

LT Foods

Performance Update

Y/E March (₹ cr)	3QFY18	3QFY17	% yoy	2QFY18	% qoq
Net sales	941	790	19.1	853	10.3
EBITDA	86	94	(8.5)	97	(11.8)
EBITDA margin (%)	9.1	11.9	(275bp)	11.4	(229bp)
Adjusted PAT	39	33	16.3	36	5.9

Source: Company, Angel Research

For 3QFY2018, LT Foods Ltd (LTFL) posted results in line with our expectations on top-line and bottom-line fronts. Revenue grew by ~19% yoy to ₹941cr, driven by healthy growth in domestic as well as international businesses. On the operating front, margins contracted by 275bp yoy due to loss of ₹10cr in European operations and one-time bad debt write off of ₹14cr. However, lower depreciation and interest cost boosted PAT growth of ~16% yoy to ₹39cr.

Top-line driven by healthy revenue growth in domestic and international businesses: The company's top-line grew by ~19% yoy to ₹941cr on the back of strong domestic and international growth (up by ~23%). During the 9MFY2018, contribution of branded revenues to overall revenues has increased from 56% to 61%, while realizations were up by ~14% (₹69/Kg Vs. ₹61/Kg). During the quarter, 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.

Lower depreciation and interest cost boosted the profitability: On the operating front, margins contracted by 275bp yoy due to loss of ₹10cr in European operations and one-time bad debt write off of ₹14cr. However, lower depreciation and interest cost boosted PAT growth of ~16% yoy to ₹39cr. During quarter, the company has raised QIP ₹400cr which would be utilised to deleverage and to strengthen its balance sheet.

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 ~27% CAGR following robust improvement in operating performance. We expect margin expansion from better manufacturing efficiency, increase in scale and change in product mix. At the current market price of ₹92, the stock trades at a PE of 16.7x and 13.0x its FY2018E and FY2019E EPS of `5.5 and `7.1, respectively. **We recommend BUY with target price of ₹128.**

Key financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	2,973	3,287	3,647	4,122
% chg	7.0	10.5	11.0	13.0
Net profit	99	117	147	189
% chg	36.3	18.9	25.4	28.5
EBITDA margin (%)	10.5	11.1	11.2	11.3
EPS (₹)	3.1	3.7	4.6	5.9
P/E (x)	29.8	25.1	20.0	15.6
P/BV (x)	5.5	4.5	2.4	2.1
RoE (%)	18.4	17.9	12.2	13.6
RoCE (%)	12.2	13.8	14.8	15.6
EV/Sales (x)	1.5	1.4	1.1	1.0
EV/EBITDA (x)	14.4	12.3	9.9	8.6

Source: Company, Angel Research, Note: CMP as of February 12, 2018

BUY

CMP	₹92
Target Price	₹128
Investment Period	12 Months

Stock Info

Sector	Food Processing
Market Cap (₹ cr)	2,970
Net Debt (₹ cr)	1,565
Beta	1.0
52 Week High / Lo	110/49
Avg. Daily Volume	30,429
Face Value (₹)	5
BSE Sensex	34,300
Nifty	10,540
Reuters Code	LTOL.BO
Bloomberg Code	LTFO.IN

Shareholding Pattern (%)

Promoters	56.0
MF / Banks / Indian Fls	15.0
FII / NRIs / OCBs	7.3
Indian Public / Others	21.7

Abs.(%)	3m	1yr	3yr
Sensex	2.3	20.0	20.5
LT Food	24.2	55.4	703.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2018 Performance

Y/E March (₹ cr)	3QFY18	3QFY17	% yoy	2QFY18	% qoq	9MFY18	9MFY17	% chg
Net Sales	941	790	19.1	853	10.3	2543.1	2317.39	9.7
Consumption of RM	713.8	559.51	27.6	608.0	17.4	1841.5	1684.3	9.3
(% of Sales)	75.9	70.8		71.3		72.4	72.7	
Staff Costs	34	28	19.9	30	12.4	96.4	81.8	17.8
(% of Sales)	3.6	3.6		3.6		3.8	3.5	
Other Expenses	107	108	(0.8)	118	(8.7)	324.9	287.2	13.1
(% of Sales)	11.4	13.7		13.8		12.8	12.4	
Total Expenditure	855	696	22.9	756	13.1	2,263	2,053	10.2
Operating Profit	86	94	(8.5)	97	(11.8)	280	264	6.1
OPM	9.1	11.9		11.4		11.0	11.4	
Interest	33	41	(18.1)	34.0	(1.7)	106.4	117.6	(9.5)
Depreciation	12	15	(21.2)	9.1	26.5	32.6	42.0	(22.4)
Other Income	18	9		2		28.5	31.9	
PBT (excl. Ext Items)	58	47	23.5	56	4.7	170	136	24.4
Ext (Income)/Expense								
PBT (incl. Ext Items)	58	47	23.5	56	4.7	170	136	24.4
(% of Sales)	6.2	6.0		6.5		6.7	5.9	
Provision for Taxation	20	14		19		60.0	45.1	33.1
(% of PBT)	33.9	29.8		34.7		35	33	
Reported PAT	39	33	16.3	36	5.9	110	91	20.2
PATM	4.1	4.2		4.3		4.3	3.9	

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.

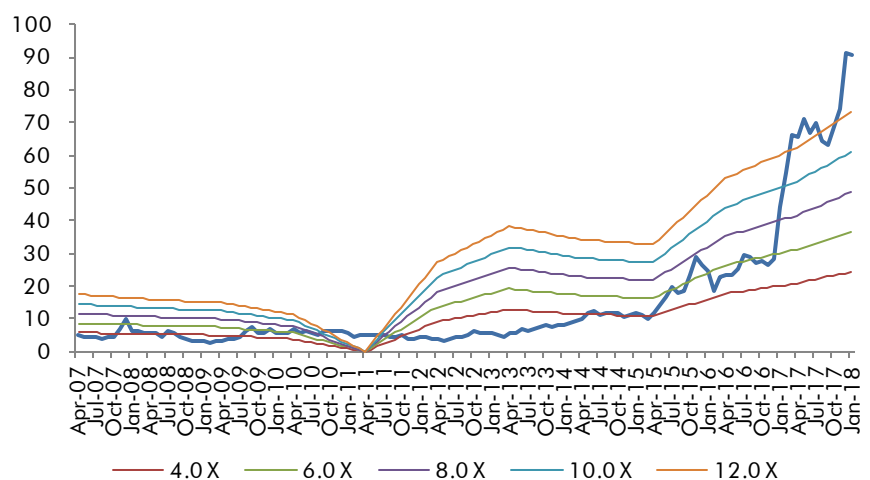
Strong global footprint

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 ~27% CAGR following robust improvement in operating performance. We expect margin expansion from better manufacturing efficiency, increase in scale and change in product mix. At the current market price of ₹92, the stock trades at a PE of 16.7x and 13.0x its FY2018E and FY2019E EPS of `5.5 and `7.1, respectively. **We recommend BUY with target price of ₹128.**

Exhibit 2: One year forward PE Chart



Source: Company, Angel Research

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)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Total operating income	2,779	2,973	3,287	3,647	4,122
% chg	11.5	7.0	10.5	11.0	13.0
Total Expenditure	2,471	2,661	2,920	3,239	3,656
Raw Material	2,076	2,105	2,405	2,677	3,017
Personnel	74	90	117	139	152
Others Expenses	321	466	398	423	486
EBITDA	308	313	366	409	466
% chg	9.6	1.6	17.2	11.5	14.0
(% of Net Sales)	11.1	10.5	11.1	11.2	11.3
Depreciation & Amortisation	47	52	54	50	56
EBIT	261	261	312	358	409
% chg	7.3	(0.0)	19.5	14.7	14.3
(% of Net Sales)	9.4	8.8	9.5	9.8	9.9
Interest & other Charges	151	148	155	143	116
Other Income	1	6	36	25	15
(% of PBT)	1.1	5.2	18.4	10.4	4.9
Share in profit of Associates	-	-	-	-	-
Recurring PBT	111	120	193	240	308
% chg	(15.1)	7.5	61.5	24.5	28.3
Tax	35	47	64	79	102
(% of PBT)	31.3	39.4	33.3	33.0	33.0
PAT (reported)	76	72	129	161	207
Minority Interest (after tax)	4	(0)	10	13	17
Profit/Loss of Associate Company	-	(1)	(1)	(1)	(1)
Extraordinary Items	-	(27)	-	-	-
ADJ. PAT	72	99	117	147	189
% chg	(7.5)	36.3	18.9	25.4	28.5
(% of Net Sales)	2.6	3.3	3.6	4.0	4.6
Basic EPS (₹)	2.3	3.1	3.7	4.6	5.9
Fully Diluted EPS (₹)	2.3	3.1	3.7	4.6	5.9
% chg	(7.5)	36.3	18.9	25.4	28.5

Exhibit 3: Consolidated Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS					
Equity Share Capital	26	27	27	32	32
Reserves & Surplus	436	510	630	1,171	1,361
Shareholders Funds	463	537	656	1,203	1,393
Minority Interest	34	34	45	45	45
Total Loans	1,692	1,597	1,612	1,212	1,232
Deferred Tax Liability	5	1	5	5	5
Total Liabilities	2,194	2,169	2,318	2,465	2,674
APPLICATION OF FUNDS					
Gross Block	638	676	736	736	766
Less: Acc. Depreciation	268	315	365	416	472
Net Block	370	361	371	320	294
Capital Work-in-Progress	15	24	40	40	40
Investments	7	6	5	5	5
Current Assets	2,052	2,065	2,299	2,545	2,847
Inventories	1,362	1,300	1,448	1,609	1,807
Sundry Debtors	318	376	463	500	565
Cash	21	32	41	108	146
Loans & Advances	319	189	179	164	165
Other Assets	31	168	167	164	165
Current liabilities	256	296	410	457	522
Net Current Assets	1,796	1,769	1,889	2,088	2,325
Deferred Tax Asset	6	8	13	13	13
Mis. Exp. not written off	-	-	-	-	-
Total Assets	2,194	2,169	2,318	2,465	2,674

Source: Company, Angel Research

Exhibit 4: Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	111	163	195	240	308
Depreciation	47	52	54	50	56
Change in Working Capital	(245)	(69)	(125)	(132)	(199)
Interest / Dividend (Net)	145	140	143	143	116
Direct taxes paid	(50)	(34)	(44)	(79)	(102)
Others	1	45	(7)	0	0
Cash Flow from Operations	9	297	217	222	180
(Inc.)/ Dec. in Fixed Assets	(55)	(53)	(85)	(30)	(30)
(Inc.)/ Dec. in Investments	(3)	(1)	(4)	0	0
Cash Flow from Investing	(58)	(54)	(89)	(30)	(30)
Issue of Equity	1	5	2	0	0
Inc./(Dec.) in loans	184	(93)	23	(400)	20
Dividend Paid (Incl. Tax)	(6)	(5)	(4)	0	0
Interest / Dividend (Net)	(147)	(142)	(145)	286	(132)
Cash Flow from Financing	32	(235)	(124)	(114)	(112)
Inc./(Dec.) in Cash	(17)	8	4	78	38
Opening Cash balances	35	18	26	30	108
Closing Cash balances	18	26	30	108	146

Source: Company, Angel Research

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	40.6	29.8	25.1	20.0	15.6
P/CEPS	23.9	23.7	16.1	13.9	11.2
P/BV	6.4	5.5	4.5	2.4	2.1
Dividend yield (%)	0.2	0.0	0.0	0.0	0.0
EV/Sales	1.7	1.5	1.4	1.1	1.0
EV/EBITDA	15.0	14.4	12.3	9.9	8.6
EV / Total Assets	2.1	2.1	1.9	1.6	1.5
Per Share Data (₹)					
EPS (Basic)	2.3	3.1	3.7	4.6	5.9
EPS (fully diluted)	2.3	3.1	3.7	4.6	5.9
Cash EPS	3.8	3.9	5.7	6.6	8.2
DPS	0.2	0.0	0.0	0.0	0.0
Book Value	14.5	16.8	20.5	37.6	43.5
Returns (%)					
ROCE	12.1	12.2	13.8	14.8	15.6
Angel ROIC (Pre-tax)	12.3	12.5	14.0	15.6	16.6
ROE	15.7	18.4	17.9	12.2	13.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.4	4.4	4.5	5.0	5.4
Inventory / Sales (days)	179	160	161	161	160
Receivables (days)	42	46	51	50	50
Payables (days)	13	18	24	24	24
Working capital cycle (ex-cash) (days)	208	188	188	187	186

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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