



“LT Foods Q3 FY17 Earnings  
Conference Call”

February 10, 2017



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**MANAGEMENT:** **MR. ASHWANI KUMAR ARORA, MANAGING DIRECTOR & CEO - LT FOODS**  
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**Moderator:** Good day ladies and gentlemen, and a very warm welcome to the Q3 FY17 Results Call of LT Foods 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Dhoot from Emkay Global. Thank you and over to you Sir!

**Nitesh Dhoot:** Good afternoon everyone. I would like to welcome the Management and thank them for giving us this opportunity. I would now handover the call to Ms. Jaggia for her opening remarks. Over to you madam!

**Monika Chawla Jaggia:** Thank you Nitesh. A very warm welcome to all of you at this LT Foods earning conference call for the third quarter and for nine-month period ended December 31, 2016. I am Monika from the Investor Relations team at LT Foods. Along with me, I have Mr. Ashwani Arora our Managing Director and 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. An audio and the transcript of this call would be shortly available on the investor section of our website that is [www.ltgroup.in](http://www.ltgroup.in). With this, we are now ready to begin the opening comments on the performance of the Company and our strategy for the growth from the Managing Director. Post this; we would be available for the question and answer session. Now with this, I will pass it over to Mr. Ashwani Arora.

**Ashwani Kumar Arora:** Thank you Monika and very good afternoon to all of you. I would like to thank you all for your interest in our Company and taking time out from your busy schedule to attend earning call for the third quarter and nine-month period ended December 2016. I hope everyone had an opportunity to look at our results. A presentation on the same has been uploaded on the stock exchange and the Company's website for the ready reference. I will first walk you through the current happening in the Food Sector in India and then will quickly run through the growth strategy of the Company. The Indian Food Industry constitutes 57% of the country's total retail business and is expected to grow 3.5 times by the year 2025 and reach a value of Rs.71 trillion. Modern grocery retailing registered a value growth of 17% in 2016 on the back of increased footfall by urban consumer at hypermarkets and supermarkets. With many young urban consumers preferring to shop for their groceries once a week, we have also seen an increased trend from the rural markets who also like to visit various modern trades for an increased consumer experience. Since we are present across most of the modern trade formats, this shall always help in the growth of the Company. Thanks to the various initiatives of FSSAI, there is increasing awareness of food safety. In this context, all stakeholders (industries, policy makers,



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regulators, and consumers) are working closely towards developing a comprehensive and effective food system, which ensures both safety and nutrition. With increased awareness, even consumers are conscious for safe, wholesome and hygiene food. This is leading to a significant shift from the unorganized to the organized segment in most food categories. We shall like to reiterate that all our products are FSSAI compliant and this will benefit us in the long run.

Let me now provide input specific to the Basmati rice industry. After facing weak pricing scenario for 2015 growth season, Basmati rice industry in India is going through relatively better time with healthy recovery in both paddy and Basmati rice prices, which shall help both the producers, farmers, and branded player like us. Increase in paddy price has led to proportionately increase in the prices of Basmati rice in Indian market.

On international front, Indian government has put in significant effort to open up trade with Iran market. Though, our exposure in this market is anyway quite minimal, but opening up of market shall benefit us equally.

Another positive development in the opening up of the Basmati rice import by China, this is also welcome news to the industry.

Overall in the medium to long-term outlook for Indian Basmati rice industry is very encouraging, especially for large organized player like LT Foods, which has presence in both Indian and International markets. As mentioned earlier, we are amongst the few companies who have reached to across 65 countries with significant ground presence in USA, Middle East, and Europe. We continue to enjoy market share upwards of 40% of the US Basmati Rice Industry under our strong brand, Royal.

Now, I will walk you through brief overview of our business and strategy. Despite demonetization, LT Foods India business was not impacted. In fact, your Company's performance has been stronger in Q3 FY17. Food segment is generally found to be insulated to all these volatilities and the same is reflected in our strong performance for this quarter. We feel movement from unorganized sector to organized sector has now been quite stronger.

I am happy to share that for the period ended 31st December 2016, our overall sales volume was up by 25% Y-o-Y. The overall volume was 430,000 tonnes. The volume growth in the Indian market was 34% and in international market was 18%, which again reflects the increased confidence of consumer in our Company. The increased volumes have led to a healthy growth in sales, EBITDA, and PAT in this period. The same shall be covered later by my colleague, Monika.

As mentioned in the last call, we are working on expanding the product portfolio as well as geographical reach and with this objective, LT Food has incorporated a subsidiary in UK, which is in the process of setting up state-of-the-art dedicated facility at Rotterdam in Netherlands. The



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facility is being built across 12,000 square meters of space and is expected to commence operation by November 2017. This new facility along with our acquisition of iconic brand 817 Elephant shall further strengthen our foothold in European markets.

Moving to the Middle East, we are happy to share that our recently acquired brand, Gold Seal Indus Valley and Rozana from HUL are performing well in those markets. The performance till date has been in line with our assumptions.

You may have noted that the Company is now simultaneously working on strengthening its product portfolio. During the quarter, LT Foods has entered into a 51:49 JV with Japanese snack food maker, Kameda Seika, to manufacture and market rice-based snack in India. Kameda is a global leader in rice-based snacks and commands about 30% market share in Japan and has a prominent presence in the gluten-free cracker market in the United States. The test launch of the product is expected over six months while the commercial production shall take place over the next few quarters.

As you are aware, the Company has entered into JV with Future Group for the expansion of its product portfolio in regional rice. The JV is progressing well. We should be able to launch these products by the end of this financial year in India as well as in global market. The product shall be sold in India through the strong distribution reach of LT Foods and through the Future Group retail outlets, and in global market through the Company's own subsidiary which has a strong reach to ethnic population, clubs and modern trade in US and Europe.

Overall, I would like to reiterate that over the next, three to five years, our focus shall be to expand all business verticals including consumer business led by the brand such as Daawat, Royal, EcoLife (for organic), and Devaaya (for staples), B2B, Organic and Value-Added Business focusing on high-margin portfolio.

Our approach of increased focus on consumer branded business has started yielding result and it is reflected in our increased market share. As per various industry reports including AC Nielsen we have seen a growth from 10% in 2011 to around 20% market share in 2017 in branded category in Indian market. This has helped Company attain a leadership position in Indian branded market.

Now, a quick update on our organic food business. The organic products are apparently being sold both in Europe and the US markets. Recently, we have launched EcoLife brand in the US to leverage the distribution network of Royal brand and its presence across all the chains of Walmart and other ethnic channels. Our organic food products include rice, spices, staples, and other value-added products.

LT Foods has also launched staples under the brand Daawat "Devaaya" with the proposition – "Safe Bhi Saaf Bhi". This team is also performing well and is in line with our strategy to expand

our distribution network. The staples include mainly the wheat and its derivatives such as sooji, daliya, poha, etc. LT Foods has launched Sauté Sauces under the brand Daawat in India as well in the US. This is a unique concept to match the latest trend in the food segment. That is convenience foods. These products have been launched in modern trade in major cities, Gurugram, Bangalore, and Mumbai. The initial response has been quite encouraging and the pan-India launch is expected by the end of the fiscal year.

The response to the Fast Cooking Brown Rice continues to be strong. The Company has been a pioneer in creating this new product segment and continues to keep our competition at bay in this segment.

Overall, the margin in these value-added businesses is superior to the traditional business. All the steps are in the direction to make your Company a “Global Specialty Food Company”.

Further to cater to the requirement of the increased business, the Company has also taken steps to improve its internal control and processes. As you are aware, the Company continues to work with Big 5 Auditors, Grant Thornton and global internal audit firm, Protiviti. Both of them have provided a lot of value addition in terms of improvement in system and processes, and provide a lot of comfort to our esteemed shareholders. In addition, E&Y has recently completed the project of implementation of SAP across all the facilities in India and overseas. The project lasted around 18 months, but the result has been quite rewarding. A separate team has been recruited with the background from Big 4 for this project. Further, the Company is in the process of appointing a big firm for advising on rationalization of group structure to make it more lean.

These steps shall also help in improving the EBITDA margin by at least 200 bps over the next two to three years. Some of these steps aided by improvement in efficiency, increase of consumer business, and better realization have already shown results with an EBITDA margin improvement in Q3 to 12.65% from 10.55% in Q3 of the last fiscal.

Now, I request my colleague, Ms. Monika to take you through further update. Thank you.

**Monika Chawla Jaggia:** Now I would present update on the recent corporate action and also the financial performance for the period ended December 31, 2016. The process of split of shares has been completed, which should give boost to the liquidity in the market. Approval has been sought from the shareholders for issuance of the additional ESOP scheme involving 60 lakh shares to be vested over the next four years, which is in line with the employee retention and motivation scheme.

Coming to the results, for the period ended nine months FY17, the Company registered a volume growth of 34% in Indian market. The total quantity sold increased to approx. 2 lakh tonnes. The volume growth in international market has also increased to 18%. The gross profits have increased by 6% on Y-o-Y basis to Rs.670 Crores. EBITDA increased by 11% to Rs.291 Crores on Y-o-Y basis. The EBITDA margins have expanded to 12.4% compared to 12.15%. The

margins in the Q3 expanded to 12.65% from 10.55%. For the nine months ended December 2016, the PAT has also increased by 25% on Y-o-Y basis to 91 Crores, resulting in improvement in the EPS to Rs.3.14. EPS is based on fully diluted basis adjusted for the stock split from Rs.10 per share to Rs.1 per share. Overall, there has been a significant improvement in the financial ratios. Debt-equity ratio also stands reduced to 2.51 from 2.80. Now, we open the session for the question and answer please.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin question and answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone phone. If you wish to remove yourself from the question queue you may press "\*" and "2". Participants are requested to only use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

**Vipul Shah:** Hi Sir, congratulations for good set of numbers. I just wanted to know the status of insurance claims. There is a note that we have provided 40 Crores out of 180 Crores. Does it mean that we will not get 40 Crores? I have not been able to understand, so would you throw some more light on that?

**Ashwani Kumar Arora:** First of all, the 40 Crores were prudent because there were two reports from the surveyor. One surveyor said 131 and other surveyor said 175. Now, the Company is 100% sure that we will get our full money with interest, but as a prudent we have made a provision for 40 Crores which is the lowest that the surveyor has made an assessment.

**Vipul Shah:** So, lowest estimate was 131 Crores that is what you are trying to say.

**Ashwani Kumar Arora:** There were surveyors appointed by the Company. One surveyor has given an assessment of 173 Crores and the other surveyor has given 131 Crores. So, that was the reason we have written off Rs.40 Crores.

**Vipul Shah:** So, once money comes this provision will be written back.

**Ashwani Kumar Arora:** That is right and we are 100% sure that we will get our full money with interest.

**Vipul Shah:** When should that happen Sir?

**Ashwani Kumar Arora:** That we are expecting, because of this new law in commercial court, the case is moving fast, and we are expecting that in one-and-a-half years we should have justice with us.

**Vipul Shah:** Have we received any money at all?

**Ashwani Kumar Arora:** No money received, not a single penny.

- Vipul Shah:** The lowest one has approved 131 Crores.
- Ashwani Kumar Arora:** But the insurance Company has appointed third surveyor and they repudiated the claim and that is why we went to the court. It was a false argument.
- Vipul Shah:** Okay. What is the international volume and in the corresponding quarter of last year also?
- Ashwani Kumar Arora:** This year out of the total revenue, our 64% is international and 36% is India in value terms. Quantity wise I would say in India we have done 199,000 and exports 231,000.
- Vipul Shah:** Okay Sir, thank you and all the best for the future.
- Moderator:** Thank you. The next question is from Prajesh Maroo from Money Curve Investment Analytics. Please go ahead.
- Prajesh Maroo:** Good afternoon and congratulations for the numbers. I have one small question. What is the breakup of branded sales volume in this quarter for India as well as international? In the last presentation you have given it, but in this presentation you have not given it.
- Ashwani Kumar Arora:** In nine months we have done 220,000 tonnes branded business that is domestic and international. In domestic we have done 137,000 and exports we have done 82,000.
- Prajesh Maroo:** Thank you. My last question is any update you can given in the procurement which has happened this season vis-à-vis last season, particularly on the quantity wise that how much paddy this time you have procured versus the last year?
- Ashwani Kumar Arora:** We have procured paddy almost same, I will say 90% of the last year. This year we have procured around 3.5 lakh tonnes.
- Prajesh Maroo:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from Vaibhav Gupta from SKS Capital. Please go ahead.
- Vaibhav Gupta:** We were talking about the realization for the domestic and export markets. How have they behaved over the last few months and what is the outlook for the realization?
- Ashwani Kumar Arora:** In domestic, the average realization for three months is 46,363 and export is 91,000.
- Vaibhav Gupta:** You have seen a sequential improvement in the realization I believe?
- Ashwani Kumar Arora:** I think in the last month, December was better in realization. In domestic, we have realized 9% more than the last quarter.

- Vaibhav Gupta:** So, sequentially realization is 9% higher.
- Ashwani Kumar Arora:** Yes, from the last quarter.
- Vaibhav Gupta:** What has led to this improvement in the realization?
- Ashwani Kumar Arora:** The Basmati rice market has become strengthened, so that helped us to have better realization. The prices have gone up.
- Vaibhav Gupta:** What is your understanding about the market?
- Ashwani Kumar Arora:** The market will remain strong in the coming years.
- Vaibhav Gupta:** Okay. About the paddy, you said 350,000 tonnes. What is our average cost of paddy? How much of final rice inventory that we have?
- Ashwani Kumar Arora:** The average buying price is 23.35. It is expensive than last year as far as buying is concerned.
- Vaibhav Gupta:** What was the paddy cost last year?
- Ashwani Kumar Arora:** 21.50. So it is almost 9% expensive than the last year.
- Vaibhav Gupta:** What is our final rice inventory?
- Ashwani Kumar Arora:** We have 133,000 tonnes rice inventory this quarter at the end of December. We value it at Rs.46. In paddy, we have a stock of 2, 10,000 tonnes.
- Vaibhav Gupta:** But you said 350,000 tonnes of paddy?
- Ashwani Kumar Arora:** We then mill it. This is December end stock.
- Vaibhav Gupta:** Great Sir. I think we are in for a good time. Thank you so much and all the best.
- Moderator:** Thank you. We take the next question from the line of Nitesh Dhoot from Emkay Global. Please go ahead.
- Nitesh Dhoot:** You have talked about China is also importing Basmati rice and Iran things are also happening. What is the outlook of imports?
- Ashwani Kumar Arora:** I said it earlier also. China is not a big consumer of Basmati rice. So, we are expecting that non-Basmati should be a good opportunity. Basmati is also a good opportunity, but not a big scale. Iran is definitely a good thing happened to India. The industry will be exporting around similar to 600,000 to 700,000 tonnes.

**Nitesh Dhoot:** Okay. Currently you are talking about realization and price, the price is 23. What is the inventory we have?

**Ashwani Kumar Arora:** Our cost of rice we have valued at 46 and paddy 25.

**Nitesh Dhoot:** What is the outlook for the price increase going forward?

**Ashwani Kumar Arora:** I can say this year we are expecting that the market will remain strong.

**Nitesh Dhoot:** Okay. Do you see the price increase because of change in product mix in the segment, the higher sales in international market compared to domestic?

**Ashwani Kumar Arora:** The realization increase is mainly because of strengthening Basmati rice prices and of course the product mix.

**Nitesh Dhoot:** Okay, thank you so much.

**Moderator:** Thank you. We take the next question from the line of Deepak Jotwani from ICRA. Please go ahead.

**Deepak Jotwani:** Good afternoon and congratulations for a good set of numbers for the quarter and improvement in performance of the group on a whole. My question was particularly in line to the industry development with regard to Iran. What we understand is that obviously LT Group on a whole does not have any major exposure to Iran per se with respect to export. It does export, but obviously the exposure there is limited, but also Iran being a major market for the Basmati rice on a whole, any development with respect to exports to Iran compared to the exports for Basmati rice from India in general. Recently what we understand is that they have put a cap on the export prices at roughly around \$850 per ton, which is going to render the domestic exports slightly non-price competitive. What is your view on that and what exactly is the current export realization for the Company on a whole as of now?

**Ashwani Kumar Arora:** As LT Foods, we believe in building sustainable profitable business that is why we do not take much exposure in Iran because this is not politically stable, sometimes they open and sometimes they close. So, that is the one reason LT Foods is only focusing on countries or area where there is stable business, which is India, Middle East, Europe, and America. Iran is one of the biggest importers for Basmati rice, which is 15% of the total Basmati production. When they open, it can impact the price and strengthen the price, and it has done that already. Regarding putting a cap of \$850, because the market started with \$700 and they have put \$850, I suspect that is going to stay because there is a shortage in Basmati. It is too early to comment, but in March they have to do something about this cap and they have to remove that.

- Deepak Jotwani:** Okay. What are the current export realizations for the industry and for LT Foods right now in dollar term?
- Ashwani Kumar Arora:** Our realization in Indian Rupees is 91,000.
- Deepak Jotwani:** Okay, fair enough. Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Ramaya Krishna from MCA Management. Please go ahead.
- Ramaya Krishna:** I just wanted to know about the target market which we are focusing on at this point of time and how was the monsoon session as such and how has it impacted? Thirdly, if the compliance officer decided on the share split which has happened when is the total shares expected to hit the account because the price is split, but the total number of shares yet to hit my account, so just wanted to know when is that expected?
- Ashwani Kumar Arora:** For this compliance, I will give to Monika, but let me answer your two questions. As in LT Foods, we are focusing on India, America, Europe, and Middle East. These are our focused market. As I said, we are growing in India and we are growing in the rest of the world also.
- Monika Chawla Jaggia:** Regarding the shares, the split has already been done and our shares have been credited accordingly in the multiple of 10 now.
- Ramaya Krishna:** Okay, so probably I need to cross-confirm with my broker.
- Monika Chawla Jaggia:** Because I got my shares credit three days back.
- Moderator:** Thank you. We take the next question from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.
- Ajay Thakur:** Thanks for taking my question and congrats on the good set of numbers. I wanted to check on this, in our product portfolio that we would be catering from the Kameda Seika joint venture, what kind of products are we going to be coming out through them? Will it be like more Indian-centric kind of a product or it could be kind of a variant?
- Ashwani Kumar Arora:** This will be a rice cracker. This is a wonderful product. We have done one-year homework before we have decided to come with this. We have done consumer search and done all these things. We are quite confident that we will have a very successful launch of this product, which we are doing in the six months' time. Can I put this question to Mr. Vivek who is also on the line? Vivek, can you answer this please?

**Vivek Chandra:** The technology for the snacks is coming in from Kameda and that provides the base for the product. What we have is currently there is a whole range of flavours that is going through some consumer evaluation and these are both Japanese and Indian flavours that we are looking right now. When I say they are undergoing evaluation, they are going to be suited to the Indian consumers with whom we are doing these tests.

**Ajay Thakur:** What is the target market size that you are looking under these rice crackers and what could be the potential?

**Vivek Chandra:** This is going to be a premium snack and therefore the target market for the premium snack which in modern trade today stands at about 28% of the total snacks category. The total snacks segment in India is estimated at about 18,000 to 20,000 Crores. This includes all types of stores. We believe that the potential for this is very large. It is a large market and now we will be testing to see what sort of market share with these sorts of offerings, which are delicious, very unique and low fat and gluten free.

**Ajay Thakur:** Pretty helpful. Second question was more on the distribution increase actually. You had mentioned that you had actually added 30 more distribution towns actually. Can you just elaborate on that front?

**Vivek Chandra:** We are expanding our direct managed reach. As of now, we have 100% of all towns with 3 lakh plus population and above and 93% of towns with above 2-lakh populations with a distributor in that town. So instead of servicing these towns from a neighboring town distributor we are creating on-ground capabilities. This new 30 distributors in this quarter is actually part of that expansion of direct coverage and direct reach, and building that distribution network.

**Ajay Thakur:** Okay. How much direct reach can we expect to increase because of the same? What would be the present number and how much additional reach are we adding through the same?

**Vivek Chandra:** We are looking at adding directly somewhere in the region of 70,000 to 80,000 stores and the current reach would be about 120,000 stores.

**Ajay Thakur:** Okay. Lastly on the demonetization front, have we seen any impact on the Indian business given the fact that most of the players in the food space actually have seen some impact because of demonetization, though I understand that only one-third of our business is coming from India, but still from the Indian perspective what kind of impact have we seen and what kind of measures have we taken to make sure that the demonetization impact is kind of minimized?

**Vivek Chandra:** The demonetization actually has not had that significant impact as has been reported from some of the other sectors. Food and basic food in general have been more insulated to demonetization than the products and categories, which are more prone to either discretionary spending or where

people were postponing their purchases. We have actually come out with a quarter, which has strengthened, and we have not seen a big impact of demonetization.

- Ajay Thakur:** Okay, pretty helpful. Thanks Sir.
- Moderator:** Thank you. We take the next question from the line of Nitesh Dhoot from Emkay Global. Please go ahead.
- Nitesh Dhoot:** I would like to know our long-term growth prospect for organic food business. Currently if my understanding is right it contributes around 230 to 240 Crores in terms of top line. How is the growth trajectory looking for the next two to three years? Which market will drive that growth?
- Ashwani Kumar Arora:** In organic, we have 30% and we are expecting that we will keep continuing growing 10% to 15% in organic business.
- Nitesh Dhoot:** Okay and this would be mainly driven by export market or domestic market?
- Ashwani Kumar Arora:** It is 100% export.
- Nitesh Dhoot:** Okay, and on staples front which we have launched under our brand Devaaya, what is the growth outlook?
- Ashwani Kumar Arora:** I just want to add that we have just launched a brand, EcoLife in USA in organic and we are going to launch in India also. Regarding staples, we are in the market for the last two years in Devaaya and we are getting good response.
- Nitesh Dhoot:** Okay. Just one more clarification, the price of rice which we have witnessed in the month of December in Basmati rice, do you believe it is sustainable especially in light of how the sowing for next year looks? Do you feel the rice price is in uptrend at least for the next 12 to 24 months?
- Ashwani Kumar Arora:** It is too early to say, but the last two years the prices we have seen in the market that definitely was not right and the farmer was not making money. I think the peak has come and we are saying that the sustainability is Rs.26, 000 to Rs.27, 000 per ton.
- Nitesh Dhoot:** Okay, this is on Basmati paddy right?
- Ashwani Kumar Arora:** That is right.
- Nitesh Dhoot:** And the corresponding increase will be witnessed in both domestic and international markets on the Basmati rice front?
- Ashwani Kumar Arora:** Yes.



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**Nitesh Dhoot:** Okay, that is all from my side.

**Moderator:** Thank you very much. As there are no further questions from the participants, I hand the conference over to Mr. Nitesh Dhoot from Emkay Global for closing comments.

**Nitesh Dhoot:** I would like to thank the management once again and also all other participants for your time. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.