



“LT Foods Q1 FY2020
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the LT Foods Q1 FY2020 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks Ranval. On behalf of ICICI Securities we welcome you all to Q1 FY2020 conference call of LT Foods Limited. We have with us today Mr. Vijay Kumar Arora, Chairman - LT Foods, Mr. Ashwani Kumar Arora, Managing Director and CEO, Mr. Vivek Chandra - CEO - Global Branded Business, Mrs. Monika Chawla Jaggia – VP Finance and Strategy and Mr. Sachin Gupta – General Manager, Finance. Now I now handover the call to Mrs. Monika for her initial comments. Thank you and over to you Madam!

Monika Chawla Jaggia: Good afternoon everyone and thank you for joining us on LT Foods Q1 FY2020 earnings conference call. My name is Monika Chawla Jaggia and I am part of Finance & Strategy and Investor Relation Team of LT Foods. Joining with me today is Mr. Vijay Kumar Arora, The Chairman, Mr. Ashwani Kumar Arora, Managing Director & CEO, Mr. Vivek Chandra, CEO Global Branded Business, and Mr. Sachin Gupta, General Manager Finance of the Company. We will begin the call with opening remarks from Mr. Vijay Kumar Arora and Mr. Ashwani Kumar Arora followed by an interactive question and answer session. I would like to highlight that certain statements made or discussed on the conference call today may 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 Company’s website. I would now like to invite Mr. Vijay Kumar Arora to begin the call. Thank you and over to Sir!

Vijay Kumar Arora: Thank you Monika. Good afternoon. Thank you very much for attending our Q1 FY20 earnings call. I would also like to take this opportunity to thank all our stakeholders for their continued support to the LT Group. I hope the 1st quarter results are in line with expectations of all of you on the call. With our deep insight on consumer’s preferences and superior brand portfolio, supported by a wide distribution network, we have been able to deliver a strong performance across all the geographies. We feel proud to state that the vision laid out couple of years back by the promoters is being executed well by the professional management team. Despite certain challenges in few of the consumer companies, our sector continues to perform well which is visible from the growth in both domestic and export markets.

This is to assure you that the management is maintaining its relentless focus on improving quality and bringing cost effectiveness across the value chain.

I am happy to state that our 1st quarter results are beginning to reflect the impact of these. I will now handover to Mr. Ashwani Arora to take us through the details of our Q1 performance.

Ashwani Kumar Arora: I would like to begin by taking you through the key highlights for our Q1 20 performance. Our revenue grew by 15% year on year in Q1 20 to Rs.985 Crores. All our businesses have grown well. Our India business has a first quarter growth of 28%. The international business has grown by 12%. Our gross profit for the quarter at Rs.266 crores grew by 17% year on year and our EBITDA of Rs. 126 crores is up 18% year on year.

Diving into the year on year details, growth in our international business was driven by growth across all our geographies: US revenue grew by 6%, Europe revenue grew by 145% and ROW revenue grew by 74%.

In this quarter, and as guided last quarter, we were able to fully implement the price increases in the U.S. Our sales strategies focused on increasing sales of our higher GP brands is also yielding results. This, with increased revenue, enabled us to increase our gross profit by 17% year on year to Rs. 266 crores with margins of 27%.

We also reduced our Other expenses as a % to sales by 60 basis points. This further enabled us to increase our EBITDA to Rs. 126 crore, a growth of 18% year on year and an increased EBITDA margin to 12.8%. The reclassification of our lease rentals to depreciation and finance costs as per the new accounting standard on leases which is Ind AS 116 also contributed to an increase of Rs. 3.89 crore to our EBITDA which however balanced out in the depreciation costs. We ended the quarter with a PAT of Rs. 45 crore, an increase of 15% year on year.

Moving on to a comparison versus last quarter, as you are all aware, our Q4 performance was adversely impacted by a one-off loss from sale of our investment in the JV Company Genoa Rice Mill. The GP performance was also slightly subdued with the price increase not fully passed on in the U.S. We are happy to state that Quarter 1 performance, has come back to our normal operating performance metrics and we expect this positive momentum to continue for the rest of the year.

Our gross margins have increased by 277 bps versus quarter four '19 and our EBITDA margins have increased by 360 bps. Our finance costs have also declined by 15% quarter on quarter as we have managed to keep our working capital under check. We do assure you that the management focus continues to build in strong accruals to fund the working capital.

Moving to our operational performance, on our branded portfolio, consistent efforts to strengthen our portfolio of brands has resulted in an increase of the branded business by 14%.

I am also happy to report continued progress in our European operations. We achieved breakeven EBITDA in Q4 '19 and the operation has become EBITDA positive in Q1 '20 with an EBITDA of 2.6 cr, compared with Q1 '19 loss of 4.2 cr.

Our rating agency, CRISIL reaffirmed our credit rating to A- with a positive outlook during their last assessment in December 2018. We do hope that this is going to further improve once we close FY 2020

Overall, we are on track with our strategy for this year. As informed on our earlier calls, our strategic focus continues to be driven by 3 broad pillars: Growth, margin expansion and strengthening our financial metrics. Our growth strategies are to strengthen our brand, secondly further widen our distribution network and increase brand penetration across all consumer segments. Margin expansion strategies are to focus on change in product mix towards higher margin brands, manufacturing cost efficiencies and thirdly to realize economies of scale. We will focus on de-levering our balance sheet through working capital efficiencies and more efficient fund utilization and hence bringing about improvement in our debt to EBITDA ratio and our return ratios.

We are working on several initiatives within our Company to consolidate and simplify our group structure. During this quarter, we have wound up 4 subsidiaries in India and we are also evaluating options to consolidate our international businesses. Our endeavor is to maintain 12.5% EBITDA margin for FY2020 and move towards expanding it to 15% by 2022. We would also aim to contain our Debt /EBIDTA ratio to less than 3 times. Now we would be happy to answer any questions. 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 Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Sir, congratulations for very good set of numbers. So, what is the quantum of price hike in US we have taken?

Ashwani Kumar Arora: Can you repeat that please?

Vipul Shah: What is the quantum of price hike, which we have taken in US?

Ashwani Kumar Arora: Roughly 5%.

Vipul Shah: 5% and it was taken in this quarter?

Ashwani Kumar Arora: Yes.

Vipul Shah: It is taken this quarter?

Ashwani Kumar Arora: Yes, this quarter.

Vipul Shah: Sir, can you give me US and Europe turnover and EBITDA figure?

Ashwani Kumar Arora: Yes, sure. We will give you an exact number.

Sachin Gupta: Our US revenue for this quarter is 351 Crores.

Vipul Shah: And EBITDA?

Sachin Gupta: US Company EBITDA is 30 Crores.

Vipul Shah: 30?

Sachin Gupta: 30.

Vipul Shah: And Europe?

Sachin Gupta: Europe revenue for this quarter is 76 Crores and EBITDA as mentioned in the speech is 2.6 Crores.

Vipul Shah: 2.6 Crores okay Sir and what is the status of our insurance claim?

Ashwani Kumar Arora: Regarding Insurance claim, as stated in last quarter earning call, we are expecting by the year end the outcome of court case and we are very hopeful that we will have a favorable judgment from the honorable court.

Vipul Shah: And if the judgment is favorable, we will get around 180 Crores right if I am not mistaken?

Ashwani Kumar Arora: we have filed a claim of 190 Crores with interest.

Vipul Shah: What is the net debt at the quarter end?

Sachin Gupta: That is 1504 Crores.

Vipul Shah: 1504 Crores and what would be the capex for this financial year 2019-2020?

Ashwani Kumar Arora: As stated in the last earnings call, we will be in the range of Rs.40 Crores to Rs.50 Crores.

Vipul Shah: 40 to 50 Crores. How will we use the additional cash flow, would it be used to reduce the debt?

Ashwani Kumar Arora: Yes, to reduce the debt. We have reduced the debt and we are targeting in the year ending with 1500 Crores of gross debt.

- Vipul Shah:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Udit Birpalia from Kotak Mahindra. Please go ahead.
- Udit Birpalia:** Sir, I wanted to check the quantity wise movement in the inventory. I can see this on negative inventory change in inventory of goods, and so can we get a sense on the inventory movement?
- Sachin Gupta:** Basically, the changes in the inventory is the result of changes in the finished goods inventory. As the season goes on, there is a reduction in the inventory because of the seasonal nature of the industry.
- Udit Birpalia:** Alright. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Shubrato Sarkar from Mount Intra Finance. Please go ahead.
- Shubrato Sarkar:** Good afternoon Sir. Can you help me with few balance sheet data vis-à-vis March quarter? What was our net debt in March quarter and now what is the net debt and what is the change in inventory and working capital?
- Sachin Gupta:** If you look at my debt, in March 2019, it was 1670 crore. It has reduced to 1504 crore, so there is a reduction of 167 Crores. As far as the working capital is concerned, my working capital days has reduced to 233 days, so there is a reduction in the working capital days as well.
- Shubrato Sarkar:**
- Shubrato Sarkar:** Any corresponding figure with the same quarter of last year that will help?
- Sachin Gupta:** My working capital days in June was 257 days, so from that also it has reduced to 233 days, so on Y-on-Y basis, there is a reduction of 24 days.
- Shubrato Sarkar:** So, there is a reduction of 24 days. Now coming to your debt, this has reduced by 167 Crores, can you help me to understand how we have repaid this debt or what has been the source of this reduction?
- Sachin Gupta:** My main source of reduction is of debt was basically the EBITDA that is 126 Crores. I have used that for reduction in cash flow from the financing activities. There is only 13 crore of capex during this quarter, so whatever the cash flow we generated, has been used for reducing the debts.
- Ashwani Kumar Arora:** There is a reduction in the working capital cycle also.

- Shubrato Sarkar:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Anup Ramachandra from AR Securities. Please go ahead.
- Anup Ramachandra:** This is with respect to GST benefits, US has withdrawn the general systemized tariff benefits for basmati?
- Ashwani Kumar Arora:** That is not implemented on basmati rice. As discussed during last quarter, basmati does not fall into that category, we have the same status now as well.
- Anup Ramachandra:** It is a zero duty, isn't it?
- Ashwani Kumar Arora:** There is a duty, but not zero it is a half percent duty that has been throughout for the last so many years.
- Anup Ramachandra:** So, there is no implication on US withdrawing GST benefits on healthy foods?
- Ashwani Kumar Arora:** Yes, No implications.
- Anup Ramachandra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Tirath Muchhala from Elusividya Advisors. Please go ahead.
- Tirath Muchhala:** Thank you for taking my question. I have a few questions on your brands, so one is where are we selling Ecolife?
- Ashwani Kumar Arora:** At the moment we are selling Ecolife in India at some outlets and in America.
- Tirath Muchhala:** And is it substantial or are we still favoring what are the brands can?
- Ashwani Kumar Arora:** In our organic subsidiary, the main business is ingredient business that we sell in Europe and America mainly to B2B. We sell as a value added thing, which is rice flour for baby food, rice cakes and Soya meals.
- Tirath Muchhala:** So, Ecolife is a B2B brand or is it a consumer brand?
- Ashwani Kumar Arora:** Ecolife as a brand is a B2C, but majority of our organic business come from as an ingredient business, which we sell to the manufactures who makes baby food, who make rice cakes, who make rice milk and then as a meal.

Tirath Muchhala: I think in the last quarter also we have been asked, but the 100 Crores that we have raised in Nature Bio Foods, what is it for because it is quite a substantial amount?

Ashwani Kumar Arora: We raised only 60 Crores and that has been used mainly for working capital and the other is we are setting up the factory for making Soya meals for poultry feed and other meals.

Tirath Muchhala: So, the ready-to-heat products that we are selling in the US, have we already started selling that?

Ashwani Kumar Arora: Yes, we have already started selling that and we are getting good response on that. We have got listed with almost all the leading chains in USA.

Tirath Muchhala: And what parts of the US do we sell them?

Ashwani Kumar Arora: We sell across USA and across all channels.

Tirath Muchhala: So, even the RTH product is across USA, has not been test marketed right now?

Ashwani Kumar Arora: LT foods' brand Royal, which is a leading brand in USA, have a strong distribution network across America across all channels.

Tirath Muchhala: Right, but the RTH product is being sold across all channels or are we still testing where we can sell?

Ashwani Kumar Arora: Yes, we are in process of listing, one of the leading chains have listed the product and are moving well.

Tirath Muchhala: One last thing on the Daawat sauces, are we going ahead with that product or is it still being tested?

Ashwani Kumar Arora: Let me ask Mr. Vivek Chandra to explain more about that.

Vivek Chandra: Daawat sauces were in test in a few chains in Mumbai and Bengaluru and have really received very good response and we have already started expanding, so in this month they have actually gone to 6 other cities, so the answer is we are expanding based on what we have seen in the test.

Tirath Muchhala: And is that the same for Cuppa rice, or is that for the American market?

Vivek Chandra: Cuppa rice is something that is one of the many opportunities that we are evaluating. Cuppa rice have not been launched anywhere, so it is still in an assessment phase.

Tirath Muchhala: Alright. Thank you so much for your answers.

Moderator: Thank you. The next question is from the line of Rabindra Verma from YES Bank. Please go ahead.

Rabindra Verma: Sir, I just had one query, basically what is the outlook on basmati rice prices, given the prices have declined about 12% in the last one to two months over the concerns of the US sanctions on Iran and how would it impact inventory valuations would we basically see any sort of inventory loss going ahead?

Ashwani Kumar Arora: No. This reduction in the prices of Basmati rice in the month of July was post exceptional increase in prices in earlier months because of Iran shipment. , This is far end of the crop and for which reduction in prices has happened, the quality is also not good, so it is not having impact on our selling price. The quantity is also not available in abundance. So it will not have any impact on the inventory valuation or our selling price.

Rabindra Verma: Thank you so much.

Ashwani Kumar Arora: Also as we have explained we do not have any market in Iran.

Rabindra Verma: Sure, thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Monika Chawla Jaggia: Thank you everybody for joining the call. You can definitely get in touch with us if there are any question unanswered. Thanks a lot.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.