



“LT Foods Limited Q2 FY 2017 Results Conference Call”

**November 16, 2016**



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**MS. MONIKA CHAWLA JAGGIA -- VICE PRESIDENT FINANCE AND STRATEGY**  
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**MODERATOR:**    **MR. ROHAN GUPTA -- SENIOR RESEARCH ANALYST, EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

**Moderator:** Good morning, ladies and gentlemen, welcome to Q2 FY 2017 Results Call of LT Foods hosted by Emkay Global Financial Services. We have with us today, Mr. Ashwani Kumar Arora -- MD and CEO; Mr. Vivek Chandra -- CEO, Global Branded Business; Ms. Monika Chawla Jaggia -- VP - Finance and Strategy; and Mr. Sachin Gupta -- DGM - Accounts and Taxation. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “\*” then “0” on your Touchtone Phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Rohan Gupta -- Senior Research Analyst of Emkay Global. Thank you and over to you, Mr. Gupta.

**Rohan Gupta:** Thanks, Lizann. Good Morning ladies and gentlemen, on behalf of Emkay Global Financial Services I welcome all the participants who have logged in for the conference call of LT Foods to discuss their Q2 FY 2017 result and performance along with some industry trend. I also thank the management in advance for giving us the opportunity for hosting this conference call. So, gentlemen, Mr. Arora; Mr. Chopra; Ms. Jaggia; and Mr. Gupta. Sir and Madam thank you and Good Morning Sir.

**Monika Chawla Jaggia:** Good Morning.

**Rohan Gupta:** Good Morning, Sir and Monika Ma'am. So, Ms. Chawla, first, I will request you, if you can give us brief about the current quarterly results and then follow it up with some emerging industry trend by Mr. Arora and then we can follow it up with Q&A session by our clients.

**Monika Chawla Jaggia:** Yes, a very warm welcome to all of you at this LT Foods Earnings Conference Call for the Quarter and Half-Year Ended September 30th, 2016. I am Monika from Investor Relations team of LT Foods and I have Mr. Ashwani Arora -- our Managing Director and CEO; Mr. Vivek Chandra -- the CEO of Global Branded Business; and Mr. Sachin Gupta -- DGM - Accounts and Taxation, joining in for this call.

Anything which is said in this call, which may reflect our outlook for the future or may be construed as a forward-looking statement must be reviewed in risk that the company faces. An audio and the transcript of this call would be shortly available on the Investor section of our website, ie, [www.ltgroup.in](http://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 MD and CEO, 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 a very Good Morning to all of you. I would like to thank you all of your interest in our company and taking time out from our busy schedule to attend this earnings call for the second quarter and half-year ended September, 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 website for the ready reference.

I will walk you through brief overview of our business and strategy. It gives me immense pleasure to share that the revenue of the organization has grown more than 20% in this quarter and margin also increased to the extent of 6%. Our Daawat and Royal brands are also growing at a CAGR of 15% for the last five years and Daawat has gained the market share in India and has attained market share of 22% in this quarter. India and international sales volumes has witnessed growth of 52% and 21% year-on-year for the first half-year of 2017 respectively. EBITDA increased by 2% to Rs. 190 crores led by favorable product mix and our initiative to improve efficiency.

As a strategy, our target is to grow contribution of high margin branded sales within overall pie. Our brand portfolio includes well recognized brand Daawat, Devaaya, Daawat Rozana which has presence in India and international market. Moreover, our portfolio includes Royal brand which notches the top slot in U.S. market and contribute around 28% to the company's top-line. And more than 35% to the company's bottom-line. During the last six months, we have acquired two strong brands from HUL that is Gold Seal Indus Valley and Rozana which will help us penetrate the Middle East market. This acquisition is helping us to penetrate and establish our foothold in the country like Oman, Qatar, and Bahrain. In addition, we acquired iconic brand 817 Elephant through our UK subsidiary. This brand is very well established and has a strong presence in Canada and America and will help the company foray into Canadian and American markets.

We expect our consumer business to grow at the faster clip and our internal target is to increase share of consumer business. On top of that, my marketing and sales team is ready with the plan to drive premiumization and aims to increase the contribution of premium category brands, with an overall consumer sale. In a nutshell, over next 3-5 years our sole focus is to increase share of consumer business in overall sales and that to with a focus on high margin branded portfolio. Our approach of more focus on consumer business has started yielding result and it is reflected in our increase market share of 22% in India and making us leader in this category in India.

I am glad to share that your company has achieved decent size in organic food business with presence in both domestic and international market. This piece is growing at the fastest pace though on a small base. The margins in this business are superior to the traditional businesses, the organic product are currently sold in India and U.S. under brand 'EcoLife', and in the B2B model in the rest of the world. Fast cooking Brown Rice has also seen a strong growth. Company has been a pioneer in this segment. The technology initiatives reduced cooking time

to 15 minutes. On new product development, we have also launched Sauté Sauce under the brand Daawat in India as well as in U.S. and the response have been encouraging.

With focus on profitable branded rice business and value added products coupled with improvement and efficiency, our target is to improve our EBITDA margin by at least 200 bps over the next 2-3 years.

An update on the insurance claim, the company has filed a civil suit in the District Court of Rajasthan on 27th June, 2016 for declaration and recovery of the claim amounting to Rs. 259 crores. The insurance company has filed written statement on hearing of 24th August, 2016. The Company has filed rejoinder on hearing of 19 October, 2016. Next date of hearing is on 3rd December, 2016 where an admission denial of the document will be taken for consideration by the court. Management believes that the recovery of the claim is tenable.

Just to give quick update on the Basmati Rice industry in India. Farmers were overall not happy with the remuneration they got for the crop 2015 as they were expecting. The starting price of all Basmati varieties were much low as compared to the crop season 2014. In all the major Basmati growing states farmers had decided to switch to non- Basmati as the result of the same. There was a reduction in the production of Basmati by approximately 20% to 25%. This has resulted to an increase in the price of Basmati in the current crop season to the tune of 10% to 15%.

Now, I want to pass this to Ms. Monika to take you through the numbers. I reiterate that LT Foods is moving in the right direction to capitalize on growth opportunity present in the market of India, U.S., Europe, and Middle East. My team is putting wholehearted effort towards ensuring sustainable, profitable growth with a focus on deleveraging of the balance sheet and improvement in the return ratios for all our shareholders.

Now, to Monika.

**Monika Chawla Jaggia:** Thank you, sir. I will now present the results for the quarter ended September 30th, 2016. During the Q2 FY17 net sales have grown by 22% on year-on-year basis to Rs. 844 crores led by volume growth of 83% on year-on-year basis in India market to 69,601 metric tonnes and 14% year-on-year basis in international market to 80,979 metric tonnes. Domestic realization increased by 8% on year-on-year basis to Rs. 45/kg whereas, the realizations in the international markets are a little depressed by 15% to Rs. 87/kg. Company has witnessed volume growth in branded rice portfolio by 27% on year-on-year basis to 66,451 metric tonnes. Gross profit has also increased by 10.6% on year-on-year basis to Rs. 219 crores. EBITDA has also increased by 3% on year-on basis to Rs. 93 crores. PAT has also increased by 4% to Rs. 27 crores. The contribution from value added products including organic products was 7% to the sales.

During 1HY17, the net sales have grown by 7.49% on year-on-year basis to Rs. 1,554 crores led by volume growth of 52% on year-on-year basis in India market to 1,33,977 metric tonnes and 21% in international market to 1,55,278 metric tonnes. The domestic realization decreased by 8% on year-on-year basis to Rs. 42/ kg, whereas in international it has decreased by 10% year-on-year basis to Rs. 89/kg. Company has witnessed volume growth in branded rice portfolio of 22% on year-on-year basis to 1, 41,218 metric tonnes. EBITDA increased by 2% year-on-year basis to Rs. 190 crores for this half-year. The PAT increased by 7% to Rs. 58 crores and the PAT margins remained constant on year-on-year basis. The contribution from value added products including organic products was 7% to the sales in this half-year.

With this, we now open the floor for Question-and-Answer please.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta:** Just to begin with till the question line assemble, just wanted to check what is the trend in the domestic market in terms of realization? As we can see that from the previous quarter to current quarter it has gone up by almost 10% to Rs. 44 per kg as of now and what is the exit rate or realization and why international market trend which we are seeing is reversing?

**Ashwani Kumar Arora:** Hi, so as I told you that the product mix in India has changed, that is how the realization has gone better and as the commodity prices have also gone up so, that has also impacted the domestic realization. So, going forward in the international market, as the international market prices take some time to reflect so, in the next quarter to next quarter we are going to see better realization in export market also.

**Rohan Gupta:** So, sir domestic market was primarily a function of product mix change rather than overall improvement in realizations.

**Ashwani Kumar Arora:** Yes, one is the product mix change and the other is that the prices are getting higher.

**Rohan Gupta:** Okay. Across the category also.

**Ashwani Kumar Arora:** Yes.

**Rohan Gupta:** Okay. And Sir in international market you are indicating that the realization will reverse probably which has come down to Rs. 87 per kg in the current quarter after seeing a peak of almost Rs. 104 per kg in Q4 of last year. So, what we should be expecting in the second-half any commentary on that?

**Ashwani Kumar Arora:** Yes, we are expecting in the last quarter of this year, the better realization in the export market, although you have export market have a better margin so, still at these prices also company is

having good EBITDA as well as the bottom-line margin because the commodity prices as I told that last year has gone down.

**Rohan Gupta:** Okay. And sir, since now the season has just begin of the paddy procurement so, how is the trend now and what is your expectation that Basmati paddy will settle at?

**Ashwani Kumar Arora:** This year we are expecting our procurement price will be higher by 10% to 15% than the last year so, prices will be up of the commodity and that will reflect in the realization also.

**Rohan Gupta:** Sir, for the benefit of all if you can reiterate what was the average Basmati paddy prices we paid last year?

**Ashwani Kumar Arora:** Last year the average paddy prices were Rs. 20.50.

**Rohan Gupta:** So, we are expecting almost Rs. 23 to Rs. 24 for the current year?

**Ashwani Kumar Arora:** That is right.

**Rohan Gupta:** Okay. How is the paddy availability in the market?

**Ashwani Kumar Arora:** Paddy availability is of course there, but as I told you crop size is less by 20% to 25%. But paddy availability is there but at a higher price.

**Rohan Gupta:** Okay. A day before last previous day we were also hearing some of your competitor's conference call they were mentioning that not only just crop acreages are down by 20% but head rice gain or yield is also poor. So, is it, right? And are you also seeing the same problem and that may have overall impact on the yield of head grain rice?

**Ashwani Kumar Arora:** That is right, I think in this year we are going to get 3% to 4% lesser head grain yield as compared to last year.

**Rohan Gupta:** So, then as well as the blended average realizations are concerned with the higher output of broken rice so, is that so that average realization for the rice itself will come down for the current year?

**Ashwani Kumar Arora:** If this head grain recovery will less so, that means the cost of head price will be

**Rohan Gupta:** So, as the price also will be

**Ashwani Kumar Arora:** Price realization will be better than last year.

**Rohan Gupta:** Okay. Sir, my colleague is Sunny and he has some more questions to ask.

- Sunny:** Good morning, Sir. Can you share our inventory number for rice and paddy for September ending quarter?
- Ashwani Kumar Arora:** The quantity?
- Sunny:** Yes, quantity and at what value you are valuating it?
- Ashwani Kumar Arora:** Paddy stock is 71,000 tonnes at the rate of Rs. 23.18. So, rice stock we have 160,000 metric tonne valued at Rs. 46.99.
- Sunny:** And sir, our average realization for domestic market has been Rs. 45, what are the current trends you are witnessing in realization as of now?
- Ashwani Kumar Arora:** We are expecting a realization of around Rs. 47 to Rs. 48 going forward in the next quarter.
- Sunny:** Okay. And for international market?
- Ashwani Kumar Arora:** Second quarter you know the lower part of broken sells more so, that is why we are expecting better realization in head grain rice or in export market in the last quarter.
- Sunny:** Okay. And sir, with this demonetization, hampering overall trade market what is the impact we are seeing and in any as we wonder what will happen over the next one month or two month, and in long-term does it benefits being a branded player?
- Ashwani Kumar Arora:** I do not think the food business is going to be impacted so, we do not think that there will be any negative impact on our business.
- Sunny:** Okay. So, you are not seeing any I mean temporary disruption in the trade and the trade is normal as it looks to be?
- Ashwani Kumar Arora:** Yes. We have seen that our sales in modern trade have also increased in this last week. So, we are not seeing any negative impact.
- Sunny:** Okay. And Sir, I mean one of the reasons for drop in margin this quarter might be due to weak realization in the international markets any other one-off factor which has affected the margin in this quarter?
- Ashwani Kumar Arora:** Actually see, our branded business margin has improved it is only the mix because this quarter our trading business mix versus last quarter was high so, trading business has lower EBITDA margins. So the mix has impacted the overall percentage but our consumer business where the focus is has improved.

- Sunny:** Okay. So, if you can split for the benefit of everyone, if you can split I mean how does the EBITDA margin looks in our branded or consumer portfolio? And how on other parts of businesses?
- Ashwani Kumar Arora:** Just a minute, I will give it to Sachin he will tell you how much is the branded margin.
- Sachin Gupta:** Hi, Sunny. Our branded EBITDA margin for this half-year has been 17.05%.
- Sunny:** Okay. And overall contribution of branded portfolio to I mean the top-line is around 53%., right?
- Sachin Gupta:** Yes.
- Sunny:** And I mean previously you have eluded to the fact that going forward we are going to reduce our low margin business that is trading and all such activities. So, just your update on the same.
- Ashwani Kumar Arora:** So, that is the plan overall if we will see a quarter-on-quarter it may have the variance but going forward on yearly basis our focus is to grow our branded business but the ratio of the branded business will improve going forward. So, we are not seeing any trading business or lesser trading business in the last quarter.
- Moderator:** We will take the first question from the line of Shubhankar Ojha from SKS Capital. Please go ahead.
- Shubhankar Ojha:** So, basically I missed out on the answers what is the branded segment in the overall revenue I mean how much sales from branded segment I mean?
- Ashwani Kumar Arora:** So, in numbers it is Rs. 854 crores, in percentage term it is around 60%.
- Shubhankar Ojha:** 60%, okay. And in terms of where do you see it say two years from now you said your objective is to.
- Ashwani Kumar Arora:** Yes, so, we have a plan to grow 15% to 20% year-on-year our branded business. This is the plan and we are going as per plan.
- Shubhankar Ojha:** And sir, yearend our market share was 18% in the domestic market and you said as on September end your market share is 22% in the domestic market so
- Ashwani Kumar Arora:** That is right as per Nielsen our share has moved by 4%.
- Shubhankar Ojha:** So, if you can share who is losing out I mean in terms of the top player losing the market or there is other than top two who are gaining market share from?



- Ashwani Kumar Arora:** I think there is a growth from the unorganized player.
- Shubhankar Ojha:** There de-growth you mean organized are not there much?
- Ashwani Kumar Arora:** Yes, the unorganized player and some brand has lost the ground, so, that is how from where the growth is coming.
- Shubhankar Ojha:** And in terms you say the inventory data so, what is your target for the seasons is going to start, how much paddy you want to procure in the current season I mean given the price of 24 -25 you said, what is our target for the further buying a paddy.
- Ashwani Kumar Arora:** Yes, this year also it depends because there is still 40-45 days left, so, we have plan to source a minimum 65% of our total requirement and depending on the prices it may go up to 80%.
- Shubhankar Ojha:** Okay. So, what was our last year's total procurement?
- Ashwani Kumar Arora:** Last year we have we have done around 3, 50,000 tonnes of paddy.
- Shubhankar Ojha:** So, assuming at least that much 65% of that you will be procuring?
- Ashwani Kumar Arora:** Yes, around it depends on the price situation so although we are sitting on a good stock on half year.
- Shubhankar Ojha:** Right. And I missed out one data which you may have said in the beginning of the call the H1 volume for the domestic as well as for the export market and the realization part?
- Ashwani Kumar Arora:** So, you mean to say the growth or the number?
- Shubhankar Ojha:** No, the H1 volume absolute number and the realization number.
- Ashwani Kumar Arora:** In domestic market, we have sold 133,000 tonnes and international market 155,000 tonnes.
- Shubhankar Ojha:** What was the realization?
- Ashwani Kumar Arora:** Realization in India is Rs. 42/kg and international market is Rs. 89/kg.
- Moderator:** Thank you. The next question is from the line of Sameer Kapadia from Fortune Interfinance. Please go ahead.
- Sameer Kapadia:** Just wanted to get understanding what is the EBITDA margin in your trading business?
- Ashwani Kumar Arora:** Trading business EBITDA margin is, just a minute.
- Sameer Kapadia:** And it would be accounting for the rest of the 40% of the revenue?

- Ashwani Kumar Arora:** It is 3% to 5%.
- Sameer Kapadia:** 3% to 5%. And is it the rest of the 40% of the revenue for the company.
- Ashwani Kumar Arora:** That is right.
- Sameer Kapadia:** Okay. And can you shed some light in regards with your recent acquisition of the two HUL brand?
- Ashwani Kumar Arora:** Yes, so it is doing very well. It is going as per expectation. We have started the sales of both the brand and what has been projected we are going as per that.
- Sameer Kapadia:** What would be the organized players market share in the whole rice brand?
- Ashwani Kumar Arora:** No, you mean to say India or globally?
- Sameer Kapadia:** India.
- Ashwani Kumar Arora:** I will give it to Mr. Vivek Chandra.
- Vivek Chandra:** Yes, good morning. As per Nielson the top five brands account for about 70% of the market, if you take the other organize at a national level in the consumer space that would be in the upwards of 80%-85%.
- Sameer Kapadia:** Okay. That is within the organized player, this top five players account for you mean to say or overall...
- Vivek Chandra:** Correct.
- Moderator:** Thank you. As there are no further questions, I would now like to hand over the conference to Mr. Rohan Gupta for his closing comments.
- Sunny:** Hi, Sir Sunny here again. I just want to know our working capital cycle has reduced drastically over last four years to five years wherein what we see mainly led by the decline inventory days so, what is driving that in decline in inventory and going forward where do we see this working capital cycle stabilizing over next one year or two years?
- Ashwani Kumar Arora:** So, we have rationalized on our buying so, which some grain needs two years of ageing some needs year ageing so, we are rationalizing the products and controlling our inventory level. So, we are going to see the same trend, we are at the best level, around 225 days of cycle.
- Rohan Gupta:** Sir, one thing on your rice inventory, you have mentioned that roughly Rs. 47 was the inventory valuation for rice right, and average realization blended average realization for

domestic was Rs. 45 so, I mean generally close to the blended average realization we do the inventory valuation or generally how are the practice follows?

**Ashwani Kumar Arora:** If you see the overall realization of the company export and that is much higher the blend, the second thing is as a company we have a policy to store only the full grain rice and not the broken and in our inventory valuation, our finished good inventory at USA also comes. So, it is a more finished good inventory rather than semi-finished goods.

**Rohan Gupta:** Okay. So, generally first of all it is all full grain rice and then finished goods inventories.

**Ashwani Kumar Arora:** Yes, finished because in USA we keep three months' inventory and that is a packed and all the freight and everything comes in that.

**Rohan Gupta:** Okay. Sir, in domestic market out of this Rs. 45 average realization on a blended basis what will be the difference between the top and I mean the full grain under the brand realization as of now.

**Ashwani Kumar Arora:** So, like we sell our highest premium brand we sell an ex-mill at 130 and price to consumer is Rs. 190 and the lowest we sell is Rs. 22 that is the last broken fraction here.

**Rohan Gupta:** Okay. And sir, would you mind sharing that the highest premium-end segment contribution in the total retail branded sales?

**Ashwani Kumar Arora:** For us, if you see India, it is in quantity terms which are around 15%.

**Rohan Gupta:** 15%, okay.

**Ashwani Kumar Arora:** Yes, but in export it goes all the premium end of the rice here. And premium end rice takes two year or one year minimum of each.

**Rohan Gupta:** Sir, you were talking about gaining or increasing your presence in a branded sales segment and which is right now 53% of the contribution in turnover so, you are targeting almost 20% growth in branded segment every year, right?

**Ashwani Kumar Arora:** Yes 15% to 20%.

**Rohan Gupta:** 15% to 20% in a branded segment. So, and on overall business what kind of volume growth you are envisaging?

**Ashwani Kumar Arora:** 3 lakh tonne we have a branded business in terms of the volume so, we are expecting growth of around 40,000 tonne every year.

**Rohan Gupta:** Okay. And this traded portfolio is likely to then come down?

**Ashwani Kumar Arora:** Yes, that is right.

**Rohan Gupta:** Sir, just a one last thing from our side, once again on a demonetization so, we must be having a receivables yet to come from our channel and distributor as well as dealers so, do you foresee any delays in that because of the current issues going interest the collection of payment you see anything?

**Ashwani Kumar Arora:** Yes, a little bit delay will be happening but we think we will be in control because we are seeing for the last two days - three days the receivables are not coming they are saying the dealers are not paying in time. But we think that it is short-term, it will get corrected.

**Rohan Gupta:** Okay, great, sir, that is all from our side. And I hope that it went well and on behalf of Emkay Global I also again thank you for giving us the opportunity for hosting this conference call. At last, I will request if you want to make any final closing comments, sir?

**Ashwani Kumar Arora:** Yes, thank you everyone for listening patiently and taking out time from your busy schedule to participate in our Earnings Call. And to summarize our discussion today, LT Foods is on track to deliver healthy, sustainable and profitable, growth and committed to create stakeholder value in medium-term to long-term. For any 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.

**Rohan Gupta:** Thank you, sir. On behalf of Emkay Global Financial Services I thanks all the participants logged in for the Conference Call of LT Foods. Once again a special thanks to the management for giving us the opportunity to host this conference call. I end this call.

**Moderator:** Thank you members of the management team. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.