to deliver the double-digit growth if the same trend continues.

Deepak Poddar: Double-digit growth is what we might be targeting but do you see that because of the current situation people might be buying more rice so is that one of the impacts that you are seeing for higher growth?

Ashwani Arora: Home consumption is growing especially in the international market. People there had at least one meal away from the home and now they prefer to have at home. Therefore, the home consumption is growing. India is a little bit different, dependence on HoReCa business is more and premium segment of the Basmati is kind of luxury in India. But, overall as a Company we think that whatever the trend we are seeing right now in two months or in the first quarter and the same trend continue and if things do not get worse, we will be able to deliver.

Deepak Poddar: Double-digit kind of growth and all of our plants are currently operational at optimum of utilization?

Ashwani Arora: At the moment yes.

Deepak Poddar: Fair enough that is it from my side. Thank you very much.

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

Ashwani 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 will look forward to connecting with you again in the next quarter. Thank you and stay safe.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.



LT Foods
May 29, 2020

Contact information: Ms Monika Chawla Jaggia

Vice President – Finance & Strategy

ir@ltgroup.in

Tel: 0124 - 3055210

Registered address: Unit No. 134, First Floor, Rectangle - 1,

Saket District Centre, New Delhi,

Delhi, 110017

www.ltgroup.in

CIN: L74899DL1990PLC041790