"LT Foods Q2 FY18 Results Conference Call"

November 15, 2017

ANALYST: **MR. SUMANT KUMAR - EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. ASHWANI KUMAR ARORA - MANAGING DIRECTOR & CEO - LT FOODS**
MR. VIVEK CHANDRA – CEO (GLOBAL BRANDED BUSINESS) - LT FOODS
MS. MONIKA CHAWLA JAGGIA - VICE PRESIDENT (FINANCE & STRATEGY) - LT FOODS
MR. SACHIN GUPTA - GM FINANCE - LT FOODS

Moderator: Ladies and gentlemen welcome to the Q2 FY2018 Results Call of LT Foods hosted by Emkay Global Financial Services. We have with us today Mr. Ashwani Kumar Arora, Managing Director & CEO, Mr. Vivek Chandra, CEO (Global Branded Business), Mr. Sachin Gupta, GM Finance and Ms. Monika Chawla Jaggia, Vice President (Finance & Strategy). As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. Sumant Kumar of Emkay Global. Thank you and over to you Sir!

Sumant Kumar: Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. Arora for his opening remarks. Over to you Sir!

Monika Chawla Jaggia: Thank you Sumant. This is Monika. A very warm welcome to all of you at this LT Foods earnings conference call for the Q2 and half year ended FY2018. I am Monika from the Investor Relations team at LT Foods. Along with me, I have Mr. Ashwani Arora our Managing Director & CEO, Mr. Vivek Chandra, the CEO (Global Branded Business), and Mr. Sachin Gupta, GM (Finance) joining in for this call. Anything which is said during this call, which may reflect our outlook for the future or which may be construed as a forward-looking statement must be reviewed in conjunction with the risks that the Company faces. Our presentation on the performances has been uploaded on the stock exchange and the Company's website for the ready reference. A transcript of this call would be shortly available on the investor section of our website that is 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 the Managing Director. 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 A: Thank you Monika and very good afternoon to all of you. It is a great pleasure to greet all of you once again on behalf of all our Board of Directors and the senior management. We begin by thanking all of you for having spared time and joining us here today to discuss our Q2 and half year ending earning call for the FY2018.

Before we discuss the financial performance of the first half of this financial year, allow me to quickly highlight developments of the Basmati rice sector in India.

India continues to have dominant position in global trade. It continues to be the largest in terms of production and exports. The export of the Basmati had been 4 million tonne and Indian Basmati market is 2 million tone, which is continuously growing year-on-year basis.

Farmers were not able to fetch the right price, their Basmati produce in the last two to three years which has impacted the Basmati production this year. In addition to this, low carry forward stocks and growing demand has led to increase in the paddy prices to the extent of 25% to 30%.

Now let us move onto the financial and other strategic update of the business for the last six months.

The growth in the business has come from increased share of branded, organic and private label business. We have continuously reduced the share of trading business as per our overall plan. To re-state, the share of branded Basmati business has increased from 55% to 62% in overall revenue. The share of organic business has increased from 8% to 10% and private label has also contributed 18% from 8%. Increased share of branded business has helped us to improve our gross margin by 3% and EBITDA margin by 31 bps. The increased advertising and pre-operative expenses of Europe have impacted the EBITDA margins, PAT margins have increased by 22% with a mix of increased gross margin, EBITDA margin, and reduction in interest cost.

The Indian market experienced the GST uncertainty that had some impact on the sales especially in the month of June, where in the trade had started reducing the stocks. The Company has been working with the distributors and retailers, so that the transition under GST design becomes swift and smooth. This quarter saw a good recovery in India where in the India business grew by 18% in value terms, though there was a muted growth in the volumes.

Our recently inaugurated plant in Rotterdam, Europe with an initial capacity of 60,000 tonnes is now operational. It will help us strengthen our position in the European market, which is growing at a CAGR of 10%. This move will help us to unlock the full potential of European market by saving the duty of 170 Euro per tonne on import of brown rice. We are also launching new packaging of our Daawat brand in the coming week in Europe.

As mentioned in the last call, the Company has planned to set up a facility in the USA to manufacture two minute organic ready-to-heat rice. This segment is growing at a CAGR of 14% to 15% and we will be leveraging our strong brand equity and distribution network of Royal to earn share in the market. Organic is another growth driver of our growth, which is growing at a CAGR of 40%. It is more of an ingredient business for us focused in US and Europe markets. The dedicated team of this business will maintain the momentum of the growth.

The addition of fast cooking brown rice in our product portfolio is doing very well for us and is growing at a CAGR of more than 40% in India. We recently added another product with the same proposition Daawat Rozana Gold Plus, 80% of Rozana Basmati Rice, which is white, plus 20% Daawat fast cooking brown rice. We have also added Daawat Sona Masoori in the regional rice in our portfolio. All these products are doing well for us. So it gives us confidence to launch value-added product with the consumer preference.

Company has launched also Kari Kari in premium rice-based snacks from its JV with Kameda Seika in the last quarter. I am happy to share that initial response has been very good and encouraging.

Now I request my colleague Ms. Monika to take you through the financial updates. Thank you.

Monika Chawla Jaggia: Thank you Sir. I would now present the financial performance for the period half year ended September 30, 2017 on consolidated basis.

The Company registered a revenue of Rs.1626 Crores an increased of 5% on year-on-year basis.

The gross profits have increased by 16% that is year-on-year basis to Rs.498 Crores.

The EBITDA has increased by 7% to Rs.205 Crores on year-on-year basis and the EBITDA margins have improved from 12.3% to 12.6%.

The PBT has also increased by 27% to Rs.113 Crores.

The PAT has also increased by 22% on year-on-year basis to Rs.71 Crores resulting in improvement in EPS to Rs.2.67 versus Rs.2.18 on year-on-year basis. EPS is based on a fully diluted basis adjusted for the stocks split from Rs.10 per share to Rs.1 per share.

Now let me share with you the volume, value and the realization split between India and International.

Total India branded volume have increased 86,226 metric tonnes as compared to 85,771 metric tonne last year which is valued at Rs.427 Crores as against Rs.362 Crores last year that is an increase of 18% on year-on-year basis. The average realization has also increased to Rs.50 per kg, which is an increase of 18%.

At international level also, the volume was 1, 06,310 metric tonne as compared to 74,898 metric tonne last year, so there is an increase of 42%. In value terms, there was an increase of 42% value that Rs.873 Crores as against Rs.613 Crores last year.

Now we open the session for the questions and answers please. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Deepak Jotwani from ICRA Ltd. Please go ahead.

Deepak Jotwani: Good afternoon everyone and congratulations on a continued steady performance of the Company. Sir I have a couple of queries on the overall performance. One was with line to fact that you have already indicated paddy prices have gone up by 25%, 30% in the ongoing season.

So how do you see that development sort of impacting industry going forward with respect to the ability to sort of pass on this increase in prices in international market next year?

Kumar Arora: Whatever the increase in the paddy price will be passed onto the consumer and industry, that kind of price increase has been accepted by consumers. So that will be passed onto the consumers.

Deepak Jotwani: Okay and with respect to GST so I mean GST impact was there and earlier it was on registered brands, then it was changed to all consumer packaged brands whether registered or not. Has there been any further development as far as GST is concerned on the rice being sold in the market on the consumer packaging?

Ashwani Kumar A: GST in overall quantity as I said in my opening remarks that it has impacted in June, but in the second quarter recovered, but definitely as far as consumer businesses say we call it 1 kg, 5 kg and 10 kg, so as a Company we have grown by 9% but yes it will impact on the packaging which is above 10 kg because there you will be competing with the loose rice people, so that is the lesser part of our business, it is only a 10% of our business. So definitely in the bigger packs, this competition with unbranded people will have an impact.

Deepak Jotwani: Okay and Iran had imported heavily in this fiscal and again stopped importing somewhere around July, August. Have they again started giving an import orders or the situation remains the same?

Ashwani Kumar A: First of all, Iran is very irregular for the last four years; this is not a surprise to the industry. So they close in the month of July and they open either by the November end and by the first week of December, so that is a very regular thing, so India will be a regular exporter of whatever you know 800,000 to 900,000 tonne of the Basmati export that will be regular, so we are not seeing any impact although as far as LT is concerned, we do not have any exposure in the Iran market, but Iran will be a regular customer for India.

Deepak Jotwani: And two questions with respect to the financials. One was with this on the balance sheet side as on September end capital work and progress of roughly around Rs.113 Crores is appearing. So this capex that has been incurred and is in process as towards what exactly, any specific project if you are looking at?

Ashwani Kumar A: As I was telling in my opening remarks. We have invested on two things, one is we have opened a plant in Europe which the investment is in the range of Rs.75 Crores and the other we have invested that ready-to-heat plant in America which is around Rs.30 Crores, so Rs.100 Crores is investment and the rest is regular capex we do in India.

Deepak Jotwani: Okay and Sir one last question in the past there has been private equity infusion in the Company both at the parent level and also in Daawat Foods Limited. So if you could just help me what exactly is the shareholding of the private equity fund as on September 30, 2017 in LT Foods and Daawat Foods?

Ashwani Kumar A: At the moment, you know Rabo has stake of around 6.5 and rest is with public.

Deepak Jotwani: In LT Foods, 6.5% as on date and in Daawat food, can you just…?

Ashwani Kumar A: Yes and Daawat Food, they have 30% stake.

Deepak Jotwani: 30?

Ashwani Kumar A: Yes.

Deepak Jotwani: Thank you so much.

Moderator: Thank you. The next question is from the line of Vipul Shah, Individual Investor. Please go ahead.

Vipul Shah: Congratulations for good set of numbers. What is the status of our insurance claim?

Ashwani Kumar A: Insurance claim is in the court and we are expecting favourable verdict in the next six to eight months.

Vipul Shah: So there is no movement for out-of-court settlement from the insurance Company side or from our side?

Ashwani Kumar A: This case has gone to the legal and we are expecting favourable in the next six, seven months. Already we are in the court for the last one-and-a-half year.

Vipul Shah: So what is our claim amount Sir?

Ashwani Kumar A: Claim amount is more than Rs.200 Crores, but in the last year we have written off Rs.44 Crores. Now the receivable in the books is Rs.136 Crores.

Vipul Shah: So why we wrote off, if our…

Ashwani Kumar A: That is a prudent thing because there were two surveyors and one has given an assessment of Rs.136 Crores and the other has given Rs. 180 Crores, although we will get our claim with the full interest and everything, but as a prudent we have return of Rs.44 Crores last year.

Vipul Shah: Okay, but we must have made the claim of Rs.180 Crores or on the higher…

Ashwani Kumar A: We have made the claim of Rs.190 Crores plus interest.

Vipul Shah: Another question regarding contribution of this trading business, so at present you say 62% is branded right?

Ashwani Kumar A: Yes.

Vipul Shah: So rest 38% is non-branded or…

Ashwani Kumar A: No, the breakup is 62% is branded and 10% is organic business and next approximately 18% is a private label business that is byproduct and a little bit trading.

Vipul Shah: So 62, 10, 72 and 18 private label 90, so only 10% is commodity like trading business right?

Ashwani Kumar A: Trading and byproduct.

Vipul Shah: In private label what exactly we are doing business of, is it...?

Ashwani Kumar A: We do private label for the companies like Walmart, Trader Joe's, Mars we pack in their brand.

Vipul Shah: Okay, so you supply to their branded packaging like…okay, got it.

Ashwani Kumar A: As per our strategy that we wanted to build sustainable business, so either the branded business, organic business and private label business which is strategic in nature and we do only with the Company like Walmart, Trader Joe's and other big companies.

Vipul Shah: So in private label, margins will be substantially lower know?

Ashwani Kumar A: Of course lower than but the ROIC is good.

Vipul Shah: Okay, if you can give any ballpark figure of comparable margins of our own branded and private label brand, it would be helpful.

Ashwani Kumar A: EBITDA margin in the branded business is more than 16% and private label business is around 14%.

Vipul Shah: Not much difference okay.

Ashwani Kumar A: But in branded business, you do a lot of investment in advertising and all these, so your gross margins are of course better.

Vipul Shah: And Sir lastly this rice mix which we have recently launched with the Japanese Company, so what type of run rate we should expect per quarter in that business?

Ashwani Kumar A: It is too early because initially what we have done, we have developed the product and the flavour everything in India and we are getting it packed from Japan. So we have imported containers and at the moment whatever the assumption we had taken in our business plan that is being met, but by the next quarter we will be very clear that how much the revenue and the capex will be there, but we are getting very good response on this.

Vipul Shah: So you have test marketed it and the response is very good right?

Ashwani Kumar A: Yes.

Vipul Shah: Okay Sir, thank you and all the best for the future.

Moderator: Thank you. The next question is from the line of Arjun Balakrishnan, Individual Investor. Please go ahead.

Arjun Balakrishnan: Thanks for giving me this opportunity. I would just like to know regarding our EBITDA margins, you just mentioned that our EBITDA margins are over 16% for branded business and 14% for private label but our overall EBITDA margins are only hovering between lower side 10.5% and the upper side 12.5% to maximum 13%. How are we going to – I am not able to understand why is it on the lower side when branded and private label which constitutes 85% of our revenue is much higher than 15%?

Ashwani Kumar A: In this quarter, there are two exceptional things one is in this quarter we have spent Rs.9 Crores more on advertising, the other is Europe we have set up the plant and preoperative expenses has been booked under expenses because as per European law you cannot capitalize it. So that has impacted your EBITDA margin. If you see the gross margin that has improved by 2.5%.

Arjun Balakrishnan: Okay, fair enough and one more question I had was, if you compare us to our largest competitor, there is a big difference in the EBITDA margin. Going forward you think we can catch up in that regard that we can be near their margins, because in terms of market share we are pretty much on same level, but in terms of margins they seem to be cracking way higher than what we are cracking, so do you think we can improve that?

Ashwani Kumar A: That is what we are targeting as gross margins are almost fair and the scale and we will improve our EBITDA margins.

Arjun Balakrishnan: Thanks a lot.

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

Lalit Thakkar: I have only one question that Sir you mentioned that took some preoperative expenses in Europe operation, what was the quantum of preoperative expenses?

Ashwani Kumar A: That was around Rs.8 Crores.

Lalit Thakkar: That means Rs.9 Crores additional you have spent on advertisement and Rs.8 Crores on this part, so it is total of Rs.17 Crores right?

Ashwani Kumar A: Yes, Rs.17 Crores to Rs.18 Crores.

Lalit Thakkar: Thanks a lot.

Moderator: Thank you. We have next question from the line of Deepak Jotwani from ICRA Ltd. Please go ahead.

Deepak Jotwani: Sir I have one followup question on the paddy outlook and just wanted to check with you what would be the target acquisition of paddy in the current requirement procurement season for the group on the whole?

Ashwani Kumar A: What we are estimating the lower side is toward…depends on variety-to-variety, so Rs.27 to Rs.32 so the average landed will be I think in the range of Rs.30, Rs.31.

Deepak Jotwani: And how much metric tonne of paddy are you planning to procure in this season I mean any broad ballpark figure?

Ashwani Kumar A: That as per our requirement I will say 500,000 tonnes this year, 450,000 tonne of Basmati Rice, we will procure as per paddy position, so it will be approximately 400,000 tonnes.

Deepak Jotwani: Thank you.

Moderator: Thank you. We will take the next question from the line of Milan Parekh from FEGML. Please go ahead.

Milan Parekh: Good afternoon Sir. I just wanted to – I did not get the breakup of International and India, the metric tonnes one, could you please repeat that?

Ashwani Kumar A: Yes, sure. India, we have done in the first six months, 86,226 and International we have done 1,06,000 tonnes.

Milan Parekh: As against last year Sir?

Ashwani Kumar A: Last year International we have done 74,000 tonnes, this year 1,06,000 and India is 85,000 was last year, 86,000 this year.

Milan Parekh: Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Adesh Chhajed from Fujitsu. Please go ahead.

Adesh Chhajed: First of all congratulations for good set of numbers. My question is that our fund rsising activity right. We plan to raise somewhere around Rs.500 Crores right with…

Ashwani Kumar A: That is enabling resolution we are still evaluating.

Adesh Chhajed: Okay, but what is the plan ahead to – how we are going to utilize that amount?

Ashwani Kumar A: We are still evaluating it.

Adesh Chhajed: Okay. That is it from my side.

Ashwani Kumar A: The idea is to deleverage the Company, so we are still evaluating.

Moderator: Thank you. We have the next question from the line of Manan Patel from Equirus Portfolio Management. Please go ahead.

Manan Patel: Thank you for the opportunity. I wanted to know what is the inventory with our Company right now and at what price do have that inventory of Basmati as well as paddy?

Ashwani Kumar A: At the moment we have paddy 47,000 tonnes and the value is Rs.27 per kilo.

Manan Patel: Okay and Basmati?

Ashwani Kumar A: And rice is 1,36,000 tonnes and Rs.50 a kilo.

Manan Patel: Okay and Sir we are planning to procure around 4 lakh tonnes of paddy this year?

Ashwani Kumar A: Yes that is the plan, but depends on how the prices behave. Accordingly, we will take the call.

Manan Patel: What is our policy related to aging, so generally what amount of time do we age the product?

Ashwani Kumar A: It depends on the variety-to-variety and within our portfolio as a brand, so it is from one year to two years.

Manan Patel: Okay.

Ashwani Kumar A: Same as anybody.

Manan Patel: Thanks a lot Sir.

Moderator: We have the next question from the line of Devi Subhakesan from Investor Capital. Please go ahead.

Devi Subhakesan: Two sets of questions. First, just to understand the Basmati rice in cycle because since you mentioned how pricing in this season has come down. So one year down the line, the rice which are aging today will be at a different price versus what somebody else will be supplying right from procurement without aging, does that happen in that way?

Ashwani Kumar A: The Basmati to the end consumer does not sell without aging, so consumer wants fluffy rice, so new crop does not sell with the consumer. It has to…?

Devi Subhakesan: When I buy from a local store, how do I know whether it is aged or not aged, if I am buying…?

Ashwani Kumar A: Then you have to trust Daawat and buy Daawat that is perfectly aged Basmati rice.

Devi Subhakesan: What happens if I am buying something fresh, does it breakdown?

Ashwani Kumar A: That will be a sticky rice if you buy the fresh crop.

Devi Subhakesan: Traditionally unbranded also does not sell price that is not aged, is that how it works?

Ashwani Kumar A: Sorry, can you repeat that?

Devi Subhakesan: The way the industry works even local seller would not sell a rice which he thinks, it is not aged.

Ashwani Kumar A: That is where the brand rules come so like Daawat promises the finest quality and perfectly aged and thus you know how we are growing. So that is the trust Daawat has built in the last 30 years. So anyone who is selling the loose rice which is not aged that is how the consumer will not trust that and is moving to the packaged rice.

Devi Subhakesan: I was just trying to understand how the dynamics would work when there is a change in price and procurement, this 25% is not a small amount so how will it play out in the unorganized versus organized market?

Ashwani Kumar A: If your question is that you mean to say who will compete with us, so he will have the same cost?

Devi Subhakesan: For aged rice, for rice which is not aged it is different rice, one year down the line?

Ashwani Kumar A: Yes.

Devi Subhakesan: So this will be like two different quality of rice does it end up getting…?

Ashwani Kumar A: Your question is for next year I am selling aged rice which has 25% higher cost of this year versus if someone selling new crop so that will not be able to sell because consumer will not accept new crop.

Devi Subhakesan: Okay. Secondly if you can speak a bit about the non-rice business because you entered atta, besan which suddenly we see many players being there and we have some of the biggies is like ITC already that what is happening in that sphere?

Ashwani Kumar A: We have started staple business which is Atta and after two years, we are focusing one in America with Royal brand atta and Devaaya in northern part which is doing good. At the moment, atta business is around Rs.80 Crores for us.

Devi Subhakesan: Do you have target like five years down the line you want to be…?

Ashwani Kumar A: Five years, we wanted to grow it in the USA and the northern part of the India at the moment you know the plan is to do that.

Devi Subhakesan: And all the other stuff like besan, poha, semolina…

Ashwani Kumar A: That we are not…

Devi Subhakesan: You have discontinued those?

Ashwani Kumar A: Yes, besan we have discontinued.

Devi Subhakesan: Because we still get it in Singapore.

Ashwani Kumar A: Singapore and overseas market, we are getting good response.

Devi Subhakesan: But you have discontinued those lines here.

Ashwani Kumar A: Besan we have discontinued but not the wheat flour business not.

Devi Subhakesan: There was no pickup because the original proposition that this is safe and you did not think that it went down well. If you look at semolina or poha, these were totally unorganized market.

Ashwani Kumar A: Okay. Let me give it to Mr. Vivek Chandra, he will explain you on this.

Vivek Chandra: Good afternoon. The proposition of safe product has gone down actually very well and that is what is helping us built this business month-on-month. It has also got good response in US and markets like Singapore as you are mentioning. The proposition per se is very well accepted. The product quality is very well accepted. I think it is more in terms of focus that we are right now choosing to focus in the US and in North India. North India accounts for almost 40% of the total branded atta market and that is really where we are focusing and building on it in a phased manner.

Devi Subhakesan: A side question, you had brand ambassadors as Amitabh Bachchan and Mr. Sanjeev Kapoor, is the second person still there or not there?

Vivek Chandra: Yes, they are there.

Devi Subhakesan: I saw him also advertising for Tata Sampann, and Tata Sampann has almost similar product lines?

Vivek Chandra: We works for them for the spices and he does their lentils but he does not do any of these products.

Devi Subhakesan: And you do not sell lentils in India, you sell lentils only in the US?

Ashwani Kumar A: We do not sell regular lentil and Devaaya to US.

Devi Subhakesan: EcoLife sell for lentils?

Ashwani Kumar A: That is our organic business.

Devi Subhakesan: Okay.

Ashwani Kumar A: That is our organic brand.

Devi Subhakesan: Okay. Thank you for your time.

Moderator: Thank you. We will take the next question from the line of Manan Patel from Equirus Portfolio Management. Please go ahead.

Manan Patel: Thank you for the opportunity again. If I understood correctly so you mentioned at the start that Indian Basmati market is around 2 million tonnes is that right?

Ashwani Kumar A: Yes.

Manan Patel: Okay and Sir while our growth was muted volume growth in this first half was around 86,000 metric tonnes, it was muted but how do you look at it in terms of next three to four year opportunity. What kind of growth rate are you targeting from India business in terms of volumes?

Ashwani Kumar A: The category is growing 10% to 15% and we will be growing at the same, but if you see which we have got and we have not grown in the packing which is more than 20kg, but in 1kg, 5kg and

10kg which is around 85% of our business has grown 9% and we will maintain the same kind of growth.

Manan Patel: So overall industry will grow at around 10% to 15% and you will be also targeting same rate of growth?

Ashwani Kumar A: Yes.

Manan Patel: Thanks a lot Sir.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.

Ashwani Kumar A: Thank you everyone for listening patiently to us and taking out time from your busy schedule to participate in our earning call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.