

LT Foods

Performance Update

(₹ cr)	4QFY18	4QFY17	% yoy	3QFY18	% qoq
Revenue	1,071	927	15.4	941	13.8
EBITDA	96	93	3.7	86	12.0
OPM (%)	9.0	10.0	(102)	9.1	(14)
Adjusted PAT	35	38	(8.8)	39	(10.3)

Source: Company, Angel Research

For 4QFY2018, LT Foods Ltd (LTFL) posted results in-line with our expectations on the top-line front. However it disappointed on the bottom-line front. Revenue grew by ~15% yoy to ₹1,071cr, driven by healthy growth in domestic as well as international businesses. On the operating front, margins contracted by 102bps yoy on account of investment on expansion of international operations in Europe & US and currency fluctuation. On the bottom-line front, PAT de-grew by ~8% ypy to ₹35cr on account of poor operating margin and higher depreciation cost.

Healthy revenue growth in domestic and international businesses aided top-line:

The company's top-line grew by ~15% yoy to ₹1,071cr on the back of strong domestic growth (up by ~9%) and international growth (up by ~31%). During FY18, share of branded revenues to overall revenues has increased from 64% to 69%. Moreover during FY18, LTFL has launched the new avatar of leading brand "Daawat" and quick cook brown rice. These new initiatives are expected to give a new look and feel to the brand, along with more information to the consumer.

Profitability tepid due to poor operating margins and higher depreciation cost: On the operating front, margins contracted by 100bps yoy on account of investment on expansion of international operations in Europe & US and currency fluctuation. On the bottom-line front, PAT de-grew by ~8% to ₹35cr on an account of poor operating margin and higher depreciation cost.

Outlook and Valuation: Going forward, we expect the company to report healthy top-line CAGR of 12% over the next two years on the back of strong distribution network & brand, continuing expansion, wide product basket and addition of new products in portfolio. On the bottom-line front, we expect ~17% CAGR following robust improvement in operating performance over the next two years. We expect margin expansion from better manufacturing efficiency, increase in scale and change in product mix. At the current market price of ₹76, the stock trades at a PE of 15.8x and 12.6x its FY2019E and FY2020E EPS of ₹4.9 and ₹6.1 respectively. **We recommend BUY with target price of ₹128.**

Key financials

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Net Sales	3,287	3,614	4,047	4,533
% chg	10.5	10.0	12.0	12.0
Net Profit	117	144	156	196
% chg	18.9	23.0	8.0	25.8
OPM (%)	11.1	10.4	10.8	11.0
EPS (₹)	3.7	4.5	4.9	6.1
P/E (x)	21.0	17.1	15.8	12.6
P/BV (x)	3.8	2.1	1.8	1.6
RoE (%)	17.9	12.0	11.5	12.6
RoCE (%)	13.8	12.0	12.7	13.7
EV/Sales (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	11.0	10.5	9.1	8.0

Source: Company, Angel Research, Note: CMP as of May 28, 2018

BUY

CMP ₹76
 Target Price ₹128

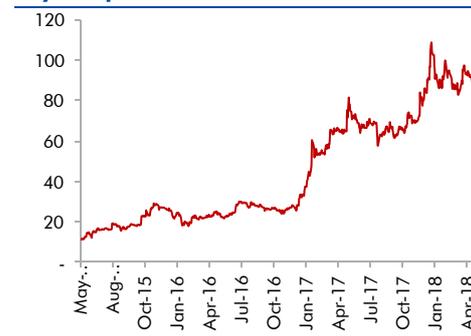
Investment Period 12 Months

Sector		Food Processing
Market Cap (₹ cr)		2,454
Net Debt (₹ cr)		1,516
Beta		1.0
52 Week High / Low		109/56
Avg. Daily Volume		30,425
Face Value (₹)		1
BSE Sensex		35,134
Nifty		10,675
Reuters Code		LTOL.BC
Bloomberg Code		LTFO.IN

Shareholding Pattern (%)	
Promoters	56.0
MF / Banks / Indian Fls	17.7
FI / NRIs / OCBs	0.0
Indian Public / Others	26.3

Abs.(%)	3m	1yr	3yr
Sensex	7.4	27.1	22.9
LT Foods	(19.2)	2.7	442.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2018 Performance

Y/E March (₹ cr)	4QFY18	4QFY17	% yoy	3QFY18	% qoq	FY2018	FY2017	% chg
Net Sales	1,071	927	15.4	941	13.8	3613.7	3244.8	11.4
Consumption of RM	829.9	725.45	14.4	713.8	16.3	2671.4	2409.7	10.9
(% of Sales)	77.5	78.2		75.9		73.9	74.3	
Staff Costs	39	35	10.2	34	13.6	135.0	116.9	15.5
(% of Sales)	3.6	3.8		3.6		3.7	3.6	
Other Expenses	106	74	42.9	107	(1.1)	431.0	360.2	19.6
(% of Sales)	9.9	8.0		11.4		11.9	11.1	
Total Expenditure	975	835	16.7	855	14.0	3,237	2,887	12.1
Operating Profit	96	93	3.7	86	12.0	376	358	5.1
OPM	9.0	10.0		9.1		10.4	11.0	
Interest	40	39	2.6	33	20.4	146.6	156.8	(6.5)
Depreciation	18	13	33.7	12	52.2	50.1	55.1	(9.0)
Other Income	8	17		18		36.2	48.1	
PBT (excl. Ext Items)	46	58	(20.4)	58	(21.2)	216	194	11.1
Ext (Income)/Expense								
PBT (incl. Ext Items)	46	58	(20.4)	58	(21.2)	216	194	11.1
(% of Sales)	4.3	6.2		6.2		6.0	6.0	
Provision for Taxation	11	20		20		71.4	64.9	10.0
(% of PBT)	24.8	34.4		33.9		33	33	
Reported PAT	35	38	(8.8)	39	(10.3)	144	129	11.7
PATM	3.2	4.1		4.1		4.0	4.0	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	34.57	37.89	(8.8)	38.56	(10.3)	144.42	129.27	11.7
Equity shares (cr)	36	36		36		36	36	
FDEPS (₹)	1.0	1.0	(8.8)	1.1	(10.3)	4.0	3.6	11.7

Source: Company, Angel Research

Key investment arguments

Market leadership with strong brand visibility:

LTFL's flagship brand Daawat enjoys 22% market share in the branded rice market in India. The company has strong market share in North America selling Basmati rice under the brand name 'Royal'. Historically, the company has been focusing on strong brand visibility, and in order to enhance brand visibility it has significant ad spend.

Wide distribution network

Currently, LTFL has access to 1,40,000 traditional retail outlets, covering 93% of towns with over 2 lakh population and 3,000 wholesalers. Further, the company sells its products to premium hotels & restaurants (~50% share), and has access to 6,000 foodservice outlets i.e. 'DaawatChefs Secretz'. Moreover, it has access to 2,500 modern trade stores including 121 hypermarkets, 298 supermarkets and 1,462 mini markets. It is also the first Rice Company to place Brown Basmati Rice in Medical Chains.

Diversified product portfolio catering to varied customers

LTFL has a well-diversified product basket, which caters to consumers of all income groups. The company is present in segments like Basmati rice, Speciality rice (non-Basmati) and other food products. It is also consistently working on adding new products to its portfolio. LTFL has done JV with Japanese Snack Food major Kameda, which would launch rice based snacks in India. LTFL has recently introduced 'Daawat Rozana GoldPlus' brand.

Strong global footprint

LT Foods is now an emerging global Foods Company with focus on basmati and other speciality rice, organic foods and convenience rice-based products. LT Foods has a global footprint, selling their flagship basmati rice brands Royal and Daawat into 65 countries. The company has established on ground presence in the US, Europe and Middle East in order to unlock the full potential of these territories.

Outlook and Valuation

Going forward, we expect the company to report healthy top-line CAGR of 12% over the next two years on the back of strong distribution network & brand, continuing expansion, wide product basket and addition of new products in portfolio. On the bottom-line front, we expect ~17% CAGR following robust improvement in operating performance over the next two years. We expect margin expansion from better manufacturing efficiency, increase in scale and change in product mix. At the current market price of ₹76, the stock trades at a PE of 15.8x and 12.6x its FY2019E and FY2020E EPS of ₹4.9 and ₹6.1 respectively. **We recommend BUY with target price of ₹128.**

Risks

- Increase in competition from unorganized players would impact overall growth prospects of the company.
- Basmati rice is an extremely volatile commodity. Hence, any unfavorable change in Basmati rice prices could impact the company's profitability.
- Company derives ~52% revenue from overseas market; any unfavorable change in currency could have an adverse impact on the company's profitability.

Company Background

LT Foods Limited (LTFL) is a branded speciality foods company engaged in milling, processing and marketing of branded and non-branded basmati rice, and manufacturing of rice food products in the domestic and overseas markets. Its geographical segments include India, North America and Rest of the World. The major brands of the company are Daawat, Gold Seal Indus Valley, Rozana and 817 Elephant.

Consolidated Profit & Loss Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	3,287	3,614	4,047	4,533
% chg	10.5	10.0	12.0	12.0
Total Expenditure	2,920	3,237	3,610	4,034
Raw Material	2,405	2,671	2,975	3,318
Personnel	117	135	154	177
Others Expenses	398	431	482	539
EBITDA	366	376	437	499
% chg	17.2	2.7	16.2	14.1
(% of Net Sales)	11.1	10.4	10.8	11.0
Depreciation & Amortisation	54	50	71	74
EBIT	312	326	366	425
% chg	19.5	4.5	12.3	16.1
(% of Net Sales)	9.5	9.0	9.0	9.4
Interest & other Charges	155	147	143	142
Other Income	36	36	10	10
(% of PBT)	18.4	16.8	4.3	3.4
Share in profit of Associates	-	-	-	-
Recurring PBT	193	216	233	293
% chg	61.5	11.8	7.9	25.8
Tax	64	71	77	97
(% of PBT)	33.3	33.1	33.0	33.0
PAT (reported)	129	144	156	196
Minority Interest (after tax)	10	-	-	-
Profit/Loss of Associate Company	(1)	-	-	-
Extraordinary Items	-	-	-	-
ADJ. PAT	117	144	156	196
% chg	18.9	23.0	8.0	25.8
(% of Net Sales)	3.6	4.0	3.9	4.3
Basic EPS (₹)	3.7	4.5	4.9	6.1
Fully Diluted EPS (₹)	3.7	4.5	4.9	6.1
% chg	18.9	23.0	8.0	25.8

Exhibit 2: Consolidated Balance Sheet

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	27	32	32	32
Reserves & Surplus	630	1,169	1,325	1,521
Shareholders Funds	656	1,201	1,357	1,553
Minority Interest	45	45	45	46
Total Loans	1,612	1,516	1,536	1,556
Deferred Tax Liability	5	5	5	6
Total Liabilities	2,318	2,767	2,943	3,161
APPLICATION OF FUNDS				
Gross Block	736	926	966	996
Less: Acc. Depreciation	365	416	487	560
Net Block	371	510	479	436
Capital Work-in-Progress	40	40	40	40
Investments	5	5	5	5
Current Assets	2,299	2,630	2,865	3,186
Inventories	1,448	1,729	1,941	2,173
Sundry Debtors	463	495	554	621
Cash	41	29	34	43
Loans & Advances	179	215	174	168
Other Assets	167	163	162	181
Current liabilities	410	445	489	565
Net Current Assets	1,889	2,186	2,376	2,621
Deferred Tax Asset	13	13	13	14
Mis. Exp. not written off	-	-	-	-
Total Assets	2,318	2,754	2,914	3,116

Source: Company, Angel Research

Exhibit 3: Consolidated Cashflow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	195	216	233	293
Depreciation	54	50	71	74
Change in Working Capital	(125)	(308)	(186)	(236)
Interest / Dividend (Net)	143	147	143	142
Direct taxes paid	(44)	(71)	(77)	(97)
Others	(7)	0	0	0
Cash Flow from Operations	217	33	185	176
(Inc.)/ Dec. in Fixed Assets	(85)	(220)	(40)	(30)
(Inc.)/ Dec. in Investments	(4)	0	0	0
Cash Flow from Investing	(89)	(220)	(40)	(30)
Issue of Equity	2	0	0	0
Inc./(Dec.) in loans	23	(95)	20	20
Dividend Paid (Incl. Tax)	(4)	0	0	0
Interest / Dividend (Net)	(145)	282	(159)	(157)
Cash Flow from Financing	(124)	186	(139)	(137)
Inc./(Dec.) in Cash	4	(1)	5	9
Opening Cash balances	26	30	29	34
Closing Cash balances	30	29	34	43

Source: Company, Angel Research

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	21.0	17.1	15.8	12.6
P/CEPS	13.5	12.7	10.9	9.1
P/BV	3.8	2.1	1.8	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	1.2	1.1	1.0	0.9
EV/EBITDA	11.0	10.5	9.1	8.0
EV / Total Assets	1.7	1.4	1.4	1.3
Per Share Data (₹)				
EPS (Basic)	3.7	4.5	4.9	6.1
EPS (fully diluted)	3.7	4.5	4.9	6.1
Cash EPS	5.7	6.1	7.1	8.4
DPS	0.0	0.0	0.0	0.0
Book Value	20.5	37.5	42.4	48.6
Returns (%)				
ROCE	13.8	12.0	12.7	13.7
Angel ROIC (Pre-tax)	14.0	12.2	12.8	13.9
ROE	17.9	12.0	11.5	12.6
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.5	3.9	4.2	4.6
Inventory / Sales (days)	161	175	175	175
Receivables (days)	51	50	50	50
Payables (days)	24	24	24	25
Working capital cycle (ex-cash) (days)	188	201	201	200

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LT Foods

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No