"LT Foods Limited Business Update Conference Call"

March 21, 2016

MANAGEMENT: **MR. ASHWANI ARORA – LT FOODS LIMITED**
MS. MONIKA CHAWLA JAGGIA – VICE PRESIDENT (FINANCE AND STRATEGY), LT FOODS LIMITED
STRATEGIC GROWTH ADVISOR - INVESTOR RELATION ADVISORS

Moderator: Ladies and gentlemen, good day and welcome to the LT Foods Limited's Business Update Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 this 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. Arora. Thank you and over to you, sir.

Ashwani Arora: Good afternoon everyone. I would begin by welcoming everyone to the conference call. I have with me Ms. Monika Chawla Jaggia – Vice President (Finance and Strategy) and also members of Strategic Growth Advisor, our Investor Relation Advisors.

It gives me a great pleasure to announce the acquisition of the two iconic brands since 1985, Gold Seal Indus Valley and Rozana of Unilever which enjoys high recall value in the Middle East and other part of the globe.

Middle East has the largest Basmati rice consuming population in the world and Basmati is the staple diet of the region. Middle East account for 80% market share out of the total export from India. Also over the last four years the total exports from both Pakistan and India has grown at 28% CAGR.

LT Foods is amongst top three Basmati player in the key geography. India and USA together account for 76% of the total sales volume closely followed by the Middle East which accounts for only 15%. Out of 15%, 7% is branded and 8% is from private labels. Historically our focus has been on building presence in more matured markets like USA and other part of the globe. And we have been servicing Middle East through our private label businesses. However, over the last couple of years we have been aggressively increasing our branded presence in the region.

Currently our presence is limited to Saudi Arabia, UAE, Kuwait, Iran, Iraq and Yemen. However there still exists wide space in the key Middle East market like Qatar, Syria, Jordan and Aman. The region is critical for strengthening LT Foods' overall growth strategy while effort to grow organically in the region have taken roots and inorganic opportunity offers a compelling proposition. It will help in gaining a stronger foothold in the region with broader offering of brand that have a high recall value.

Branded rice business of Unilever operates as a division of export business; business has two strong iconic brands Gold Seal Indus Valley and Rozana. These brands enjoy high recall in the gulf region. The brands have access to all the modern retailers through a well established distribution network. This acquisition will help us penetrate and establish in country like Oman, Qatar and Bahrain where we have no presence. This will reduce lead time in establishing a dominant position in these regions. It will also broaden our basket of offerings of brands and gain market share in Basmati rice segment in Middle East.

We would be able to leverage the distribution network of the brand acquired in the relevant market while gain from the synergy of supply chain management and backend processing. Thus the synergy will give us an improved margin profile. The deal envisages acquisition of brand and inventory for a consideration of Rs. 25 crores which is subject to close adjustment and CCI approval. This will be funded through debt and internal accruals. The brand registered a turnover of Rs. 51 crores in financial year 15. We expect to triple the current annual turnover of these brands in the 24 to 30 months' time frame.

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

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Pranoy Kurian from Centrum Broking. Please go ahead.

Pranoy Kurian: My first question is regarding this acquisition. So what is the margins of these two brands that you got?

Ashwani Arora: The gross margins are in the range of 20-21%.

Pranoy Kurian: And EBITDA?

Ashwani Arora: And EBITDA will be in the range of 15% to 17%.

Pranoy Kurian: So these are branded and like it is our percentage of these all completely branded or is there something else?

Ashwani Arora: Out of this 80% is branded sales and 20% is only the private label sale.

Pranoy Kurian: So it sounds like if the multiple is 0.5% or something like that, so that is actually higher than our own multiples and the rationale is probably it is more than just revenue, right it is probably networks and all that the access that you want in those markets?

Ashwani Arora: No, LT Foods share is trading at a lower multiple but as far as business value is concerned that is much bigger and I think we have got a very good deal in this.

Pranoy Kurian: Does the acquisition carry any debt meaning do those companies have any debt in their books?

Ashwani Arora: No.

Pranoy Kurian: But just generally since in Q3 and Q4 what kind of market you are seeing in Basmati market? Lot of the other players have seen significant realization declines so I am just in your last quarter we had relatively good performance. So I am just seeing so what is the reason for that?

Ashwani Arora: Look I think yes, of course this industry has a lower realization but as far as LT Foods is concerned we have grown quantitatively around 19%.

Pranoy Kurian: Okay so 19% volume you saw in this?

Ashwani Arora: Yes.

Pranoy Kurian: So if I look at the average realization now so what is the state of the industry has it recovered since December? November-December was quite a tough period so is the average industry recovering?

Ashwani Arora: Yes, the people who have a strong brands are doing good and they are improving their performance quarter-on-quarter.

Pranoy Kurian: Just one more thing one of the reasons that people sighted was that in this gulf region the oil price decline is related to some realization decline in Basmati generally. Do you think that it is playing in effect or?

Ashwani Arora: No, I do not think so because Basmati as I said is a staple diet and that is the last one to get affected.

Pranoy Kurian: So it is more a question of oversupply in India meaning over production?

Ashwani Arora: Yes, that is right. For the last two years we are overproducing. So that is why the prices are little depressed.

Pranoy Kurian: So could you give me some idea what is this organic rice one the division that been seeing good growth in your business. So what is the state in nine months how is it has grown the organic rice brands?

Ashwani Arora: The organic business is growing in the range of 40% for us.

Pranoy Kurian: Even in this FY16?

Ashwani Arora: Yes.

Pranoy Kurian: So do those carry a higher margin?

Ashwani Arora: Yes, comparatively to this industry, yes.

Pranoy Kurian: So if I see your margin even in Q3 there was a significant improvement I think it is around 2% points?

Ashwani Arora: Yes.

Pranoy Kurian: And even in nine months there has been a big improvement so is that?

Ashwani Arora: Yes, because that is because of our branded business whatever we have invested in the last so many years helped us in the better performance.

Moderator: Thank you. The next question is from the line of Nitin Mukhi from BW Investments. Please go ahead.

Nitin Mukhi: Yes so, basically this was on the line of acquisition that we recently made. In terms of volume those particular brands may not be that significant. What I understand is that we get access to supply chain in those countries where we do not have access. So for Daawat itself in terms of growth in these three markets which earlier we did not have access. What are the kind of internal targets that we are looking at over the period of three to five years?

Ashwani Arora: As I said we wanted to triple the business in these segment and unlock the potential of the brand in other part of the global market. As you know Indus Valley is the first brand in export market since 1955 so it has a great equity value in the consumer's mind.

Nitin Mukhi: But sir, again balance Rs. 50 crores business and we ourselves for a Rs. 3,000 crores business. So even if it triples then they would not have a major impact on our topline. Our understanding was that we will have a greater access to those markets those supply chains will be useful to our brand itself to penetrate those markets?

Ashwani Arora: Yes, you are right. It will help us in the backend it will improve our margin.

Nitin Mukhi: So currently we are doing like 50,000 tons in the Middle East where the total size of the market is close to 40 lakhs tons. So we were just trying to extrapolate over the next three to five years. What are the kind of internal targets that LT Foods is currently working with?

Ashwani Arora: LT Foods is working in the next three years we are working in the 100,000 tons market in the Middle East.

Nitin Mukhi: So probably doubling our in the next three years?

Ashwani Arora: Yes.

Nitin Mukhi: Secondly sir, in the previous call there was discussion from the impairment cost which might arise because of the insurance claim that we are dealing with. That time you had said that we even still waiting for the documentation to come in based on the latest development that might have occurred for 31st March are we looking at any impact any impairment cost in the P&L account?

Ashwani Arora: No, I think the claim is quite recoverable and we are not making any provision in the balance sheet.

Nitin Mukhi: Sir, next in terms of CAPEX, capacity utilization we are already at 80% and as you responded to the previous member we are looking to grow at a rate of close to 19% to 25% over the next medium term. So are we going to do more of outsourcing in terms of processing or are we going to increase the CAPEX and increase the capacity?

Ashwani Arora: No, we are going to increase the capacity. So our model will be mix of our own production and outsourcing.

Nitin Mukhi: And sir, again in the previous call there were discussions on Rabo private equity. There have been investors since 2009 and they might be looking at getting an exit. And lately there has been lot of developments within the branded Basmati segments. There you are entering market aggressively advertising celebrities like Baba Ramdev and Sri Sri - Art of Living they are also getting aggressive in the FMCG space. So for that 15% have any institutional or strategic player approached to you to participate to have a stake in LT Foods?

Ashwani Arora: As far as Rabo is concerned yes, they are exploring the opportunity to and they are looking for a right time exit that. And as far as your brand equity is concerned although there are lot of players are coming but that is not their core. And I think in the global market there are few brands which has a very strong entry barrier for any new player to come. So we have a very strong position in as far as branded Basmati is concerned.

Nitin Mukhi: So any institutional player or a strategic player have shown interest for this 15%?

Ashwani Arora: We are in talks, they are exploring.

Nitin Mukhi: And last time we were given some outlook in terms of repayment of loan so we were told that the loan will be brought down from Rs. 1,700 crores to Rs. 1,500 crores?

Ashwani Arora: Yes.

Nitin Mukhi: So I was just doing the back of envelope calculation. This in terms of what kind of operating cash flows that we are looking at? So Rs. 200 crores will be paid towards loan; Rs. 150 crores will be paid towards the interest cost; Rs. 50 crores will be paid towards taxation. So operating cash flow before taxes is coming to more than Rs. 400 crores for this year. Now is this an aberration or is this kind of operating cash flow sustainable?

Ashwani Arora: No, it is a sustainable. As you see the EBITDA will be around Rs. 300 crores and so like the EBITDA will be at the range of Rs. 370 crores and if you see the PBT will be this year will be tentatively Rs. 140 crores. And after tax the cash flow will be in the range of Rs. 170 crores.

Nitin Mukhi: Which we believe is sustainable because last year because of the insurance?

Ashwani Arora: It is sustainable, yes.

Nitin Mukhi: And sir, last question. In terms of I just wanted to have a breakup of the rice business and the non-rice business. Because we also have other components like Atta and all that. In the quarterly report there is no segment wise information available. So if you can just help me with that? We know that 54% is Indian and the balance is….

Ashwani Arora: Yes, therefore the rice business is more than 95%.

Nitin Mukhi: So that is the major chunk basically and that is the reason why we do not have the extra given because there is no material segment available?

Ashwani Arora: Yes.

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

Gaurav Punjabi: I just wanted to get a few questions clarified. So where is your manufacturing plant for this new acquisition?

Ashwani Arora: They have their own unit in Kundli which is in Haryana but we are not taking that. So we will be producing in our own factory. So we have taken only the brand and distribution.

Gaurav Punjabi: So basically this will be your rice like a variant of Daawat or the other brands which we have but only in their branding something of that sort?

Ashwani Arora: Yes.

Gaurav Punjabi: So I just want to understand how HUL has been operating in this market for how long like?

Ashwani Arora: That is 1985 or before that.

Gaurav Punjabi: So how come from 1985 the brand recall has been just Rs. 50 crores because that sounds like a very small?

Ashwani Arora: That is an opportunity for us. They were not having a focus on that area. So that is the opportunity we have.

Gaurav Punjabi: So our internal targets are to touch Rs. 150 crores within 2.5 years to 3 years?

Ashwani Arora: That is right.

Moderator: Thank you. The next question is from the line of Ruchi Shah from ISL Consulting. Please go ahead.

Ruchi Shah: Sir, you have mentioned that the brands are registered a revenue of Rs. 51 crores, a total revenue. Can you just give us the break up in terms of both the brands?

Ashwani Arora: Both the brands?

Ruchi Shah: Yes.

Ashwani Arora: In terms of value?

Ruchi Shah: Yes.

Ashwani Arora: So this is around Rs. 43 crores of the branded sales they have and out of that the bigger is Indus Valley. And Indus Valley is around I think Rs. 25 crores.

Ruchi Shah: Okay so this was FY15?

Ashwani Arora: Yes.

Ruchi Shah: Any ballpark number what it was like over last three years like how this has grown basically?

Ashwani Arora: They have grown around 15%.

Ruchi Shah: Sir, any if you can just throw a similar light on the profitability numbers?

Ashwani Arora: Profitability as I said the gross margins are 21% and PBT is around in the range of 10/%.

Ruchi Shah: Sir, but this is a blended gross margin that you are talking about?

Ashwani Arora: That is right.

Ruchi Shah: And because it also has my non-branded so my branded is slightly better than this?

Ashwani Arora: Yes, branded will be better and we will improve on that because we will have the backend margin also.

Ruchi Shah: So have we put in a target for ourselves like we would like to see so many basis points of an improvement over a period of?

Ashwani Arora: Yes, definitely we wanted to improve on the bottomline by 4% to 5% with this synergies. And the rest we will bring the growth with the kind of synergic benefit we will take.

Ruchi Shah: So have we drawn up a plan like how we will achieve this improvement of 4% to 5%?

Ashwani Arora: Yes, that will come from the backend synergies because we are not taking their factory and they are buying from the local mills. So we will have the processing margin with us.

Ruchi Shah: So sir, other than that if you can just give us a sense of what is the volumes that both these brands were doing?

Ashwani Arora: The volume is around 7,000 tons.

Ruchi Shah: 7,000 tons everything put together?

Ashwani Arora: Yes.

Ruchi Shah: And how different is the realization of these two brands that we like vis-à-vis our LT Foods brands, Daawat brands?

Ashwani Arora: They have two price points. One is premium price point and one is mid-price point. And the realization as far as premium brand is concerned so they better realization by around 4-5%. But in mid-price point they are little lower than us.

Moderator: Thank you. The next question is from the line of Rupal Sethi from Kanya Investments. Please go ahead.

Rupal Sethi: Sir, just wanted to clarify. Do you mentioned that in the best of the part of the deal the compensations at FY15 is only for the brands that we are taking over there will be no any other tangible assets that would be coming?

Ashwani Arora: No, it is in two parts. One is the goodwill value and the other is the current asset which is stocks. So approximately we are paying a brand value of Rs. 17 crores and approximately Rs. 7 crores is the stock we are taking.

Rupal Sethi: So Rs. 7 crores is the inventory that is there which you are taking over?

Ashwani Arora: That is right.

Rupal Sethi: So value of the brands we are associating is only Rs. 17 crores?

Ashwani Arora: Yes.

Rupal Sethi: So apart from this there will be no other manufacturing as such we had a contract manufacturing agreement?

Ashwani Arora: No, we are not taking any manufacturing of theirs. We are taking only the brand and distribution. That is where we will get a synergy benefit and pack it from our own mills.

Rupal Sethi: Will the packing completely from our own mills we will not be again going back to an outside person for?

Ashwani Arora: No.

Rupal Sethi: Just wanted to check in terms of markets are we looking at any additional say advertising spends to push these brand further? You said this was an opportunity for us and the earlier holder did not explore the markets enough?

Ashwani Arora: We are still in a planning stage and we will see wherever they have this strong brand value and we will invest in that market and grow the brand from there.

Rupal Sethi: So are we looking at any say targeting percentage wise A&P spends or a value that we will be assigning for the first few years to build the brand?

Ashwani Arora: We are still in the planning stage.

Rupal Sethi: Do you plan to have any potential outside the Middle Eastern market?

Ashwani Arora: Yes, it has the potential in other part of the globe which is Far East Africa market and Europe and America.

Rupal Sethi: Europe and America too these brands can work? We have already have a few of our brands there?

Ashwani Arora: Yes, as I said this is an iconic brand since 1985 and it was present across the globe wherever Unilever has the muscles of distribution and that is why.

Rupal Sethi: So brands we have got is the brands which are we are holding the brands only in those markets or Unilever has already explored the other markets?

Ashwani Arora: No, Unilever has explored the other market also. But the volume is big in Middle East. So that is an opportunity.

Rupal Sethi: Can you give us a fair idea what portion of this Rs. 51 crores will be from Middle East?

Ashwani Arora: Middle East will be more than 70%.

Rupal Sethi: Sir, any idea on how the working capital cycle for us would look with respect to these brands will we change much from our…..

Ashwani Arora: No, it will not. It will remain the same as in our own brands.

Rupal Sethi: So there we do not see any big difference in our receivables from those markets?

Ashwani Arora: No.

Rupal Sethi: Any other such deals you are looking at anything is in pipeline that we should wait for?

Ashwani Arora: Yes, we are evaluating.

Rupal Sethi: So any timeline on by when we can…..

Ashwani Arora: It is difficult, but whenever the opportunity comes so we keep evaluating them.

Moderator: Thank you. The next question is a follow up from the line of Ruchi Shah from ISL Consulting. Please go ahead.

Ruchi Shah: Sir, just I mean you have just mentioned this like that basically I have a 17% EBITDA margins on a Rs. 51 crores of turnover?

Ashwani Arora: Yes, this is what we are expecting.

Ruchi Shah: So if I do some rough calculations that means an EBITDA of roughly Rs. 8.5 crores and if I adjust the Rs. 25 crores amount that we are paying for the brand acquisition which has a Rs. 7 crores of inventory. Then I get Rs. 17 crores as the actual value for the brand?

Ashwani Arora: Yes.

Ruchi Shah: So it is basically 2x of EBITDA. So like this looks like a really good deal that we have like if I can use the word cheap. Cheap deal that we have got. So comments we have to like just give me a little comment on that?

Ashwani Arora: I will say this is a good deal for us. That is the only comment I have.

Ruchi Shah: Because you do not really see like such multiples nowadays?

Ashwani Arora: Yes, this is a good deal for us.

Ruchi Shah: Sir, anything that you can give on the like you just mentioned that we are like looking at and exploring multiple similar sort of avenue. So anything with the Future Group?

Ashwani Arora: No, Future Group we have just done a MOU there we are jointly doing the regional rices, South Indian rices. So we are putting a factory there and half of the production will be sold by Future Group and half of the production will be sold in our own brands.

Ruchi Shah: So basically it will be a processing center that the JV will put or Daawat will put?

Ashwani Arora: No, the investment is coming from Future side. So we will be the operating partner with them because of our expertise in running these businesses for the last 50 years.

Ruchi Shah: And the output of it will be basically 50% will be taken by the Future Group and 50% will be taken by us?

Ashwani Arora: Yes, this is what we have agreed at.

Ruchi Shah: Have we given a timeline to this project?

Ashwani Arora: Yes, this project is going to start in the month of August.

Ruchi Shah: Have we already started working on the project like putting up a plant?

Ashwani Arora: Yes, it is already done. It is already on.

Ruchi Shah: And any CAPEX number that we have already outstanding for us?

Ashwani Arora: That Future Group will comment on that because the investment is all from their side.

Ruchi Shah: So we do not play any role in the financials aspect of this?

Ashwani Arora: Not on the CAPEX side but when we will be a working partner so the working capital will be 50:50.

Moderator: Thank you. The next question is a follow up from the line of Sumant Kumar from Elara Capital. Please go ahead.

Sumant Kumar: Sir, with the acquisition of Indus Valley and Rozana what would be the branded sales mix you are expecting in next couple of years?

Ashwani Arora: This year we will be closing our branded sale around Rs. 2,000 crores. So with this acquisition and the growth we have taken for ourselves. So I think next financial year the plan is to close organically 15% growth and whatever the inorganic growth we have taken that will be add on.

Sumant Kumar: So what will be the percentage mix in next two to three years? Total sales, yes. Two put together**?**

Ashwani Arora: As I said it will be not more than 3% to 4% of our total branded business so Indus Valley and Rozana will contribute additionally in our branded business by 3-4%.

Sumant Kumar: Okay so the total branded sales mix is around 4% to 5%?

Ashwani Arora: No, for us as I said this year we will be Rs. 2,000 crores of our branded sales which is out of Rs. 3,000 crores. So around 70% and with this acquisition we will be adding the more Rs. 60 crores to Rs. 70 crores and the natural growth we will take in our own branded business here.

Sumant Kumar: So can we expect the 70% mix can reach to 80%, 85% in two to three years?

Ashwani Arora: That is what we are aspiring to.

Moderator: Thank you. The next question is a follow up from the line of Shankar Dutt from Kanav Capital. Please go ahead.

Shankar Dutt: Sir, just heard that you will be have the distribution of the company you acquired so what will be the portion of the sale which is currently 15% from Middle East in say three to five years from now?

Ashwani Arora: Can you repeat the question please?

Shankar Dutt: Sir, you said that your sales will be helped by the acquisition in terms of distribution channels?

Ashwani Arora: Yes. As I said the market which we were weak Qatar, Oman and Jordan they are strong in that market and that will help us to grow the business and take a synergy and put our Daawat brand also there.

Shankar Dutt: Sir, I want to know that currently the portion of sales in Middle East is 15%?

Ashwani Arora: Yes.

Shankar Dutt: So what will be the portion in say three…..

Ashwani Arora: So as I said we are targeting to do 100,000 tons in Middle East in the next two to three years. So overall the Middle East market is very big and strategically we are playing in a price point where the margins are better and where the commodity play is less. So we will be focusing on that market.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Arora for closing comments.

Ashwani Arora: Thank you everyone for joining in.

Moderator: Thank you. On behalf of LT Foods Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.