



“LT Foods  
Q4 FY19 Results Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the LT Foods post Q4 FY19 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you and over to you Mr. Joshi!

**Aniruddha Joshi:** Thanks, Steven. On behalf of ICICI Securities we welcome you all to Q4 FY2019 results conference call of LT Foods Limited. We have with us Mr. Ashwani Kumar Arora, Managing Director and CEO, Mr. Vivek Chandra - CEO - Global Branded Business, Ms. Monika Chawla Jaggia – VP Finance and Strategy and Mr. Sachin Gupta – General Manager, Finance. I now handover the call to Ms. Monika regarding the quarterly comments. Thank you and over to you Madam!

**Monika Chawla Jaggia:** Thank you. Good afternoon everyone and thank you for joining us on LT Foods Q4 and FY2019 earnings conference call. My name is Monika Chawla Jaggia and I am part of Finance & Strategy and Investor Relation Team at LT Foods. Joining me today is 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. 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 maybe forward-looking statements 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 I 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. Ashwani Kumar Arora to discuss the performance of the Company. Thank you and over to Sir!

**Ashwani Kumar Arora:** Thank you, Monika. Good afternoon and warm welcome to everyone present on our call today. I am sure you would have gone through the result document that was circulated earlier. I will begin by giving you a brief update on the operational and financial performance of the Company during the Q4 and FY2019. I will now discuss the key financial highlights of the Company for the financial year ended 31<sup>st</sup> March 2019. For the FY2019, we reported total revenue Rs.3915 Crores as compared to Rs.3650 Crores in the FY2018 representing a growth of 7.3%. This growth was mainly contributed by 9% growth in branded sales. During the FY2019, Company generated a gross profit of Rs.976 Crores.

We witnessed 190 basis point decline in gross margin in FY2019. The decline in GP margin is mainly due to the high paddy procurement price in the procurement season last year which we are progressively passing on with some time lag. During the FY2019 Company reported

EBITDA of Rs.421 Crores up by approximately 2% and EBITDA margin of 10.8% in comparison to EBITDA margin of 11.3% in FY2018. A decline of 60-basis point in EBITDA margin is mainly due to the high input cost of paddy and start up cost for newly commissioned facility at USA and Europe. This also includes a loss of Rs.3.8 Crores on account of loss from sale of investment in our JV Company Genoa Rice Mill. During the year our interest cost decreased by 5.4% to Rs.138 Crores and other expenses decreased by 6% mainly due to manufacturing efficiencies. The Company generated a PBT of Rs.214 Crores and reported a PAT of Rs.137 Crores.

On the standalone basis for the FY2019, we reported a total revenue of Rs.2210 Crores as compared to Rs.2157 Crores in FY2018 representing a growth of 2.5%. In absolute term, the gross profit is Rs.411 Crores up by 3%, EBITDA is Rs.183 Crores up by 17% with a margin of 8.3% in comparison to the margin of 7.3% in FY2018. Profit before tax is Rs.83 Crores up by 55% profit after tax is Rs.54 Crores up by 30% over the last year.

LT Foods has been working extensively to strengthen its portfolio of brands across the globe, which has resulted in an increase of the branded business by 9% on a consolidated basis driven by higher offtake of our key brands including Daawat, Royal, Daawat Chef Secretz, Heritage and Devaaya. The contribution of the branded business in volume terms to Basmati volumes stood at 70% in FY2019 as compared to 64% in FY2018.

The specialty business also grew by 5%, the Company has also entered nine new geographies during the financial year. Our India branded business saw a growth of 6% from Rs.892 Crores to Rs.947 Crores on a year-on-year basis. The realization also improved from Rs. 51 per kg to Rs. 53 per kg, up by 3%. The benefits of scale has started reaping as well, which is reflected in the financial performance of the India business. Our India consumer pack business increased by 7% in FY2019 on year-on-year basis driven by higher offtake of our key brands of Daawat, Daawat Chef's Secretz, etc.

LT Foods products are known for their consistent and the finest quality, which has led to the recovery of the HORECA business post-GST regime.

The bulk pack business has recovered post-GST regime showing a growth of 19% on year-on-year basis.

LT Foods is making investments in its brands to take them to the next level. The brand spends for the FY2019 was Rs.78 Crores, which is 3.4% of the branded business. Various marketing initiatives were adopted such as new TV commercial was rolled out which is gaining a lot of traction and resonating well with the thought of the consumers. Various activities were also undertaken to promote SKUs such as Biryani, Pulav and Brown Rice. Renowned celebrities such as Shilpa Shetty and Chef Sanjeev Kapoor were part of these initiatives. All these activities were

also promoted on the digital platform and which gained positive response from the consumers. All these initiatives helped us to maintain our market share at 27% on the calendar year basis.

Moving onto our international business, during the FY2019 we generated a revenue of Rs.2103 Crores from the international business representing a growth of 11% year-on-year basis. This growth is mainly led by increase in the realization to Rs.102 per kg up by 23%.

One of our key international market that is North America has performed well in FY2019 led by our flagship brand royal that enjoys more than 45% market share. In FY2019, the US branded business grew by 5% in volume terms and 16% in value terms. USA and its contribution to overall branded revenue increased from 41% to 43% in FY2019 versus FY2018. The ready-to-heat products have been accepted by several major retailers in the US and the Company is leveraging its brand strength and distribution network to market these products in North America. This team is also working extensively to execute program designed to drive awareness of RTH and trial of the RTH products.

The European operations are ramping up in line with our plan, the revenue has more than doubled to Rs.258 Crores from Rs.118 Crores last year. As mentioned in the previous call our Europe business has achieved breakeven at an EBITDA level in Q4 of this year. We have received orders from big retail chains in Europe along with other major orders in the pipeline. To cater to these orders, the Company is working on utilizing its full capacity and initiatives have also been taken at different levels to increase yield and milling capacity. These initiatives are likely to generate positive results going forward.

Rest of the world branded business is up by 29% to Rs.132 Crores in FY2019 on year-on-year basis. As mentioned earlier, the Company has also entered nine new geographies and existing geographies are also performing as per plan. Channel and geography wise strategy is working well and is helping us to strengthen our position across geographies. The organic business grew by 3% with total sale of Rs.362 Crores versus Rs.352 Crores last year. NBFL has 25-year-old legacy of practicing organic food production. Currently, 90% of the business is from ingredient sale as NBFL supplies organic ingredient to major organic food manufacturers of the world. The Company has laid down specific strategy to take this business to the next level and increase its contribution to the overall revenue which is currently at 9%. During the year, NBFL has also increased warehouse, packaging and storage capacity in line with increasing demand for NBFL's organic products.

LT Foods strongly believes in the concept of keeping pace with the changing consumer need and preferences. This belief has led to the introduction of various convenience and health-based products such as rice-based snacks Kari Kari, Daawat Sauté sauces and Royal ready-to-heat. Kari Kari as a brand has been well accepted during the test launch and has outpaced our assumption. The products are currently available across various modern trade outlets in Delhi, NCR, Mumbai and Bengaluru, e-commerce platform, vending machine and few restaurants. The construction of

the new facilities underway in Sonipat, Haryana to manufacture these products in India. Elements for expansion of sauté sauces to all major towns have been finalized. This will be launched in the upcoming quarter. This product will also be available on major e-commerce platforms.

LT Foods is on a growth trajectory and the Company has finalized its 5 year roadmap. All the stakeholders within the organization have been aligned with this plan and are working towards one common goal of taking the organization to the next level. I would now like to talk about LT Foods goal for the near term, our singular focus is to be a preferred brand for our consumers. We would also like to remain category leaders in key markets and continue to grow above industry growth levels. However, this market position will be clearly combined with higher margins and profitability. With this in our mind, our endeavor is to first reach around 12.5% EBITDA margin by the end of the FY2020 and go onto 15% margin by 2022. We would also aim to reduce our total debt to approximately Rs.1500 Crores by the end of 2020.

Now we would be happy to answer any questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Dharmik Patel from Active Alpha. Please go ahead.

**Dharmik Patel:** Hi. Good afternoon, I have a couple of questions. First, has Rabobank completely exited from his previous investment?

**Ashwani Kumar Arora:** Not yet, in LT Foods they are still holding around 2.5%

**Dharmik Patel:** So then how much is the percentage holding in Nature Bio subsidiary?

**Ashwani Kumar Arora:** So, it will be in the range of around 20%, because the first tranche has come of Rs.60 Crores and Rs.40 Crores will be in this year.

**Dharmik Patel:** Alright, secondly with regards to only financial statement in the balance sheet side I wanted to understand what this financial liability includes because it has grown from Rs.25 Crores to Rs.128 Crores in FY2019?

**Ashwani Kumar Arora:** Just a minute, Sachin will answer this question.

**Sachin Gupta:** As you know these financial liabilities are relating to the investment Rabo Equity has made in one of our subsidiaries, as these are not being transferred because it is relating to the profits of that both the years, so these have not been converted into equity. So, these should be shown as per the accounting standards in the financial liabilities.

**Dharmik Patel:** My last question is what is your capex plan for FY2020?

**Ashwani Kumar Arora:** That is in the range of Rs.40 Crores.

**Dharmik Patel:** This is maintenance capex or it is?

**Ashwani Kumar Arora:** One is in our Nature Bio Food, we are going to make soya meal so one investment is in that, other is kind of maintenance capex and one we are investing in the silos in one of our subsidiaries Daawat food for the storage of paddy so Rs.10 Crores is that and rest is all maintenance capex.

**Dharmik Patel:** Alright okay, thank you.

**Moderator:** Thank you. The next question is from the line of Varun Goenka from Reliance Mutual Fund. Please go ahead.

**Varun Goenka:** Good afternoon, Ashwani Ji. Thank you so much for a wonderful presentation, much more transparent than earlier times. Our branded revenue which you have given in the presentation, which includes both India and exports has not been growing really over the last five quarters and what are the ballpark approximate margins in that area?

**Ashwani Kumar Arora:** I will give you a little breakup geography-wise. In USA, we have grown more than 16% and if you come to rest of the world we have grown in branded category. I will give you territory wise details, so the only territory where we have not grown in double digit is India. So in India, as we have said that we will not grow where we are not making money so we are focusing on the high GP margin products, so in our language we call it \$3 so that is where you know our focus was and we have grown by 15%. So, we have grown in more than double digit on the focused brands and in high margin category.

**Varun Goenka:** Okay so our branded revenues which we are showing to be in excess of Rs.2000 Crores what are the consolidated margins here?

**Ashwani Kumar Arora:** If you see the branded side, it depends again on geographies, India is the only area where we are in investment mode and we are making lesser EBITDA but rest of the market we are making around 20% EBITDA, maybe US, other part of the world, so India with the scale we are assuming that we will be in line with the other markets.

**Varun Goenka:** Okay, so currently our EBITDA margins are close to 10%, you were saying over the 1-2 years, it can become 15%, could you give us, how and where and which geographies or which areas are you expecting the margins and the 500-basis point change?

**Ashwani Kumar Arora:** Yes this year, it will around 11%, but if you normalize with the Europe so we will be in the range of 11.5% to improve on roughly 3.5% ,we are working on, the one is on the product mix where we will be improving around 1.5% on GP with both the price increase and the product mix and 1% we are expecting in India, 1.5% on the scale so when the India sales will grow because the

cost of the doing business will almost be same be it marketing, be it sales force, be it trade marketing. So, all these three kinds of mix and half a percent we are expecting from our efficiencies. So, basically four drivers are there to improve. As I said in my opening remarks that whatever the paddy prices were increased because we are working in European mostly western part of the world, where you need little bit lead time to increase the prices and with this currency devaluation I think we will be improving our gross margins also.

**Varun Goenka:** Okay, so our branded domestic revenue which you are showing is at Rs.950 Crores. I was just wondering that we have a very strong brand. Earlier Amitabh Bachchan was our brand ambassador, now we have Shilpa Shetty why is not that really giving you some margins?

**Ashwani Kumar Arora:** Mr. Vivek Chandra will answer on this question and I will add into that.

**Vivek Chandra:** The margins that we are driving on our premium price and the mid-price are very healthy. Those are the two segments that we are growing, so when you are looking at the total margin for India it includes the business that we do in economy as well in the wholesale segment with the brand called Heritage and moving forward our endeavor is really to grow the top end and take their contribution up in the business so that the total margin profile of India starts to look much healthier than what you are seeing now.

**Varun Goenka:** Okay, so what will the margins be ballpark in the next one or two years?

**Vivek Chandra:** See what we are looking at is this moving up to 18% in about four years' time and so we look at picking up about a couple of points each year and I mean it certainly will ramp up after the first 18 months.

**Varun Goenka:** Ashwani Ji, I have two more points, one our employee's costs are very, very high compared to your peer with almost double the sales values, and I was just understanding is it because you have a lot of capex that is coming on stream or Rs.140 Crores of employee cost. How would it just pan out?

**Ashwani Kumar Arora:** LT Foods has a little different business model as compared to the competition. We have full-fledge operations in USA and Europe where we control the complete distribution, whereas competition sales to the distributor and the distribution cost goes to the distributors books but in our business, we have a complete control on the distribution which is very positive to our model. Then why our gross margins are not better, so as I said we are working on that and we are very confident in the coming year we will see the difference on that, because last year a lot of investment has gone in setting up European operations and RTH and we have created a very class team across geographies. We have the best of the professional team in America, Europe to drive whatever ambitions we believe in, like in convenience product and just to strengthen our brand and make our distribution stronger.

- Varun Goenka:** In our receivables, we have around close to Rs.500 Crores of receivable, what is the source of these receivables mainly?
- Ashwani Kumar Arora:** as in the amount we have to receive from our customers.
- Varun Goenka:** Okay generally these are export-related receivables, is it?
- Ashwani Kumar Arora:** Yes, like you know in every part of the world we have on an average 40 days of receivables.
- Varun Goenka:** So, our payment cycles to Europe and US would remain within 40 days in complete?
- Ashwani Kumar Arora:** Yes, in bigger chains in Europe their payment terms are in the range of 60-65 days and America is around 40 days.
- Varun Goenka:** Just on the last point, I wanted to clarify on the Europe side, how much of EBITDA do you really see once you full capacity comes on stream over the next one year and two years?
- Ashwani Kumar Arora:** As per the industry benchmark in Europe when the full capacity will be there we will be in the range of EBITDA standalone there will be in the range of 8% to 10% but this year we are targeting the positive EBITDA because we will be using roughly 50% of our capacity this year. As I said, the last quarter we have achieved the breakeven and we are expecting little positive on the Europe this year.
- Varun Goenka:** For your 50% utilization, what is our sales to Europe?
- Ashwani Kumar Arora:** So last year we have done around Rs.250 Crores and this year we are planning to have Rs.320 Crores.
- Varun Goenka:** So, the total outlet sales i.e. Rs.500 to Rs.600 Crores possible from this facility?
- Ashwani Kumar Arora:** Yes, as per the plan.
- Varun Goenka:** And how much of capital has been invested Sir, in this Europe?
- Ashwani Kumar Arora:** In the range of 116 million Euro, so in the range of roughly Rs.120 Crores.
- Varun Goenka:** Rs.120 Crores. Fine. Thank you so much. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

**Dikshit Mittal:** Sir my question is on inventory. In the presentation, I am seeing that we have built up aggressively for the next year around 2000 tonnes so, that is around 80% up as compared to last year, so is it any strategically built up or you expect that kind of growth happening next year?

**Ashwani Kumar Arora:** It is both strategically also because this year the crop was low so we wanted to build up the inventory just to service our brand so both whatever the growth plans we have, we wanted to have the backup inventory for that.

**Dikshit Mittal:** I can see like on the topline we have de grown by 6% and primarily because of the lower private label revenues but still that is not reflecting in the margins somehow because of the low margin business is going down so logically the margins should have improved, right?

**Ashwani Kumar Arora:** As I said, three things have led to lower gross margins , one is the price increase; because in branded business that is consumer business it took some time to increase the prices; the other was Europe and stabilizing in RTH facility, however if you see, if we normalize all these expenses, our margins have improved.

**Dikshit Mittal:** But sir on the gross margin we have shown improvement if I see quarter-on-quarter, we have shown 80 bps improvement but because of other expenses?

**Ashwani Kumar Arora:** Partly it has gone on account of employee bonuses in the last quarter, two things have happened, one is on the employee and the other is that the European operations have been fully activated in the last quarter so overall the expenses have increased, the cost has increased and margin also decreased because of the Europe.

**Dikshit Mittal:** Coming into this quarter how can we expect the growth for the first quarter, can we go back to the 10% kind of growth or it is muted only for the first quarter?

**Ashwani Kumar Arora:** In terms of the top line, we will be around that but we are expecting the margins to be even better.

**Dikshit Mittal:** And Sir you gave that guidance of 12.75% EBITDA margins that is in FY2020 or exit of FY2020?

**Ashwani Kumar Arora:** Average of the full year we are expecting 12.5%.

**Dikshit Mittal:** So, from 11 to 12.5% is the target for the next year?

**Ashwani Kumar Arora:** 12.5%.

- Dikshit Mittal:** Sir we have seen increase in the deprecation by Rs.4 Crores on quarter-on-quarter so I was assuming that in Q3, we have fully capitalized the European operations so why is there a jump in this?
- Ashwani Kumar Arora:** Sachin will answer the question.
- Sachin Gupta:** Yes, you are right, in the Q4, we had made certain capitalizations and that have increased the depreciation cost. Europe is one of the factor where we have fully capitalized during the Q4, during this quarter as the operations are fully scaled up, so the depreciation was for the full quarter.
- Dikshit Mittal:** Okay Sir just a clarification, on first quarter you mentioned you will be maintaining the top line of last year or what, I could not get that?
- Ashwani Kumar Arora:** So, we are more focused this year on the EBITDA level and margin level and on the branded side, we will maintain our growth. We may lose some of our private label business, which are not giving the desired margin, but on the branded side, whatever the category growth is, we will surpass that growth.
- Moderator:** Thank you, the next question is from the line of Rahul Thakkar from Angel Broking. Please go ahead.
- Rahul Thakkar:** Can you just tell me about the total revenue and the EBITDA for the year of Rotterdam and the USA plant?
- Ashwani Kumar Arora:** Last year?
- Rahul Thakkar:** FY2019.
- Ashwani Kumar Arora:** You said about Europe and America.
- Rahul Thakkar:** Europe and America, the revenue and EBITDA.
- Sachin Gupta:** The revenue for this year was Rs.258 Crores from Europe and there was an EBITDA loss of Rs.11 Crores and a PBT loss of Rs.24 Crores during this year.
- Rahul Thakkar:** And the USA plant?
- Sachin Gupta:** And as far as the Q4 is concerned in Europe operations we had made a revenue of Rs.109 Crores and there was EBITDA positive of Rs.1 Crore and a PBT loss of Rs.4 Crores. For the US, we have made a revenue of Rs.1360 Crores, at EBITDA of Rs.93 Crores and a PBT of Rs.68 Crores.
- Rahul Thakkar:** I was referring to the new plant, the ready-to-heat plant?

- Ashwani Kumar Arora:** Ready-to-heat plant so it is all consolidated.
- Rahul Thakkar:** Next question is on the capital work in progress, I still see there is Rs.50 Crores of work in progress, what does this relate to?
- Sachin Gupta:** That basically relates to my silos plant, paddy silos we are installing in Bhopal so that will be capitalized during this July itself.
- Rahul Thakkar:** And with this the Bhopal plant is included in Rs.40 Crore capex guidance, right?
- Ashwani Kumar Arora:** Yes everything, and organic US operation, India and all together.
- Rahul Thakkar:** And you also mentioned that you see the margins expanding in India due to higher offtakes, but our offtakes have remained constant. In fact, they have slumped this year in terms of both volume and revenue so how do we see the offtakes increasing and giving us that extra growth?
- Ashwani Kumar Arora:** We have grown in our focused brand which is premium and mid-price, but we have opted where you know more wholesale and where the margins were less so we have opted not to focus on that but we have grown in our focused brand which in long term will give us more gross margin and more sustainability.
- Rahul Thakkar:** So, are we seeing that our consumer pack business is growing, but the whole sale is not growing and that is what the graphs are showing, is that what you say?
- Ashwani Kumar Arora:** That is right.
- Rahul Thakkar:** Alright and going forward you said that your margins will be improving and hence the profitability ratios which have slumped recently will also see them return to their previous levels?
- Ashwani Kumar Arora:** That is the goal we are working towards.
- Rahul Thakkar:** Alright, perfect, Thank you.
- Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.
- Resham Jain:** I was just wondering on the depreciation side. We had a depreciation of close to Rs. 50 Crores last year, and it has moved to Rs.69 Crores this year, how much capex has been incurred during the year.
- Sachin Gupta:** Resham, during this year we have made a capex of Rs.108 Crores. In the previous year we have made most of the capitalization and that was in the last quarter. So, there was a full year depreciation during this year so if you look at that, last year my depreciation was Rs.50 Crores

and this year is Rs.69, the major increase in the depreciation is on account of Europe and USA operations, in my Europe operations depreciation increased by Rs. 7 Crores and in the US, the RTH plant my depreciation increased by Rs.4 Crores.

**Resham Jain:** Because for Rs.108 Crores of capitalization, the depreciation has increased roughly around Rs.20 Crores?

**Sachin Gupta:** Resham, the factor is that in the last year, the major capitalization took place in the year end, so the depreciation was not for the full year, in this year itself the full year depreciation is affected.

**Resham Jain:** Then what will be the approximate depreciation for next year?

**Sachin Gupta:** It will be around Rs.70 Crores

**Resham Jain:** Okay, because this quarter itself is 21.

**Sachin Gupta:** So, it will be Rs.70 Crores. The next year depreciation will be 71 if we take it precisely.

**Resham Jain:** Okay, fine. Thank you.

**Moderator:** Thank you. Next question is from the line of Hiten Boricha from Joindre. Please go ahead.

**Hiten Boricha:** Can you give me any revenue guidance for FY2020 and 2021?

**Ashwani Kumar Arora:** It will be above Rs.4000 Crores, so we will be roughly as I said in our focus brand, we will grow more than double digit, but in absolute we may not grow more than 5% to 7%, as you know we may be leaving some of the business which are not generating money for us.

**Hiten Boricha:** Rs.4000 Crores in FY2020 right Sir?

**Monika Chawla Jaggia:** Yes, just to add here we would like to focus on more of a high margin business; we may compromise on the revenue growth, so by FY2020 you will see it above Rs.4000 Crores. Rs.4000 Crores is the Revenue guideline for the next year and by FY2021, you will see a change in the business model, it will be more focused on high-margin businesses.

**Ashwani Kumar Arora:** The business of RTH; the business in India & everything will be in line.

**Hiten Boricha:** Okay, okay Sir and you highlighted something about your debt side in your opening remarks so I missed, I am sorry to say that, so can you please repeat what will be a debt level by end of FY2020?

**Ashwani Kumar Arora:** So, in the next five years the goal we are working towards is strengthen brands; improve on margins; grow in our focus area and reduce the debt, so these are the four goals we are working.

- Hiten Boricha:** Okay that is all from my side. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Alpesh Thakkar from Motilal Oswal Securities Limited. Please go ahead.
- Alpesh Thakkar:** In the beginning, you were telling about the JV so we have written off something that I missed on that part so can you please throw some light on the same?
- Ashwani Kumar Arora:** So, there was a JV with Genoa Rice Mill in South of India; we have written off that JV, have sold our stake and we have booked the loss of around Rs.3.8 Crores. We are not leaving Sona Masoori business, we have adopted another model, which is a profitable model. We are very much in South Indian Rice there whatever we have built, we are going to build further.
- Alpesh Thakkar:** Okay and any particular reason why we have ended JV, write it off, like any strategy?
- Ashwani Kumar Arora:** The model for us was not profitable so we opted not to pursue that model and go to another model.
- Alpesh Thakkar:** Okay and Sir, second question is about the insurance claims and so what is the update on the same?
- Ashwani Kumar Arora:** Everything is going positive, so we are expecting the outcome by the end of the year in the lower court.
- Alpesh Thakkar:** Okay, so by December of this year?
- Ashwani Kumar Arora:** That is what we are expecting but you all know that the Indian Courts are slow, but we are very hopeful that by end of this year, we will be able to have favorable response.
- Alpesh Thakkar:** Okay. Thank you that is from my side.
- Moderator:** Thank you. The next question is from the line of Kiran Shankar from Karvy Stock. Please go ahead.
- Kiran Shankar:** Going by the report from APEDA, Basmati rice export has grown by 22% over FY2018, it is said that Basmati rice is going very well in domestic market as well, despite this fact our sales has not been growing at the pace it should have grown. If we do the comparative analysis of the performance of KRBL and the performance of your Company, we find it at a very disgusting level why it is happening so Sir?
- Ashwani Kumar Arora:** The Indian export has grown and mainly to the Middle East and Iran and India consumption story has also increased and we are also growing. Our markets mainly are USA, Europe, India and other parts of the world. As far as LT Foods is concerned we do not have any stake in Iran

market, where the growth has been and we have grown in our strong market, in USA we have grown by 16% the rest of the world we have grown by 29%, India we have grown by 7% and we have grown in our market as more than the consumption, the category growth, but Middle East mainly growth has come from Iran as I said, as in LT Foods three years back we have taken a stand that we will not play in the market which is politically unstable.

**Kiran Shankar:** So, there is a report suggesting there is a drastic fall in European export so it has something to do with I mean less recovery from European business for your Company?

**Ashwani Kumar Arora:** I have just told that our sales in Europe have been doubled this year, we have done Rs.250 Crores; this year we have a plan of Rs.320 Crores, In LT Foods we have a big program where we worked with farmers to grow the residue compliant paddy and that is the strength we are playing with and that is how we are strategically placed. We believe that as a Company this is the strength and Europe is the best bet for us to go in and we have opted that bet and that is working for us, and in the future also it will work.

**Kiran Shankar:** Yes also, but there have been no value present for the stakeholders Sir that is the concern and this time around your long-term debt will go...?

**Ashwani Kumar Arora:** I agree with you last year the margin was under pressure and I told that what was the reason, but going forward as a Company we are very confident that our fundamentals are strong, our brands are strong, we are playing in a very strong market where the consumption is growing and in the coming year we will improve both on the margins and top line.

**Kiran Shankar:** Any specific reason we have 30% jump in long-term debt?

**Ashwani Kumar Arora:** Not 30%... yes long-term debt mainly we have you say Europe and America, whatever the capex has been done and it is in the range of roughly \$13 million altogether, so all that long-term funds have been taken in Europe and America.

**Kiran Shankar:** So, when we are going to see PAT margin around 10% or so Sir?

**Ashwani Kumar Arora:** Our goal is to work that but in the next three to four years we will be there.

**Kiran Shankar:** Okay. Thanks, a lot, from my side.

**Moderator:** Thank you. The next question is from the line of Lalit Thakkar from Angel Broking. Please go ahead.

**Lalit Thakkar:** I have two questions. The first question is that the net worth of the Company has improved from Rs.1232 Crores to Rs.1435 Crores that is Rs.210 Crores, however the profit is Rs.140 Crores so because what reason the net worth has gone up by Rs.210 Crores?

- Sachin Gupta:** Basically net worth as I have already told you there is an investment made by Rabo Equity during the previous year so there are two portions as per the accounting standards there is certainly minority interest and if you look at my net worth so major increase in the net worth is because of minority interest. So that is the basic investments, which the Rabo Equity had made during the previous year.
- Lalit Thakkar:** This is because the minority shareholders, right?
- Sachin Gupta:** Right minority shareholders, yes.
- Lalit Thakkar:** Okay and my second question is on the insurance that now suppose even if suppose we win the case in lower court, so the money will come after the verdict or is it that the insurer will then again put an appeal to the higher court and this matter can take two to three years ?
- Ashwani Kumar Arora:** Either party will go to the higher court, if we win and they appeal in higher court, they will have to deposit 50%, but when the time will come, we will fight for that.
- Lalit Thakkar:** Okay, got it. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sunil Rawtani from Artifice Advisors. Please go ahead.
- Sunil Rawtani:** We mentioned that capex this year was Rs.108 Crores and most of the capex with that in the second-half for the last quarter of the last financial year, what was the capex we had in last year and capex done in the last quarter of last year?
- Sachin Gupta:** Last year, the capex was around Rs.215 Crores, this year I have made a capex of Rs.108 Crores and most of the capitalization of that capex in this year also happened in the last quarter so the basic question was that how come the depreciation is higher in the last quarter. If you look at it this way in the last quarter the major capitalization happens in this year also so my Silos and everything got capitalized in the last quarter.
- Sunil Rawtani:** If it capitalized in the last quarter how you treated the same earlier in that case, if the expense was done earlier or you capitalize it later?
- Ashwani Kumar Arora:** That was the capital work in progress during the previous quarters it was in the capital work in progress once it commissioned, we capitalized it and depreciation was charged.
- Sunil Rawtani:** So out of that 200 how much you did for the last financial year, how much the capex was?
- Sachin Gupta:** In the last year, we made a capitalization of Rs.200 Crores.
- Sunil Rawtani:** That what did you do in the second half of the last quarter of the last financial year?

**Sachin Gupta:** Fourth quarter, if you look at in the fourth quarter of capitalization. Your question is how much what is the amount last quarter we have?

**Sunil Rawtani:** And may be what you did last quarter, the exact capitalization?

**Monika Chawla Jaggia:** Can we just go to the next question in the meanwhile, will revert to you.

**Sunil Rawtani:** Sure.

**Moderator:** Thank you. Next question is from the line of Varun Goenka from Reliance Mutual Fund. Please go ahead.

**Varun Goenka:** Ashwani, I had a basic question for example in Europe you are saying that you could do Rs.500 to Rs.600 Crores of turnover with around 8%-10% margin?

**Ashwani Kumar Arora:** Around?

**Varun Goenka:** 8-10 margin you are saying?

**Ashwani Kumar Arora:** EBITDA margin.

**Varun Goenka:** That is a Rs.40 to Rs.50 Crores of EBITDA is possible in two years or three years whenever you go full utilization, when you have cost and all and you have Rs.120 Crores of capital that we have invested, so my point is in US and Europe your investments to my ballpark is my understanding is not going to yield you some very good return on capital employed, so would not you be and plus you have a very large interest cost today in excess of Rs.100 Crores annually?

**Ashwani Kumar Arora:** Varun, in Europe where the interest cost is around 1.5%, where return on capital employed 10% to 12% seems to be as per industry norm because the funding cost & all the money had been taken in Europe and America where the funding cost in Euro is 1.5% and in America is roughly around 3.5%.

**Varun Goenka:** How have you funded all the equity in US and Europe?

**Ashwani Kumar Arora:** It is all funded by our foreign subsidiary like, in Europe it has been funded through our Europe subsidiary and for US it has been funded through our US subsidiary. From India we have not invested anything.

**Varun Goenka:** Today your Company is valued at Rs.900 Crores, equity value of the entire Company is Rs.900 Crores probably your India business itself is worth much, much more given the brand and size and whatever margins we can do in the next two to three years and the leverage is very high today. Through internal accruals decrease in the leverage can probably change it, would we look

at letting go of some geography, some area of business so that we can deploy more capital in India as there is much larger opportunity here

**Ashwani Kumar Arora:** Varun, whatever going forward whatever we have worked on our five-year plan, we will be with our internal accruals, we have planned in such a way that we will be reducing our debt year-on-year basis. As far as Europe and America, we are very confident that whatever the investment we have done in RTH in USA and the kind of strength we have in brand and distribution and the kind of growth opportunities are there definitely that will be good. As last year, we have seen a lot of things like this setting up cost, but we will win the game.

**Monika Chawla Jaggia:** Just to add Varun here we were just doing the calculation, if we have around 8-9% of EBITDA on the revenue that Mr. Arora has just shared with you it is around Rs.48 Crores of EBITDA that we will have and Rs.6 Crores of depreciation and around Rs.4 Crores of interest so if I net it off with the tax so the kind of the ROIC on Rs.120 Crores of investment I am getting it to around 25% to 26%.

**Varun Goenka:** What are the margins in US? EBITDA margin, the reason why I am asking is our working capital Europe and US what is on modern trade where credit terms are much adverse to India, so one what is the EBITDA margin in US and what would be the credit period in both US and Europe?

**Ashwani Kumar Arora:** So, EBITDA margin in US is standalone is in the range of 7 to 8% and the credit period in US is on in the average 36 to 37 days and in Europe as I told when it will be full fledged so EBITDA margin will be in the range of 8 to 10% then credit period in Europe is a little high, it is 60 to 65 days, but we are working on that on how we can reduce that cycle.

**Varun Goenka:** Thank you so much just provided a lot of clarification.

**Monika Chawla Jaggia:** Coming back to just one last question I think coming back to the capitalization of the capex so I think we have.

**Sachin Gupta:** In the last quarter of this year FY2018-FY2019, we made a capitalization of around Rs.54 Crores. In FY2017-2018 we made a capitalization of Rs. 120 crore in the last quarter.

**Monika Chawla Jaggia:** Thank you everyone for your continued support, hope we could address your queries. Should you have further questions, please feel free to contact us, thank you and we look forward to connecting with you again in the next quarter.

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



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