



“LT Foods Q1 FY18
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the LT Foods Q1 FY18 Earnings Conference Call hosted by Emkay Global Financial Services. We have with us today Mr. Ashwani Kumar Arora, Managing Director & CEO, Mr. Vivek Chandra, CEO (Global Branded Business), Ms. Monika Chawla Jaggia, Vice President (Finance & Strategy), and Mr. Sachin Gupta, GM Finance. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sumant Kumar of Emkay Global. Thank you and over to you Sir!

Sumant Kumar: Good afternoon everyone. I would like to welcome the management and thank them for giving us the opportunity. I would now handover the call to Ms. Jaggia for opening remarks. Over to you Madam!

Monika Chawla Jaggia: Thank you Sumant. A very warm welcome to all of you at this LT Foods Earnings Conference Call for the first quarter FY2018. I am Monika from the Investor Relations team at LT Foods. Along with me, I have Mr. Ashwani Kumar Arora our managing director & CEO, Mr. Vivek Chandra, CEO (Global Branded Business), and Mr. Sachin Gupta, GM Finance joining in for this call. Anything which is said during this call, which may reflect our outlook for the future or which may be construed as a forward-looking statement must be reviewed in conjunction with the risk that the Company faces. A presentation on the performance has been uploaded on the stock exchange and the Company’s website for the ready reference. An audio and transcript of this call would be shortly available on the investor section of our website that is www.ltgroup.in. With this, we are now ready to begin with the opening comments on the performance of the Company and our strategy for the growth from our Managing Director, Mr. Ashwani Kumar Arora. Post this we would be available for the question and answer session. Now with this I will pass it over to Mr. Ashwani Kumar Arora.

Ashwani Kumar Arora: Thank you Monika and very good afternoon to all of you. It is a great pleasure to greet all of you once again on behalf of all our Board of Directors and the senior management. We begin by thanking all of you for having spared time and joining us here today to discuss our first quarter earnings for the FY2018.

Before we discuss the financial performance during the quarter allow me to quickly highlight various developments in Food Sector in India.

The Indian Food Industry is poised for huge growth, increasing its contribution to the world food trade every year. In India the food sector, has emerged as high growth and high profit sector due to its immense potential for value addition, particularly within the food processing industry. The food industry, which is currently valued at \$US 39 billion is expected to grow at CAGR 11% to 65 billion by 2021.

Let me now provide specific to Basmati rice industry, which contributes to the majority of our business.

India remains a dominant player in the global Basmati rice industry both in terms of consumption, production and export. Basmati rice has witnessed growing demand in India market for the last few years. The major export of Basmati rice are to the countries such as Middle East, UK, Europe and US and LT Foods has strong presence in these geographies with their flagship brands Daawat and Royal.

LT Foods is an emerging Food Company with a focus on basmati and other speciality rice, organic foods and convenience rice based products. It is working with Farm-to-Fork approach and strengthening presence across all the geographies globally be it India, Middle East, UK, Europe and USA. It is striving its effort to expand its distribution reach in India as well by making consistent investments in brand building and ensuring the product quality. The result of the efforts are evident in the growth of the business wherein our branded business is growing at CAGR of 15% and making the business more sustainable and predictable.

Now let us move on to the update on a few development of this quarter -

Our Company has achieved a turnover of Rs.771 Crore up by 9% on year-on-year basis and has attained EBITDA of Rs.105 Crore, an increase of 8% on year-on-year basis. Though the volumes have been impacted because of the GST in India, but LT Foods is consistently working on strengthening its brand in the Indian as well as international market, which is evident from the fact that our branded business constitutes 67% of our overall business in this quarter versus 61% in Q1 FY2017.

In the Indian market, LT Foods is consistently working on adding new products to its portfolio. LT Foods known for launching innovative products has recently launched “Daawat Rozana Gold Plus” that offers a unique mix of 80% of white rice plus 20% Daawat Quick Cooking Brown Basmati Rice offering a perfect blend of taste and health in one pack as brown rice is rich in fiber and we are getting very good response. Another product added to our portfolio is “Daawat Sona Masoori Rice” from our JV with Future Group.

Another initiative for the Indian market is our JV with the Japanese Rice based snack Company Kameda to manufacture and market rice based snacks in India, is working as per the plan and the products are expected to be launched in the next quarter.

Middle East is a very big market for Basmati rice and LT Foods is working on firming up its presence in this market. The recent acquisition made of “Gold Seal Indus Valley” and “Rozana” are gaining acceptance among the consumer and are performing as per our business plan.

In the European market, we are pleased to share that during this quarter the Company has commenced operation in its first rice processing plant in Europe at Rotterdam with an initial capacity of 60000 tonnes. This is in line with our strategy to strengthen our presence in the European market.

In the US market, the Company's initiative to add 2-minute retort rice to its portfolio is also at a very advanced stage and operation of this facilities are expected to commence in the last quarter of this financial year.

Now, a quick update on our organic business. With an intent to replicate the success story of our organic business in USA and Europe, the Company has launched organic brand "EcoLife" in India as well in few stores and the response has been extremely encouraging.

LT Foods being a Food Company strongly follows the Farm-to-Fork approach and is consistently working on maintaining international standards for ensuring quality and food safety. In this regard the Company is closely working with the farmers on various sustainability initiatives to ensure pesticide compliant products.

On an overall level, the Company is consistently working on adding efficiencies at backend to stay competitive and has also taken initiatives on working capital optimization, process and cost optimization to expand margins.

Now I will pass on to Mr. Vivek Chandra, CEO of the Global Branded Business who will speak a little more on the branded business that I have referred to.

Vivek Chandra:

Thank you Mr. Arora and good afternoon. Mr. Ashwani Kumar Arora has spoken of branded business contribution growing from 61% to 67%.

This growth in the branded business is from our flagship brands Daawat and Royal as well as from the acquired brands, namely, "Gold Seal Indus Valley" and "817 Elephant".

Going forward, we look to continue to strengthen the branded consumer and the branded food service business globally and we have five main sellers to drive this growth.

The first is brand building - Daawat is the premium brand that we market globally. It has build to a leading position in all consumer metrics like consideration and preference. Going forward we will continue to invest behind this brand and further strengthen its leading position in consumer's mind.

Second supporting the brand building - the key focus is in expanding distribution and availability in the big Basmati volume countries like India, Saudi Arabia, UAE, UK, USA etc. This will be

achieved by creating LT Foods exclusive distributors salesman and strengthening our distribution infrastructure as appropriate.

Third - acquiring new consumers will be further driven by trade engagement and trade visibility programs.

Fourth - new products, which deliver better rice and rice related experiences such as Daawat Rice Sauté Sauces will be another key pillar of driving branded sales.

Fifth, food service is a key channel and we will continue to build this by new product offerings, which are relevant to these channels such as regional rice like Sona Masoori in India and also by creating exclusive food service distributors globally.

Overall combination of building Daawat and Royal through brand building, distribution and new products and leveraging our acquired brands to gain new volumes by distribution and trade support, we should continue to see a strengthening of the branded business in our portfolio.

I would now like to pass this on to Ms. Monika Chawla Jaggia for her comments on the performance.

Monika Chawla Jaggia: Thank you Mr. Chandra. Good afternoon everyone. I would now present an update on the financial performance for the period ended June 30, 2017.

For the period ended June 30, 2017 the Company registered revenue of Rs.771 Crore, which is 9% growth on year-on-year basis. The gross profit has increased by 20% on year-on-year basis to Rs.252 Crore; EBITDA increased by 8% to Rs.105 Crore on year-on-year basis, PAT is also increased by 10% on year-on-year basis to Rs.34 Crore resulting in improvement in the EPS to Rs.1.31 vs. 1.18 on year-on-year basis. EPS is based on the fully diluted basis adjusted for the stock split from Rs.10 per share to Rs.1 per share. Company's consistent efforts to reduce debt is showing results as the debt-equity ratio has reduced from 2.57 to 2.08 on year-on-year basis.

Now, we open the ground for the question and answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin question and answer session. We take the first question from the line of Manas Mehrotra from Motilal Oswal Securities. Please go ahead.

Manas Mehrotra: I would like to ask you will LT Foods diversify in future to foods products other than Daawat Rice or rice segment.

Ashwani Kumar Arora: Yes the plan is to grow the core business, which is dry rice and so going forward in the next five years the plan is that 70% will come from our core business and 30% from value -added products.

- Manas Mehrotra:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Karthik Kamat, Individual Investor. Please go ahead.
- Karthik Kamat:** What is the CAPEX or capital expenditure that you planned to do this particular financial year?
- Ashwani Kumar Arora:** This financial year will be heavy CAPEX because we are putting a plant and we have started a plant in Europe and we are putting RTH plant in USA, so altogether CAPEX will be Rs.150 Crore this year.
- Karthik Kamat:** This will be funded through internal accruals?
- Ashwani Kumar Arora:** So this will be funded through debt, which we have raised in respective entities, that is, in Holland and USA. In India we are not doing much investment, that is, a regular CAPEX of say Rs.20 Crore.
- Karthik Kamat:** Is there any plan to reduce debt on balance sheet this year?
- Ashwani Kumar Arora:** So debt will be the same that is what we have planned and we will not increase the debt even we have plans to start a plant in Europe and America for RTH. We are trying to cap the same debt as last year.
- Karthik Kamat:** Thank you.
- Moderator:** Thank you. Next question is from the line of Abir Kanjilal from Ride2Rich. Please go ahead.
- Abir Kanjilal:** I just wanted to know the development on the products from Kameda JV?
- Ashwani Kumar Arora:** So the plan is that the first plan was to import from Japan and do a test market and then put up a factory in India so the goods have been shipped, and so we are going to launch them in Diwali. I will tell you from the consumer research and also the packaging, the product has been liked by everyone very much and we are quite hopeful that this will be a good success.
- Abir Kanjilal:** What is the distribution theme that we are using for that?
- Ashwani Kumar Arora:** So initially we are using the modern trade stores, the standalone outlets and premium A class outlets.
- Abir Kanjilal:** Then what will be the price range of the product?
- Ashwani Kumar Arora:** It will be Rs.85 to Rs.100 that we are working on.

- Abir Kanjilal:** How will be the margins in the product line?
- Ashwani Kumar Arora:** Any new product the gross margin the benchmark should not be less than 40%.
- Abir Kanjilal:** Thanks a lot. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.
- Dhruv Agarwal:** Congratulations on good set of numbers. Sir my question is regarding, I would like you to elaborate on your CAPEX plan for the US factory, which we just spoke about a few minutes back, if you could give some more little speech?
- Ashwani Kumar Arora:** We have put up a plant of RTH, which is ready to heat where we are going to produce organic 2-minute rice and the CAPEX is around \$5 million that is close to Rs.40 Crore. The launch is going to be in the last quarter of the year.
- Dhruv Agarwal:** That means in Jan-March quarter of 18 right?
- Ashwani Kumar Arora:** That is right.
- Dhruv Agarwal:** What would be the capacity of this plant Sir?
- Ashwani Kumar Arora:** So initially this plant will have capacity of generating \$20 million business so that is around Rs.150 Crore.
- Dhruv Agarwal:** In terms of volume?
- Ashwani Kumar Arora:** Volume I do not have the number at the moment, but \$20 million will be the value and the pouch will be around \$1.5 to \$2 per pouch.
- Dhruv Agarwal:** This revenue would be generated over a period of?
- Ashwani Kumar Arora:** This will be generated in the next financial year that is 2018-19.
- Dhruv Agarwal:** So in the first year itself and Sir Rotterdam plant as you said has already started functioning right?
- Ashwani Kumar Arora:** We have done the inauguration on 28th June.
- Dhruv Agarwal:** Right I saw that in the presentation exactly. So Rs.40 Crore CAPEX is for this and the rest Rs.110 Crore CAPEX is for?

Ashwani Kumar Arora: Rotterdam plant will be around Rs.80 Crore and Rs.40 Crore is RTH plant and then in India will be Rs.15-20 Crore.

Dhruv Agarwal: So that is what the maintenance CAPEX will be for India?

Ashwani Kumar Arora: Yes maintenance CAPEX.

Dhruv Agarwal: That Rs.80 Crore that you have already spent or you are expanding it again Rotterdam plant?

Ashwani Kumar Arora: No, this is a startup investment and all the funds in Rotterdam and USA have been raised in respective country because the fund cost is very low.

Dhruv Agarwal: This Rs.80 Crore CAPEX, which is there for Rotterdam has been spent last year also and some of that will be spend this year if my understanding correct?

Ashwani Kumar Arora: So that was work in progress, but I think all the CAPEX will be capitalized in this year.

Dhruv Agarwal: Capitalized this year basically. Thanks Sir! Thank you so much.

Moderator: Thank you. We take the next question from the line of Megha Bhapkar from Resurgence Capital. Please go ahead.

Megha Bhapkar: I wanted to ask has there been an increase in the tax rate on the branded sales for Rice Daawat in India due to GST.

Ashwani Kumar Arora: Tax rate is 5% and one clarification is going to come on September 9, 2017 so there was confusion on the definition.

Megha Bhapkar: Are we seeing any impact on the sales because of the blend between branded versus non-branded sales is Daawat getting affected?

Ashwani Kumar Arora: In long run it will have an impact because on September 9, 2017 the clarification will come and there will be a level play field.

Megha Bhapkar: So this clarification would be with regard to the tax on branded versus non-branded is it?

Ashwani Kumar Arora: Yes the registered brand or the trademark or registered trade mark that will be the difference here.

Megha Bhapkar: Daawat is a registered trademark for us or how is it right now?

Ashwani Kumar Arora: LT Foods is the owner of the Daawat brand, but it is a TM and not registered at the moment.

- Megha Bhapkar:** Sir due to my lack of knowledge can you just clarify what distinction does it mean so can any other producer produced by the name of Daawat the rice and sell it, how does this differentiation work?
- Ashwani Kumar Arora:** We are the owner of this brand and no one has the right to use this brand, so we have full legal right of this brand, but only registration is pending.
- Megha Bhapkar:** It is regard to do with the government policy, but the competition cannot impact you in any manner?
- Ashwani Kumar Arora:** No for sure.
- Megha Bhapkar:** That was my question. Thank you so much.
- Ashwani Kumar Arora:** Daawat is the one of the strongest brand in India.
- Moderator:** Thank you. We take the next question from the line of Kiran Shankar from Karvi Stock. Please go ahead.
- Kiran Shankar:** Congratulations for the good set of numbers. I would like to be updated on branded and trading business?
- Ashwani Kumar Arora:** So as I said 67% is the branded business and trading in this quarter we have not done any trading business and the revenue is divided between organic business, branded business and B2B business, which is a strategic private label business that we do with the good companies around the world.
- Kiran Shankar:** In terms of realization what has been the domestic realization and export realization?
- Ashwani Kumar Arora:** Domestic realization is around Rs.51 and export realization branded is Rs.91 and then if you add private label then it is Rs.85 average.
- Moderator:** Thank you. We take the next question from the line of Aditya Joshi from Anand Rathi. Please go ahead.
- Aditya Joshi:** Sir the outlook towards the monsoon, how is the monsoon then the procurement prices, etc.?
- Ashwani Kumar Arora:** We are seeing the same production as last year. So in some states it is growing, in some states it is de-growing, but overall it will be the same year and monsoon is good for Basmati because Basmati anyway does not need much rain and in Punjab, Haryana, Madhya Pradesh the rains are okay.

Aditya Joshi: My next question is regarding the cut in the import duty what will be the impact on the same on our business?

Ashwani Kumar Arora: Which duty?

Aditya Joshi: Import duty cut on the rice.

Ashwani Kumar Arora: Basmati is an export product so we do not have any impact of import duty because we do not import any rice.

Aditya Joshi: So we would not be facing any competition if the import duty comes down?

Ashwani Kumar Arora: No, Basmati is unique to India and Pakistan and I do not think still rice is on a negative list.

Aditya Joshi: Thanks a lot. That is it from my side.

Moderator: Thank you. We take the next question from the line of Abir Kanjilal from Ride2Rich. Please go ahead.

Abir Kanjilal: Sorry for that. I am saying I want to know the guidance for FY2018 for topline and bottomline?

Ashwani Kumar Arora: We will maintain the growth that we are during the last year. So we will maintain the same momentum of growth.

Abir Kanjilal: I see a little bit of growth has a bit slowed down the quarter at least on quarter on quarter basis so it is GST or we are talking during GST or is there any some other reason?

Ashwani Kumar Arora: We have grown in value terms 10% same quarter, but yes India has been impacted by this GST, otherwise we were expecting a better growth than what we have done. So, India is lower by 21% in the same quarter.

Abir Kanjilal: So you see things easing out going forward?

Ashwani Kumar Arora: We are expecting that slowly, slowly the things will be corrected and we are expecting that we will have regular sales and it will gradually become better.

Abir Kanjilal: Sir thank you that's about it.

Moderator: Thank you. We take the next question from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Last year if you talk about the plantation wise we have seen that last year many farmer realization on the Basmati was lower and part of the farmer is shifted from Basmati to the normal

rice, which lead to lower Basmati production and Basmati pretty started increasing, how is the current scenario in terms of plantation of total basmati and shift between Basmati and non-Basmati?

Ashwani Kumar Arora: You are right, last year the farmer has not got the cost of their production and therefore there was a doubt, but later the prices went up. So, we are not expecting any reduction in the production or a shift from Basmati to non-Basmati.

Jignesh Kamani: This year also production will be similar at last year, since current realization is very high are the farmer convert more into Basmati because current realization is very healthy compared to non-Basmati?

Ashwani Kumar Arora: In Haryana, Punjab, Madhya Pradesh, UP the production will be the same as last year a little bit growth and that will compensate for Punjab's production which is expected to be comparatively less.

Jignesh Kamani: So in that case will we expect that there will be a pressure on the Basmati price, which increased this year on YoY basis, so next from October-November when the new season will start?

Ashwani Kumar Arora: We do not see because last or last year we have not seen to be come back as lowest price so going forward the prices will be little bit on the farmer side, but it depends how the export to Iran and the other part of the Middle East or they react to these kind of prices, so we see the farmer side not on a lower side that is what our observation is.

Jignesh Kamani: Second thing I can say Government of Europe and everything has now we can see was most stringent on the quality of the Basmati rice and so what would be the implication for the Indian export to this category and do you see some more issue on this export for the industry?

Ashwani Kumar Arora: Yes in some of the pesticide they have reduced their MRN level and it would be tough for India to export, but actually food as I said in my opening speech we work with the farmers, we have a team of 150 people they work with extension services and we work with lot of companies where we are educating the farmers to use the compliant pesticides and the best that where they can produce a compliant paddy as per EU norms.

Jignesh Kamani: Understood so there would not be impact for us, but for industry there will be impact?

Ashwani Kumar Arora: I think first of all Europe is only 10% of the total export from the industry, so it will have a little impact and for us also as I said we work backward with the farmers so we should not have an impact here.

Jignesh Kamani: Thanks a lot.

- Moderator:** Thank you. We take the next question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.
- Dhruv Agarwal:** My question is regarding the GST, the GST tax applicable to your brand if it is registered if 5% if I am not wrong?
- Ashwani Kumar Arora:** On some of LT Foods brands we have a GST and some does not come under the definition they have given.
- Dhruv Agarwal:** So basically the trademarks at 1999, which it was there because one of the competitors said that we have main GST because we are not registered in that act so the same applies to you right?
- Ashwani Kumar Arora:** The same some of our brands come under that definition some pay with GST.
- Dhruv Agarwal:** So which of those brands have been registered if you could just give us the names?
- Ashwani Kumar Arora:** Some brands that come under GST purview are Heritage brand and Devaaya brand.
- Dhruv Agarwal:** Heritage and Devaaya and if you could tell what these brands are as a percentage of total sales?
- Ashwani Kumar Arora:** So that is around I will say 15%-20% of our total sale.
- Dhruv Agarwal:** Both of these combined. The rest of the brands are not registered and do not come under the purview of GST so that is basically.
- Ashwani Kumar Arora:** That is under registration that is a trademark. That thing will also clear on September 9, 2017 GST Council.
- Moderator:** Thank you. Well that was the last question I now hand the floor over to the management for their closing comments.
- Ashwani Kumar Arora:** Thank you everyone for listening patiently to us and taking out time from your busy schedule to participate in our earning call. To summarize our discussion today LT Foods is in the back to deliver healthy, sustainable, profitable growth and committed to maximize shareholder value in medium to long term. For any other further clarification, please feel free to get in touch with our team. We will try our best to address all your queries. Thank you once again for patiently listening to us. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services we conclude today's conference. Thank you for joining us. You may now disconnect your lines.