

Game Changer



**Transforming from Single Product
Company to a Branded Consumer Play**

Moving up the Value Chain	#3
Company Snapshot	#4
Business Overview	#6
Investment Rationale	#7
Business & Industry Segments	#8
Financial Analysis	#13
Management Analysis & Shareholding %	#16
Competition	#17
Sources of Risks	#18
Future Outlook	#19

Moving up the Value Chain

Moving up the value chain is a value chain in the whole series of activities that create and build value at every step. The total value is derived by the company is the total of the value built gradually throughout the company.

Over the past couple of decades, many mid and small-cap companies have moved up in their value chain by becoming specialized manufacturers in their respective business segments. These companies started at the bottom and have been involved with commoditized operations. A company can either move up the value chain by either expanding its existing product line or by introducing newer products.

Investors who had invested in listed Basmati stocks made staggering returns of over 1000% between early 2014 & late 2017! That is 10 times returns on their initial investment in a little under 4 years.

However, in times like these investors should always remember these famous lines by Charlie Munger, **“No matter how wonderful a business is, it is not worth an infinite price”**.

Early 2018, while the small and midcap stock indices were seemingly in free fall, all stocks including Basmati stocks had a tough time maintaining their market capitalizations. **US sanctions on Iran, one of India’s largest importer of Basmati rice, and Europe & Saudi Arabia’s tightened pesticide norms for basmati rice imports proved to be major setbacks for this sector. This resulted in a large drop in the share price of India’s biggest listed Basmati rice companies, LT Foods Ltd (LTF) & KRBL Ltd (better known for their flagship brand ‘Daawat’ & ‘India Gate’).**

While the economic climate has been tough on Basmati rice producers, these stocks have displayed great resiliency in their fundamentals and steadfastness in their vision for growth. We believe that investors have once again been presented with an opportunity to buy them at more than reasonable bargains.

Among the two, we like LTF due to its vision to be a consumer play and not just confine itself to the branded basmati rice business. The company has already laid down its plan to further penetrate its overseas and Indian markets by introducing newer products and entering related segments through its extensive distribution network.

While there is still room for growth in the branded business market, the company’s efforts in changing its perception to a branded FMCG company will lead to premium valuations in the stock market.

Company Snapshot

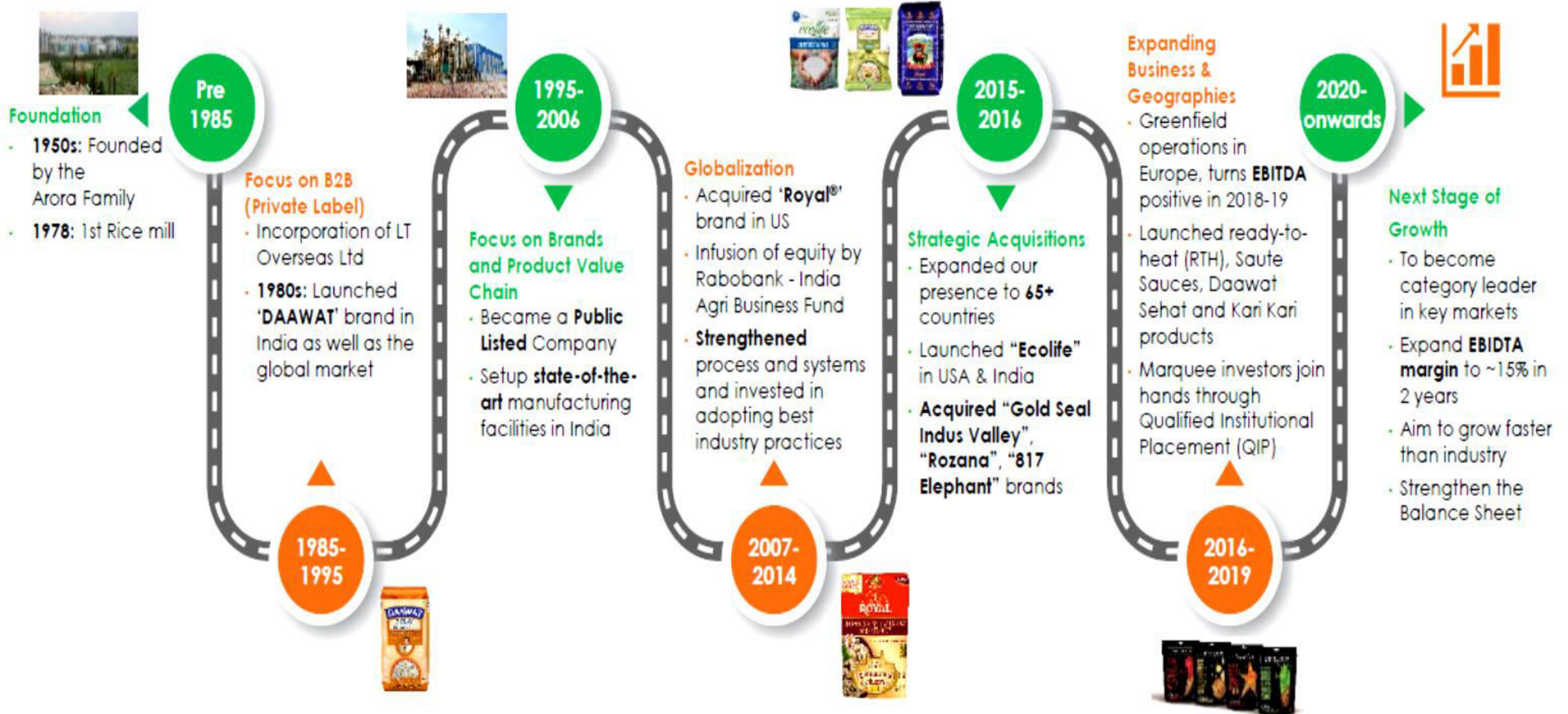
<p>Total Weightage % in Portfolio = 6%</p> <p>Best Buying Range = Buy 3% between 70-75 & average down further buying between 60-65</p> <p>Price Target = 110 in 12 months & 200+ in 3 years (Expect 35-40% CAGR over next 3-5 years)</p>	Market Cap	₹ 2,277 Cr.	Current Price	₹ 71.2	High / Low	₹ 74.5 / 19.8
	Stock P/E	8.38	Book Value	₹ 51.3	Dividend Yield	1.40 %
	ROCE	13.2 %	ROE	13.3 %	Face Value	₹ 1.00
	Promoter holding	56.8 %	Dividend yield	1.40 %	Change in Prom Hold	0.00 %
	Chg in Prom Hold 3Yr	0.80 %	Unpledged Prom Hold	56.8 %	Industry PE	37.7
	Gross block	₹ 1,450 Cr.	Gross Block PY	₹ 1,077 Cr.	Enterprise Value	₹ 3,667 Cr.
	Dividend Payout	8.67 %	Debt to equity	0.87	Market Cap to Sales	0.48

Business : LT Foods Ltd. (LTF) is one of the leading consumer food companies in India in specialty rice offering Daawat, one of the most renowned brands in the market. The company offers premium quality basmati rice, regional rice, rice-based snacks, saute' sauces and other products on the health and convenience platform.

Management : From a small rice mill in Punjab, the company has grown into one of the leading branded basmati players in the world. The management has been instrumental in building and scaling some of the household brands in India and abroad. Their focus is to create a fully integrated, global, sustainable, predictable, profitable and growing consumer business.

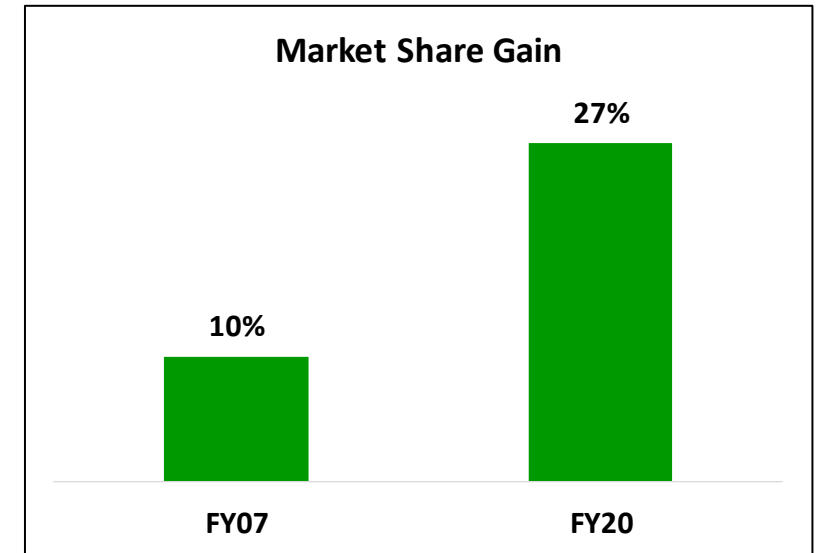
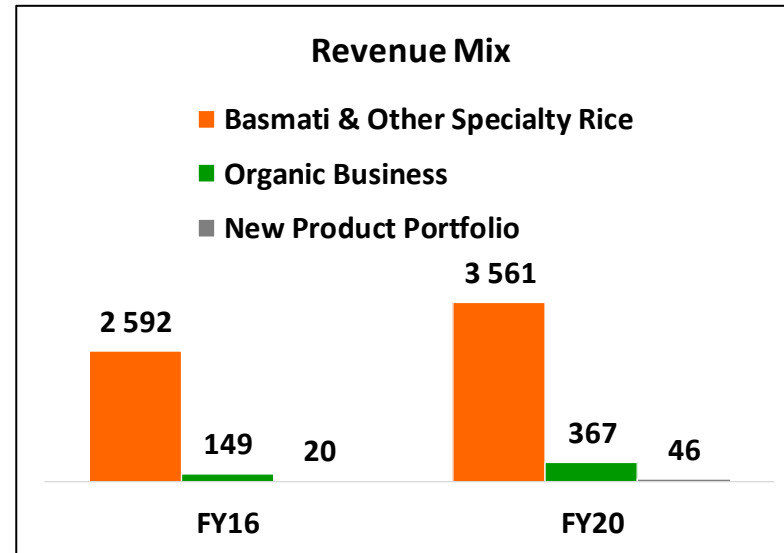
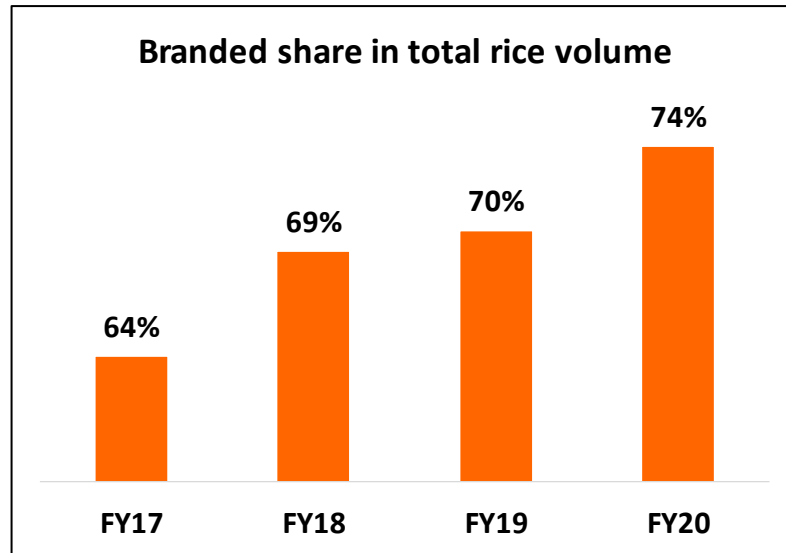
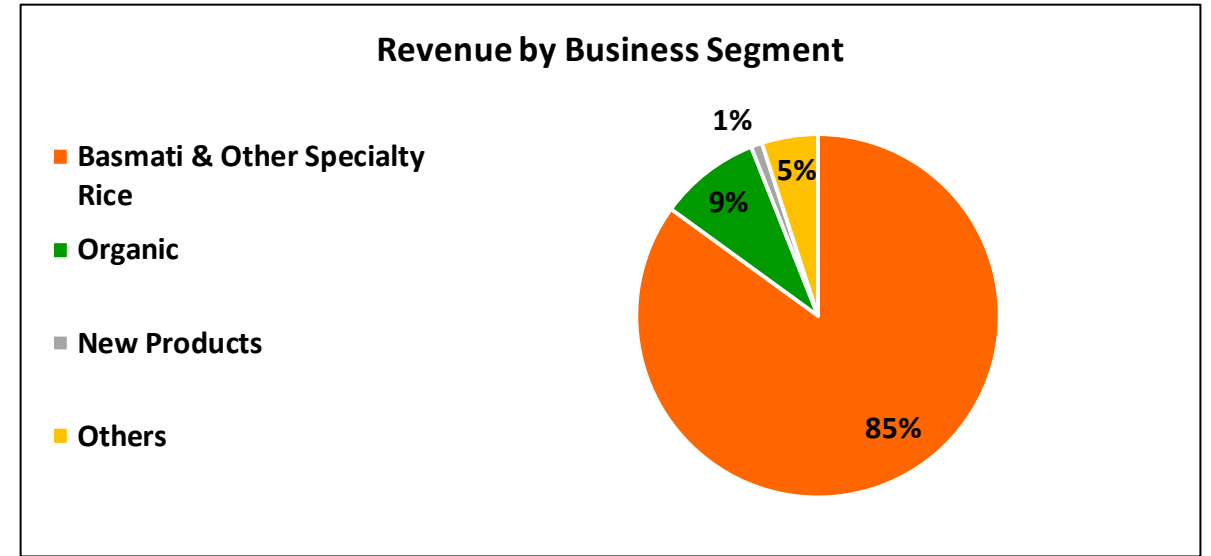
Valuation : Europe & Saudi Arabia's tightened pesticide norms have led to a sharp correction in the company's valuation, all the while its fundamentals remained strong. The company has since then seen a significant improvement in its valuation. We believe the company's entry into newer products and expanding global operations leading to a transformation into an FMCG company, will lead to premium valuations.

Risks : Intense Competition, raw material price volatility, working capital intensive business, geopolitical risks and exchange rates fluctuations.



Business Overview

Business Segments	Products offered
Basmati and other Specialty Rice	Basmati Rice, Regional Rice, Quick Cooking, Brown Rice, Jasmine Rice, Arborio Rice
Organic food and ingredients	Cereal Grains, Pulses, Oil and Oil, Seeds, Nuts, Spices, Herbs, Millets, Sweeteners, Basmati Rice, Regional Rice
Health & Convenience Foods (New Products)	Rice-based Snacks, Ready to Heat, Saute Sauces, Cuppa Rice, Staples, Fortified Rice



Tailwinds

Shift in customer behavior towards
Branded & Organic Foods

2nd largest Basmati Rice brand in India

Largest Basmati Rice brand in the US.

High Brand recall in all its international
markets



Focus towards growing its Value added
businesses of Organic Foods and New
Products

Extensive Distribution Network

Operating Leverage

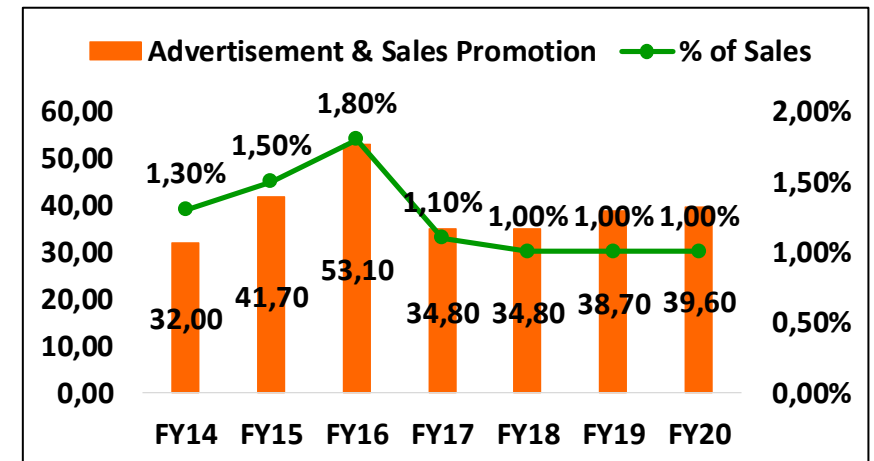
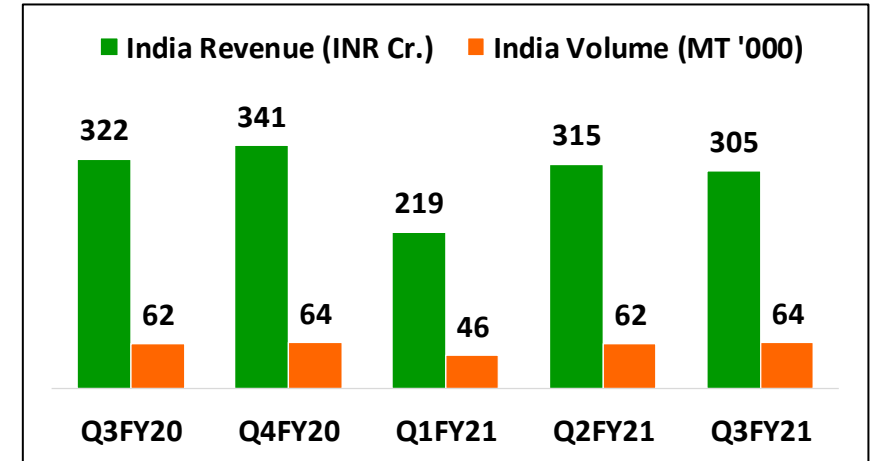
Reduction in pledged shares & Debt

Branded Player in a commodity business

- ❑ India is the largest Basmati rice producer (producing 7 MMT out of the total industry size of 8.5 MMT) and it continues to grow, driven by international market demand and potential upside from branded demand/premiumization in India.
- ❑ Out of India's market of 2 MMT consumption market size, **only 35% is branded packaged rice market – A huge opportunity size!**
- ❑ Majority of Basmati is exported (~75%). Overseas markets for Basmati include the Middle East, U.S., U.K., and parts of the EU.LT Foods.
- ❑ (LTF) is one of the leading specialty rice producers in India with more than seven decades of operations.
- ❑ Being commoditized in nature, the rice industry is dominated by unorganized players. However, over the years players like LTF and KRBL have transformed this business into a consumer company by establishing renowned brands like Daawat and India Gate respectively.
- ❑ With a focused approach to branding and advertising activities, the company was able to build a national brand in the basmati rice segment.
- ❑ LTF has also focused on social media platforms to stay engaged and strengthen its connection with its consumers about its brands. **Daawat basmati rice YouTube channel has one of the highest subscribers, (140K, while India Gate has 5.2K subscribers)** keeping users engaged with innovative, traditional, and modern rice recipes.
- ❑ The company is also leveraging its strong brand equity and robust distribution, to venture into regional rice categories.

26% Market Share (Rural & Urban)

30% Market Share in modern trade



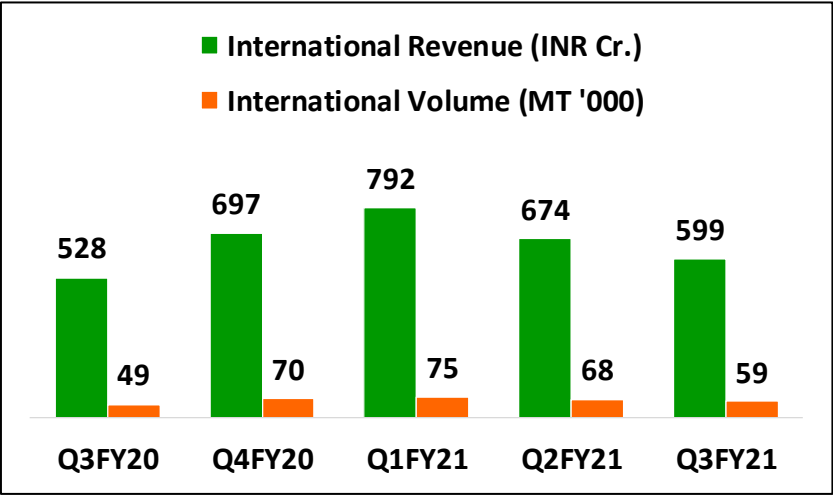
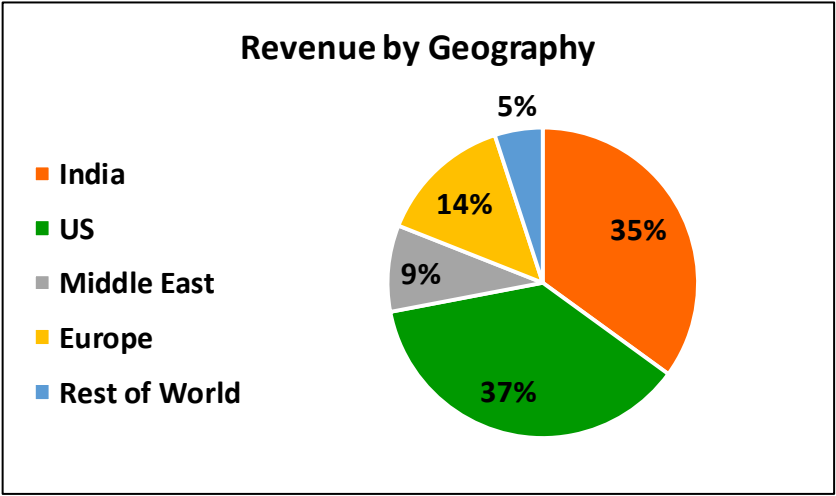
Expanding Global Presence

- ❑ The Company’s international business comprises various leading brands like Daawat, Royal, Indus Valley, Devaaya, Daawat Rozana, and 817 elephant exported to more than 60 countries. LTF enjoys higher price realization for their products in the international market, in turn improving their margin profiles.
- ❑ LTF has also established two wholly-owned subsidiaries in the Netherlands and the USA. The company has also set up an RTH plant in Houston, USA to capture more market share in the value-added product segment.
- ❑ Despite macro-economic challenges, the company is looking to scale its European business through expanding its product portfolio and with further investment in additional packaging lines. **LTF is leveraging new customers such as Jumbo with more than 600 store supermarket chains in Europe to further penetrate the market.**
- ❑ The Middle East plays a vital role in the overall basmati rice market dynamics and is an important geography for the company’s growth. LTF is present across all channels and price points – Modern Trade, Self Service, Traditional Trade, and Food Service. **The company’s acquisition of “Gold Seal Indus Valley” and “Rozana” brands from HUL in FY17 and recent equity association with Saudi Agricultural & Live Stock Investment Company (SALIC) are a testament to a good growth opportunity in both the core basmati business and also the value-added business.**

**45% Market Share in the US
basmati rice segment**

**39% Market Share in branded
segment in the US**

**10% market share in Premium
Basmati segment in Middle East**



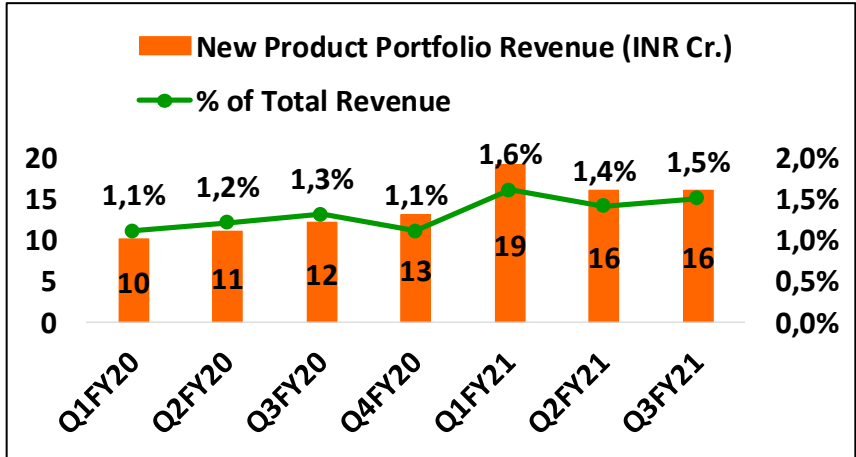
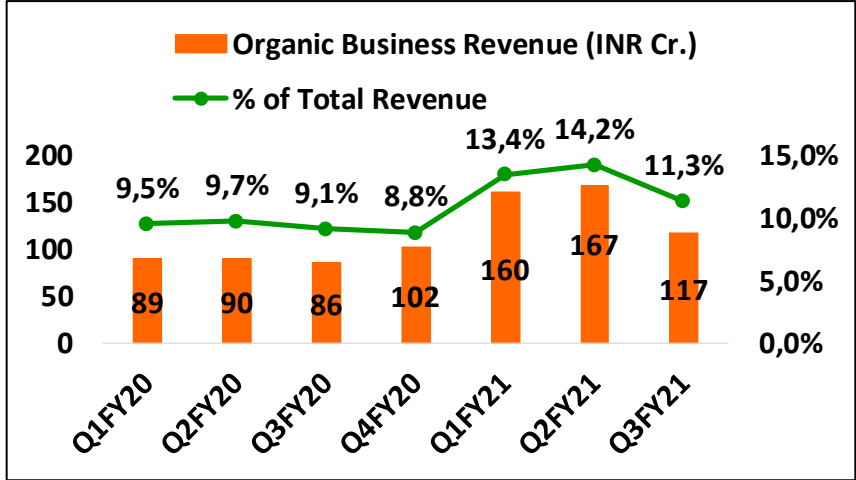
Forward Integration to be a Consumer Play

- ❑ **LT Foods' value-added business comprises of two segments – Organic Business & New Product Portfolio.**
- ❑ Organic food is different from conventionally grown food because Organic food is either grown under a natural system of agriculture, without the use of synthetic fertilizers or they are processed products made from organically produced raw materials.
- ❑ The rise in popularity of these products has essentially been a direct result of growing health concerns among consumers and increasing awareness about the health benefits of organic food.
- ❑ The pandemic has also accelerated the demand for organic food as various industry experts as consumers, over the last 6 to 9 months, have understood the importance of consuming healthy food.
- ❑ Due to the surge of smartphone usage in India, coupled with low-cost internet, there has been an increase in access to information about organic food. Added with this, e-commerce platforms acted like a facilitator reaching out to potential customers across the country.
- ❑ The Indian government is supporting and promoting organic farming by extending financial help to farmers adopting organic farming. Various government schemes like Mission for Sustainable Agriculture (NMSA), Mission for Integrated Development of Horticulture (MIDH), National Food Security Mission (NFSM), and Rashtriya Krishi Vikas Yojana (RKVY) have been implemented to promote the sector.
- ❑ Bifurcating the trend region-wise, according to some market researches, North America holds approximately 40% of the global market revenue share and dominates the organic food market with the highest CAGR. Europe is the second-largest consumer of organic produce and accounts for over 33% of the total revenue share globally.
- ❑ The industrialized and developed countries such as Australia, New Zealand, Japan, Singapore, Hong Kong, and Korea are major markets for organic foods and beverages in the Asia Pacific.
- ❑ The fast adaption of western culture and increment in mindfulness about organic food is relied upon to help in the increase in demand for organic food in the Middle East, Africa, and Latin America.





Fast Growing Value-added businesses

- ❑ LTF operates its organic business through its wholly-owned subsidiary **Nature Bio Foods Ltd** (NBFL). NBFL has recently acquired a 30% stake in Leev, Netherlands through its subsidiary Nature Bio Foods BV.
- ❑ **The company has expanded its product portfolio to include organic cereal grains, flour, pulses, oil and oilseeds, nuts spices, herbs, millets, and sweeteners under the brand ‘EcoLife’.**
- ❑ Leev is an organic specialty food company with a portfolio comprising of breakfast bars, healthy snacks, a baking range & gluten-free, low sugar products that promote an active and healthy lifestyle. Leev is also expanding its product portfolio by venturing into the organic wholegrain category such as oats and flax seeds.
- ❑ The organic business has a high entry barrier as it requires around 3 years of cultivation through organic methods to produce pure organic harvest fit for consumption and distribution as an organic product.
- ❑ LTF’s New Product portfolio consists of the health and convenience product range such as Daawat Quick Brown rice and Daawat Sehat under the health segment and Daawat Sauté Sauces, Daawat Cuppa Rice, Royal Ready-to-heat and Kari Kari under the convenience segment.
- ❑ LTF also launched a premium rice-based snack ‘Kari Kari’ in JV with Japan’s snack food major Kameda Seika. Currently, the cuppa rice is majorly servicing the railway demand, where they are receiving repeated orders.
- ❑ **The company targets 15-20% of the total revenue share in the next five years from the new products business where the Kari Kari and the Cuppa Rice are expected to be the major contributors.**

Organic Business 5Yr Revenue CAGR – 25%
New Products Business 5Yr Revenue CAGR – 23%



Integrated Farm-to-fork Business Model

 <p>Sustainable farming</p>	<ul style="list-style-type: none"> • Robust backward integration through partnerships with farmers under Sustainable Rice Production (SRP) Programs to deliver residue-compliant products. • Agri extension team supports farmers throughout the year for rice farming. 	<p>5,000+ farmers associated under the SRP programme</p>	<p>60,000+ acres growing residue complaint paddy</p>
 <p>Procurement</p>	<ul style="list-style-type: none"> • Wide procurement network with strong quality control across all mandis (procurement markets) 	<p>234+ Procurement markets (mandis)</p>	<p>270+ Network of agents</p>
 <p>State-of -the-art processing facilities</p>	<ul style="list-style-type: none"> • State-of-the-art processing and packaging facilities in India, Europe and the US • Advanced milling and packaging infrastructure incorporate global best practices and continuously focuses on cost effectiveness • Strategically located facilities 	<p>Five Manufacturing facilities in India 1 Manufacturing facility in Europe</p>	<p>Three Packaging units and a ready-to-heat facility in US</p>
 <p>Wide distribution reach</p>	<ul style="list-style-type: none"> • Global distribution network including India across all channels such as, Mainstream, Retail Outlet, and Hotels/Restaurants and Caterers (HORECA). Ground presence in US, the Middle East and Europe • Present across all major E-commerce platforms globally. Also tied up with Food Delivery partners such as Swiggy, Zomato and Dominoes in India during the COVID-19 times 	<p>1,50,000+ Retail outlets, 3,600+ wholesalers, and 2,500+ modern trade stores in India; supported by 800+ distributors</p>	<p>250+ International distributors to cater to the global market 80+ Country global presence</p>

Financial Analysis (1/2)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue (INR Cr.)	1,260	1,422	2,208	2,474	2,735	2,973	3,245	3,614	3,890	4,146
Operating Profit (INR Cr.)	113	164	216	263	264	357	358	378	397	471
Operating Margin (%)	9.41	12.48	10.81	11.39	11.3	12.2	12.52	11.46	10.83	12.27
Net Profit (INR Cr.)	22.76	-1.22	56.05	78.33	72.49	72.11	117	135	127	185
Net Profit Margin (%)	1.81	-0.09	2.54	3.17	2.65	2.43	3.61	3.73	3.25	4.45
Cash flow from Operating (INR Cr.)	-110	81.4	-34.75	104	8.99	297	227	60.2	103	477
Free Cash Flow (INR Cr.)	-205	35.32	-85.89	51.28	-56.15	250	151	-162	-18.72	109
Operating Leverage	4.18	2.67	2.30	2.29	3.11	3.07	2.36	2.78	3.12	3.26

- ❑ Revenues of LTF have been growing at a CAGR of 14% from FY11 – 20. Operating profits and net profits have grown at a CAGR of 17% and 26%.
- ❑ The company has been able to maintain a high operating margin of over 10% over the years. Raw material costs have been in the range of ~70-80%.
- ❑ The improvements visible in the margins is due to change in the product mix, strong cash flow generation, optimizing the working capital cycle and continuous repayment of debt.
- ❑ Net profit margins of the company have been historically low due to the company's high-interest costs. The company follows a stock and sell in the USA and Europe due to which distribution costs are borne by LTF leading to suppressed margins.
- ❑ LTF has laid out a plan to effectively utilize its free cash flow where 50% of it will be utilized in the growth of the business, roughly 25% in the reduction of borrowing, and partly will go into dividend (20-30% of profits).
- ❑ Higher cash flow from operations is aiding the company in lowering its debt and maintaining the desired debt to EBIDTA ratio.
- ❑ LTF has a lot of operating leverage. An increase in sales can result in a disproportionate increase in operating income.

Financial Analysis (2/2)

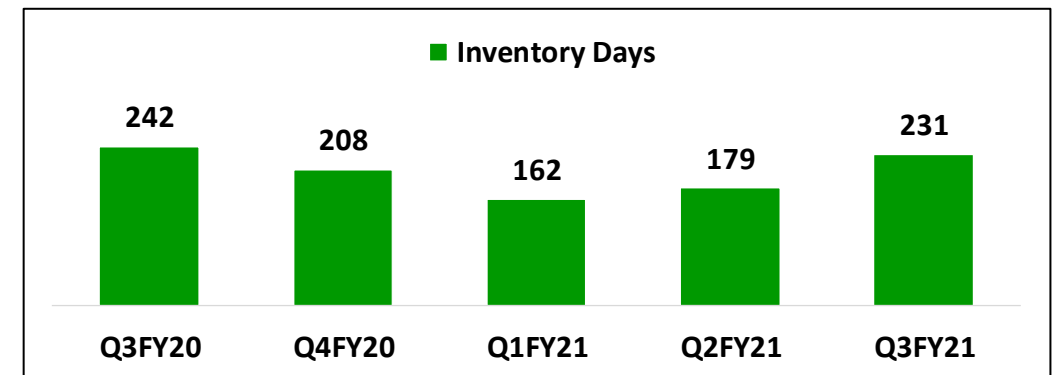
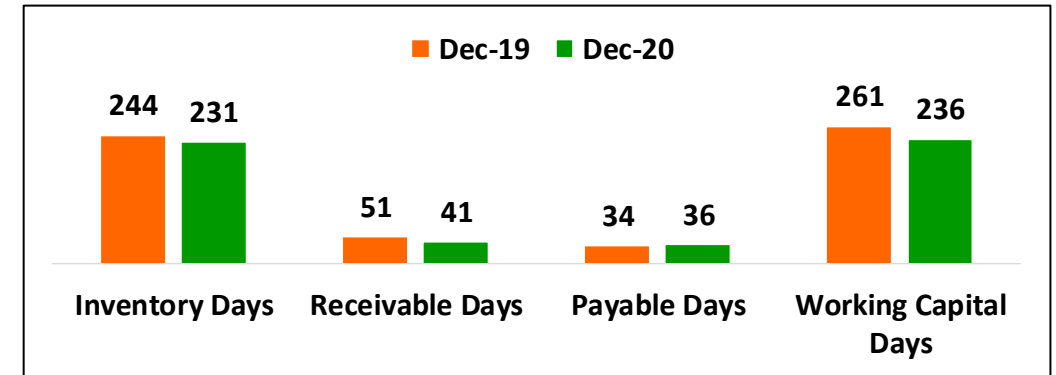
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ROCE (%)	24.07	35.3	44.03	44.33	44.75	51.65	45.56	25.44	20.87	20.25
ROIC (%)	19.2	39.62	33.21	29.81	28.18	46.66	29.75	16.53	13.55	14.1
ROE (%)	8.96	-0.48	18.04	20.04	15.67	13.43	17.63	11.42	9.52	12.4
Asset Turnover Ratio	0.83	0.89	1.12	1.13	1.12	1.21	1.19	1.11	1.09	1.09
Earning Per Share	8.71	-0.47	21.42	29.78	27.4	27.04	4.4	4.21	3.96	5.77
Debt to Equity	4.39	4.79	4.55	3.84	3.66	2.98	2.42	1.31	1.27	1.00
Inventory Days	217	212	156	178	181	163	154	160	170	160
Days Receivables	64.62	70.37	52.87	51.51	42.98	42.57	47.16	47.01	47.04	50.82
Days Payables	18.68	20.66	20.09	23.89	18.26	17.26	21.33	30.35	32.26	27.75

- ❑ LTF's return ratios have reduced in the last three years due to higher CAPEX and acquisition. We expect the result of the CAPEX and acquisition will bear fruit going forward resulting in improvement in return and asset turnover.
- ❑ The majority of the company's debt is in the form of short-term borrowings required to maintain a high inventory.
- ❑ Given the nature of LTF's business, the management's focus is to maintain the debt-to-EBITDA ratio between two to three times. This currently stands at 2.2.
- ❑ Basmati rice is required to be aged up to 24 months to enhance and intensify its taste, aroma, and cooking characteristics.
- ❑ The company is required to store a large inventory of paddy and rice in turn blocking a large sum of cash flow into inventories. Procurement of Paddy starts in Q3 this results in an increase in inventory in Q3. It starts reducing in subsequent quarters and reaches the lowest level by Q2.
- ❑ The management's efforts to optimize its inventory days are visible. The overall decline in the inventory days has aided the company in generating higher cash flow from operation.

Q3 FY21 Update

	Q3 FY20	Q2 FY21	Q3 FY21	Q-o-Q (%)	Y-o-Y (%)
Revenue (INR Cr.)	996.00	1,209.00	1,075.00	-11.08	7.93
Operating Profit (INR Cr.)	116.00	151.00	128.00	-15.23	10.34
Operating Profit Margins (%)	11.62	12.45	11.90	-	-
Net Profits (INR Cr.)	48.62	78.09	69.89	-10.50	43.74
Net Profit Margins (%)	4.88	6.46	6.50	-	-

- ❑ Consolidated revenue for the nine months was up by 19% on account of increased sales from the U.S., Europe, and the Organic business.
- ❑ The company has generated significant cash flows amounting to INR 279 Crore.
- ❑ The finance costs were down by 36% as the overall debt was down by INR 229 Crore, and the fund cost was down by 240 bps from 6.9% to 4.5%.
- ❑ The company also announced an interim dividend of 50 paise per share, taking the total interim dividend in the financial year 2021 to INR 1 per share.
- ❑ Basmati and Specialty Rice segment business grew by 15%, bolstered by the growth in demand, especially in the international business and with the recovery of demand in India.
- ❑ The new product business also grew by 50% and now accounts for about 2% of revenues.
- ❑ Capacity utilization was between 65-70%.



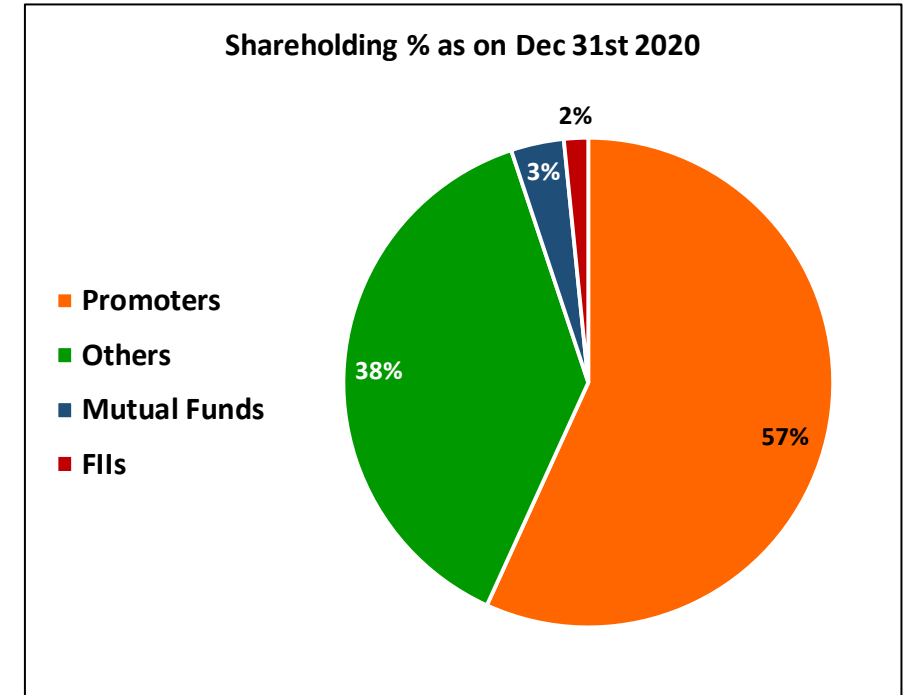
Management Analysis & Shareholding %

From a small family concern, Vijay Kumar Arora has grown LT Foods into a leading processor and exporter of packaged basmati rice. He along with his three brothers Ashwani, Surinder and Ashok joined their father's business and through strict processing standards established brands like Daawat as a household name in a short time span.

The company's bid to develop a broader basmati portfolio led to a critical and visible change, wherein it started offering products to match different price points and also specific products for different geographies. They plan to follow the same strategy to further scale its new business segments.

The management's emphasis on quality has made them the only Indian company globally to be certified with highest level of verification – L3, by UN-backed Sustainable Rice Platform (SRP) ecolabel.

The focus of the management is to create a fully integrated, global, sustainable, predictable, profitable and growing consumer business.



Promoter Shareholding : Current shareholding of promoters in the company is 56.8% (December 31st, 2020).

Management compensation: Management compensation has been in line with the ceiling limits of 10% of net profits.

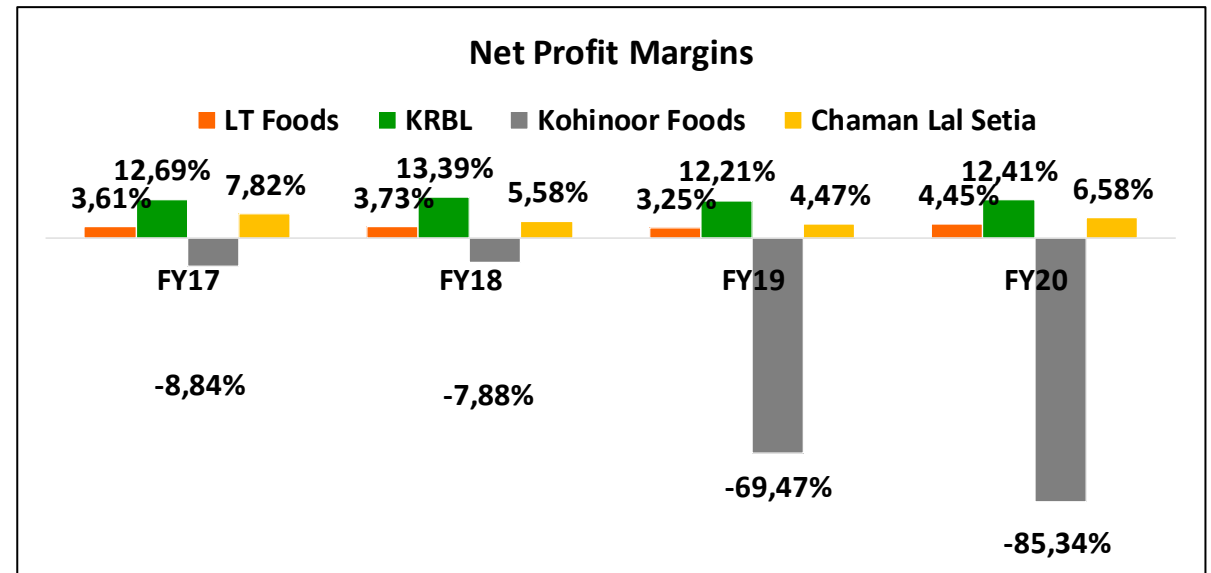
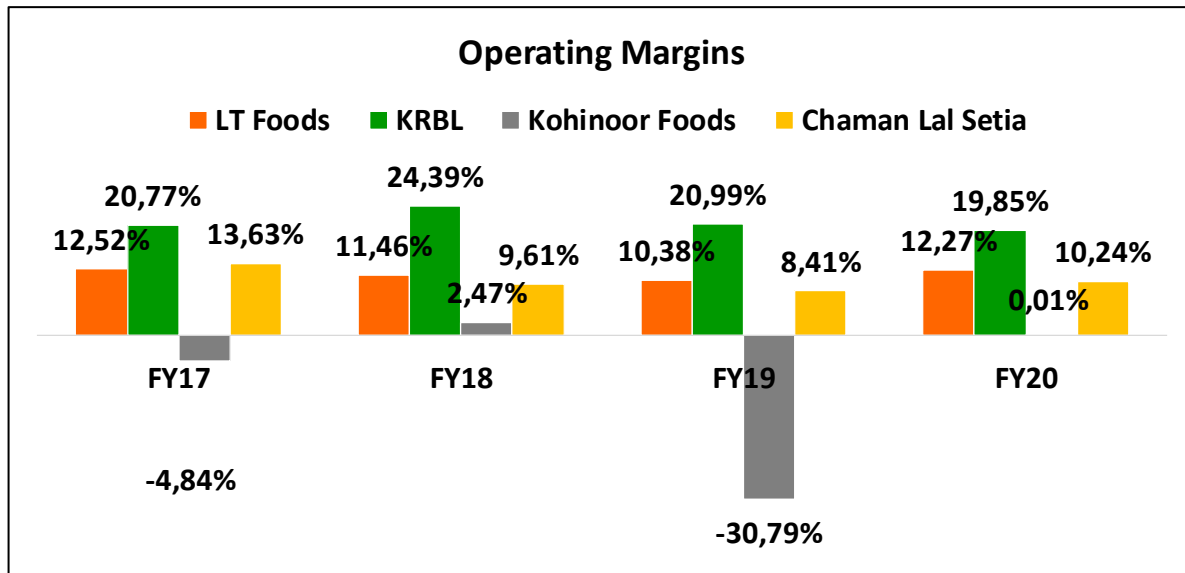
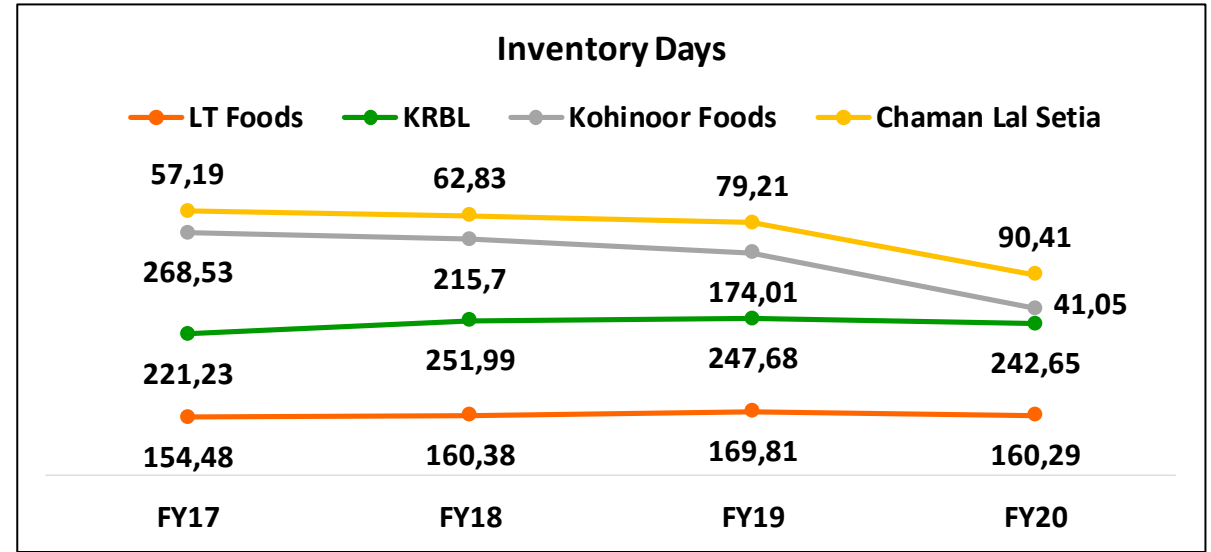
Capital allocation record: The management has clearly done an exceptional job in carving out a niche and dominant position in a commoditized business. To be able to build a global brand in a highly competitive market is nothing short of excellent capital allocation. They have also been quick to enter newer product lines to further diversify their revenue streams by leveraging its extensive distribution and brand recall.

Shareholder communication: Adequate

Pledged Shares: The current pledge share percentage stands at 0%. The management reduced its pledged shares % to NIL which was at 15% four years back.

Competition

- ❑ KRBL is the largest player in the branded basmati rice segment.
- ❑ Chaman Lal Setia is engaged in the business of milling, processing, and trading basmati rice. Therefore they do not carry significant amounts of inventory in their balance sheet.
- ❑ LTF's impact of high debt is visible in its margins. With the management been vocal about reducing the debt, we expect the margins to improve significantly.
- ❑ LTF is also the first mover among these companies to foray into segments other than basmati rice. We expect the impact of this transition to flow into its returns and cash flow in the medium term.



Inability to scale its Value-added businesses

LTF forayed into organic food and ingredient business in the year 1999 and recently entered the and convenience products. Our Investment thesis focuses on the company's ability to scale these segments and transforming LTF into an FMCG play while maintaining its leadership in basmati rice segment.

Geopolitical & Exchange Rate Risks

LTF exports to more than 60 countries and derives 65% of its revenue from the global market making it susceptible to geopolitical tensions and exchange rate fluctuations. Any geopolitical tensions between major economies can cause supply & demand glut in turn affecting the prices of raw material and final products.



Raw material price fluctuations & Working capital intensive operations

LTF starts the paddy purchase in third quarter and stores it for the rest of the year. Being a commodity, the prices of rice and paddy are susceptible to factors like supply, demand, rain and availability of healthy land. This also forces the company to use huge working capital to run its operations. Majority of debt in the company's books is short term in nature intended to use as working capital.

Intense Competition

LTF faces intense competition from organized as well as unorganized players. Indian basmati rice companies also face huge competition from Pakistan, another major producer and exporter of basmati.

Future Outlook

Basmati rice business is viewed as a commodity business and has commanded low valuations like other commodity companies.

However, players like KRBL, LT Foods etc. have redefined the industry norms and focused on building brands (India Gate - KRBL, Daawat/Royal - LT Foods) to take advantage of the changing industry dynamics of consumers shifting to the branded basmati rice and value added products.

While LTF may still seem behind its No.1 peer KRBL (India Gate) in some aspects such as indebtedness, profit margins, net worth, brand awareness etc. **The fact that the 40 year old company has grown at an accelerated pace to have become comparable to KRBL's 100 plus year legacy in India is respectable.**

Anticipating strong free cash flow generation, steady revenue growth across segments, improving margins on the back of higher share of branded basmati, organic business & value added products and balance sheet deleveraging, we expect the company to come out stronger than ever before.

LTF is on the growth path with new product launches across international markets gaining more traction and capturing higher market share in the domestic market. New product launches such as Kari Kari, Quick Brown Rice and Cuppa Rice along with new tie up with SALIC and Leev will pave the way for new a leg of growth focusing on margin expansion and higher returns.

Given LTFL's increased focus on branded basmati rice and organic food business, we believe the company is becoming a strong consumer story in the making.

LT Foods Ltd

70.80 INR

NSE: DAAWAT

-0.95 (1.32%) ↓

23 Apr, 3:30 pm IST · Disclaimer

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



Open	71.70	Mkt cap	22.82B	Prev close	71.75
High	73.90	P/E ratio	8.34	52-wk high	74.50
Low	70.60	Div yield	1.41%	52-wk low	19.85

Highest Subscriber base in its Category in YouTube

3,10,570 visits to Biryani corner on its website

1,36,100 Fan Base in Facebook

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, the analyst have no position in the stock covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.