LT Foods Limited

Q2 & H1 FY2019 Conference Call Transcript
November 15, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to the LT Foods Limited's Q2 & H1 FY2019 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. 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 Ms. Monika Chawla Jaggia from LT Foods Limited. Thank you and over to you, Ma'am.

Monika C. Jaggia Thank you. Good afternoon, everyone and thank you for joining us on LT Foods' Q2 & H1 FY2019 Earnings Conference Call. My name is Monika and I am part of the Investor Relations team at LT Foods Limited. Joining me today is Mr. Ashwani Arora - Managing Director and CEO, Mr. Vivek Chandra - CEO (Global Branded Business) and Mr. Sachin Gupta - General Manager (Finance) of the Company.

We will begin the call with opening remarks from Mr. Ashwani Arora followed by an interactive Question-and-Answer session. I would like to clarify that certain statements made or discussed on the Conference Call today may be forward-looking statements and a disclaimer to this effect has been included in the 'Results Presentation' shared with you earlier. Results documents are available on the Company's website and have also been uploaded on the Stock Exchanges. A transcript of this call would also be made available on the 'Investor Section' of our website.

I would now like to invite Mr. Ashwani Arora to share the overall performance with you. Thank you and over to you, Sir!

Ashwani Arora Thank you, Monika. Good afternoon and very warm welcome to everyone present on the call today. I will take you through an update on the financial performance during the quarter and for the half-year under review.

I am the delighted to share that our positive momentum continued in the first-half of financial year 2019 and we demonstrated a top-line growth of 10% as well as earnings performance, contributed by our leading brands such as Daawat, Royal, Heritage, and other brands in India as well as globally. The consumer business grew by 11% in value terms, which has resulted in an increased contribution of our branded business in the overall pie to 69% as compared to 64% in the first half of the last year.

Let me highlight that the overall demand scenario of Basmati Rice continued to be strong and we are well positioned to capitalize this growth. Our India business reported sales of Rs. 503 crore, the branded realization further improved by 4% and stood at Rs. 51 per kg. The consumer pack business in India witnessed a growth of 10%. This growth was driven by the 5kg pack and this segment grew by 19% in value terms and 15% in volume terms.

We further strengthened our presence across India through continuous investment in brands, which resulted in greater market share across categories. Our market share stood at 30% versus 28% last quarter. Our share in the modern trade category also increased sharply to 39% versus 30% last quarter. Further, our Specialty segment has grown by 13%.

Convenience Products launched in India such as Kari Kari, Sauté Sauces, and Rozana Gold Plus are also performing as per plan. Kari Kari witnessed increased sales in this quarter as well as based on these results, we have started the construction of the facility to manufacture this product in participation with Kameda Seika, our partner in this project. The factory will be operational by quarter one of next financial year. Sauté Sauces would be launched pan-India by the end of the financial year.

The International market has been a key driver of the growth for us. During the first-half of the Financial Year 2019, our International business grew by 13% to Rs. 989 crore. The realization increased by 22% to Rs. 100 per kg. Our International branded business growth stood at 17% while the volume improved by 7%. The realization of the International branded business further improved to Rs. 103 per kg up by 9%.

North America is one of the strongest International markets for us and its brand 'Royal' contributes significantly to overall branded revenues and holds more than 45% in the U. S. market. During the first-half, we witnessed robust revenue growth of 21% in value terms and 11% in volume terms. The new 2-minute retort rice facility in the USA will further strengthen our footprint in this high potential market. I am happy to share with all of you that we have started receiving orders from large supermarket chains in North America and we have also started the shipments which are very well being accepted.

Our processing facility in Europe is scaling up as per the plan and we expect it to be breakeven towards the end of the current financial year. As highlighted in the past, this facility will serve the demand across the European continent. Our rest of the brands across the globe are also doing well and the plan is to further nurture them and leverage the brand and distribution globally.

Moving to the Organic business, in the first-half of FY2019, the Organic business reported a strong growth of 13% at Rs. 190 crore, driven by a diverse portfolio of Organic Foods.

Now, let me discuss the key financials of the Company for the half-year ended 30th September, 2018.

For the first-half of the current financial year, we reported Total Revenues of Rs. 1,785 crore as compared to Rs. 1,626 crore in the same period last year, representing a growth of 10%. The gross profit came in at Rs. 465 crore, while EBITDA stood at Rs. 206 crore. Profit before tax was at Rs. 115 crore, an increase of 2.5% year-on-year. Profit after tax stood at Rs. 77 crore, a growth of 9% over the same period last year. The cash profit increased by 16% at Rs. 108 crore. Further, with the induction of long-term equity funds through QIP, the credit rating of the company has improved and which has resulted in reduced interest cost from Rs. 73 crore to Rs. 60 in the half-year. But our depreciation has increased by Rs. 10 crore because of the CAPEX in Europe and U. S. The working capital cycle of the company has also improved by 6 days which is 225 days versus 231 days last year.

On a standalone basis, for the first-half, for the current financial year, we reported total revenue of Rs. 1,015 crore as compared to Rs. 983 crore in the same period last year, representing a growth of 3%. The gross profit stood at Rs. 184 crore while EBITDA stood at Rs. 84 crore, an increase of 3.5%. Profit before tax was Rs. 43 crore, an increase if of 49% year-on-year. Profit After tax stood at Rs. 29 crore, a growth of 53% over the same period last year. The cash profit increased by 44% at Rs. 40 crore. The EPS stood at 0.92 per share increased by 27%.

Coming to the geographical revenue and realization break-up, branded India sales stood at Rs. 443 crore, higher by 4%. India branded business contributed 39% to the total branded revenue. The average realization stood at Rs. 51 per kg, International branded sales came at Rs. 679 crore, a growth of 17% and contributing 61% to the total branded revenue. The average realization stood at Rs. 103 per kg.

That concludes my opening remarks. I would now request the moderator to open the forum for Question-and-Answer. Thank you.

Moderator Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Dhruv Agarwal from Crescita Investments.

Dhruv Agarwal For the India branded business, can you give me the volume numbers for this quarter versus the same quarter last year?

Ashwani Arora Okay. So the last same quarter was 44,967 MT. So this quarter is 42,883 MT.

Dhruv Agarwal 42,883 MT?

Ashwani Arora Having said this, this is the overall quantity but the Consumer Pack business has grown as I said by 13%, the dip is in the bulk pack because of the GST, you know the 25kg bag.

Dhruv Agarwal Okay. So the consumer business volume is up but this is down due to bulk business?

Ashwani Arora Yes, bulk business. Bulk means 25 kg, not like 50kg. This is purely branded but because of GST there was a hit on the 25kg pack.

Dhruv Agarwal Okay.

Ashwani Arora So our focus is to grow 1kg, 5kg, and 10kg which is around 90% of our business.

Dhruv Agarwal Okay. The small packings are 90% of your business?

Ashwani Arora Yes, 1kg, 5kg and 10kg.

Dhruv Agarwal And, if you can give me the volume numbers for India business?

Ashwani Arora You mean to say half-yearly? So first half-year last year, was 86,226 MT whereas you know this year it 86,000, almost the same.

Dhruv Agarwal Okay, which means it is flat.

Ashwani Arora Again, you know the 1kg, 5kg, 10kg is growing, the dip is only in 25kg.

Dhruv Agarwal Yes raw material inventory I am asking for the overall business, where do you see the pressure coming on? Are the paddy prices rising or are we not able to generate a realization? What is the issue because we see the EBITDA margins going down on a year-on-year basis so where does the issue lie?

Ashwani Arora So, if you see the full last year, the Gross Profit was 26.83% and this first-half is 26.1%. So it took some time to increase the prices in the International market which you know we will see the impact in the next half-year.

Dhruv Agarwal Okay. But, in the International market, you took time to increase prices but then we have around 40% - 45% share in the U. S. then is it competitive pressure that we are facing over there or are we compromising on margins to increase our market share, what is the strategy by the board?

Ashwani Arora So of course, in any International market, you cannot increase prices in between the year. So you have to increase after a gap of 1 year. But this year it took 1 month or 2 months more to increase the prices because of I will say little competition here.

Dhruv Agarwal And, because of this rupee volatility. So the rupee has like depreciated, so is it not a benefit for us in the International markets because we are exporting also and we have the bulk of the sales coming from 'Royal' in the U. S.?

Ashwani Arora As per policy, we hedge our self on the foreign currency. So the impact will come in the next year, not this year.

Dhruv Agarwal Okay. So it will come only in FY2020 and not even in the second-half of FY2019?

Ashwani Arora No, it will not be seen in the second-half of 2019 because as a policy we keep hedging ourselves whenever we book the order. And on the branded business, we hedge ourselves for 60% - 70% and that is a rolling thing month-on-month.

Dhruv Agarwal So if I can ask on currency, what has been our rate this year and what will it be the next on the foreign currency?

Ashwani Arora So you mean to say realization?

Dhruv Agarwal Yes, realization.

Ashwani Arora This financial year, I think in the first-half, we have realized average Rs. 68. So you mean to say dollar realization?

Dhruv Agarwal So you can give me in rupee term also, that is also fine.

Ashwani Arora Okay. So overall Rs. 74, the overall India and International together.

Dhruv Agarwal India and International together.

Ashwani Arora Yes. So as I said export in branded, the average realization is Rs. 103 and India realization is Rs. 52.

Dhruv Agarwal Okay, Rs. 52.

Moderator Thank you. The next question is from the line of Alpesh Thacker from Motilal Oswal Securities.

Alpesh Thacker I was looking into the Industry data. So European exports are significantly down from April to August, so any development on that side, any industry thing that I is impacting the exports there? And how are we faring in the European business side then?

Ashwani Arora So as far as our Europe sales is concerned, we have done as per our plan, it depends on company to company. Overall, it has impacted Europe because of the compliance and the people took a lot of shipment in the last year. As far as LT Foods is concerned, as we work strongly in the backward integration hence I will say we are in full control and whatever the sale projection of Europe has been planned for, we are delivering that.

Alpesh Thacker Okay. So it means we have not de-grown there, in the Europe market?

Ashwani Arora No.

Alpesh Thacker And how is the ramp-up in the European business going on, so definitely we are on the track to break even this year. So what was the loss for this quarter in the European business and what was the revenue?

Ashwani Arora So in the first-half year, the loss is Rs. 16 crore, and the Revenue is Rs. 87 crore.

Alpesh Thacker Okay. And on the gross margin side, the gross margins were impacted in this quarter. So what was the major reason behind that, so I guess the Paddy prices have increased recently only. So but as the Basmati industry, like we age Basmati and if we have the inventory right now, we sell it after 1 year or 1.5 years. So why was the gross margin impacted in this quarter?

Ashwani Arora If you see the average gross profit for the full year of 2017 - 2018, it was 26.8% and if you see the history also it is the same and now we have 26.1%. But in the first half-year, if you see the crop 2016 was at a very lower price and crop 2017 was almost 40% up. So, we were having inventory and we got a better impact on the GP in the first half-year. But as a standard normal if you see its 27% - 28% the gross margin.

Alpesh Thacker Okay. As the Paddy prices have already firmed up recently also, do we see any impact on the gross margins further coming into next 2 quarters - 3 quarters?

Ashwani Arora This year till date, 30% of the crop has arrived and the average buying cost is 6% - 7% over last year and as branded, as I tell that if the prices are increased in the range of plus-minus 6% - 7% normally as a brand, we do not behave like commodity and we see the competitive landscape also. And we will see how the competitive landscape reacts and then if the opportunity will come we will definitely encash it.

Alpesh Thacker Last one question on the branded side of the business. So branded revenue growth slowed in Q2. So if I see this quarter, it was just 5% Y-o-Y, I can see in the Presentation. So any reason behind that what exactly is impacting the branded business because we were growing pretty fast on this for the last couple of quarters.

Ashwani Arora So, the second quarter in India is always little lower than the quarter first. If you see the history also. But you know as I said earlier, our consumer which is 1kg to 10 kg is growing, the dip is only in 25 kg, which as a strategy we are also not focusing on that. We are only focusing on 1kg, 5kg, and 10kg.

Moderator Thank you. The next question is from the line of Vipul Shah, an Individual Investor.

Vipul Shah What is the status of our litigation with the Insurance company for the fire claim?

Ashwani Arora So the case is on the what you call evidence stage and we are expecting the first outcome up to June 2019. Till date, you know the case is very strong for us and hopefully, we will be getting the verdict in our favor in the 2019 quarter. So the next date is 22nd of this November.

Vipul Shah Okay. Why interest cost is not falling very fast even after infusion of QIP money.

Ashwani Arora It has already decreased, the interest cost has decreased over the first half-year last year.

Vipul Shah But it has not come down much, we have got around Rs. 300 crore from QIP?

Ashwani Arora We have got Rs. 390 crore.

Vipul Shah Sorry.

Ashwani Arora Rs. 200 crore has gone to debt reduction, which you are seeing the impact. Rs. 200 crore has gone into the inventory because of the higher prices of Paddy. So, if you see the first half-year was Rs. 73 crore and this is Rs. 60 crore which is seeing the reduction of Rs. 26 crore - Rs. 27 crore of interest.

Vipul Shah Annually?

Ashwani Arora Yes, yearly basis.

Vipul Shah Okay. And you said in Europe, you have lost Rs. 16 crore that is a half-yearly figure or quarterly figure

Ashwani Arora That is a half-yearly figure?

Vipul Shah And what was the Revenue? I missed that part?

Ashwani Arora It is Rs. 87 crore.

Vipul Shah So, when do expect to break even in Europe?

Ashwani Arora So, in the second-half we are seeing a breakeven.

Vipul Shah Second-half, so naturally profitability should improve, once losses from Europe stops.

Ashwani Arora Yes, sure. So we were seeing the sales also around Rs. 150 crore in the last half-year.

Vipul Shah And what is the average Paddy procurement price and how does it compare as compared to last year's same quarter?

Ashwani Arora As I said, the 30% of the crop has come and till date, the average buying cost is approximately 7% higher than last year.

Vipul Shah But can you quantify it in per kg or per tonne?

Ashwani Arora So it depends on variety to variety. So till date, the average buying price is Rs. 29.50 or something like this.

Moderator Thank you. The next question is from the line of Rahul Thakkar from Angel Broking.

Rahul Thakkar Yes, I would like to know what is the increase in capital work in progress from Rs. 20 crore to Rs. 70 crore relate to?

Ashwani Arora Sorry, can you repeat that, please?

Rahul Thakkar Yes. The capital work in progress has increased by Rs. 50 crore, what does this related to?

Ashwani Arora Okay, in our U. S. operation, the retort rice facility just started. So in the first-half Rs. 9 crore to Rs. 10 crore has been spent there and then in Europe Rs. 15 crore has gone and rest is in India. We are building warehouses to improve our supply chain. And the CAPEX is done to improve our production facility. So, we have increased our capacity in steam rice.

Rahul Thakkar Alright. And has the funding from Rabobank being received by us or will it be further received and could you throw further light on the deal that is happening?

Ashwani Arora Yes, sure. So the deal is of Rs. 140 crore. So it will come in tranches. Rs. 60 crore has just come today and Rs. 40 crore we are expecting in this Financial Year. Rs. 40 crore they have said if the business will be needing then they are committed to give but that depends on the need of the business.

Rahul Thakkar Alright. And from the next year onwards, how much CAPEX can we expect because last 2 years - 3 years were seeing a lot of CAPEX happening.

Ashwani Arora If you see, the normal CAPEX is Rs. 50 crore to Rs. 60 crore, but last year we have set up a facility in Europe, where Rs. 150 crore has gone and around Rs. 60 crore has gone in the USA for setting up '2 minutes making the microwave rice'. So these were the 2 biggest investments and going forward, whatever our growth plan for the next 3 years - 4 years, we will not be doing the big CAPEX, the CAPEX will be normal in the range of Rs. 40 crore to Rs. 60 crore.

Rahul Thakkar Okay. And lastly, over the half-year last year and this period, the gross profit margin has declined by 4%. So what can we expect the normalized gross profit margin to be?

Ashwani Arora So the normalized gross margin, if you see the history is around 27% and we are expecting you know to improve on that, history is 26% - 27%. If you see the financial year 2017 - 2018, the gross margin was 26.8% and this half-year is 26.1% as I explained earlier. So it took some time to increase the prices in the International market which has happened lately in the first half-year. And we are expecting to remain in this gross margin range and improve a little bit as you know we will grow with the mix which is higher GP product, premium GP product.

Moderator Thank you. We will take the next question from the line of Vikas Jain, an Individual Investor.

Vikas Jain I have a couple of questions. One is, what is the consolidated debt figure for us for this quarter? Last quarter, it was Rs. 1,567 crore if I remember this right.

Ashwani Arora Consolidated debt, okay. So this time Rs. 1,398 crore.

Vikas Jain Rs. 1,398 crore. And you mentioned that our credit rating has improved because of which the lending cost has gone down. If you could throw some light on what is our credit rating now and what is the quantifiable benefit that you have got because of this upgradation of our debt rating?

Ashwani Arora So now the rating is A- and our funding cost is around 8.57%.

Vikas Jain Thank you so much. On the last call, you did give us some update on the exposure or the exploration rather that we are doing in the China market. Any further update on that?

Ashwani Arora So as I said in the last meeting also, China from Basmati perspective is not a big opportunity. But non-Basmati there is an opportunity and LT Foods is one of the first ones to get registered in China, so they register the companies which can export to China, they certify your mills and everything. And we are getting enquiries on non-Basmati, we will see how this opportunity turns out. But as far as Basmati is concerned and although very small quantity but 'Daawat' is one of the first brands to get into China market. For 'Daawat' in China, already the shipment has gone.

Vikas Jain Okay, we just discussed the CAPEX is underway for the Kari Kari facility that is being come up. So if you could help us get some more idea about what is the CAPEX amount that we are doing on Kari Kari and so far what has been the Revenue for Kari Kari?

Ashwani Arora Okay. So that is in a different company and LT Foods has invested in that and in that company 51% is LT Foods and 49% is Kameda. The CAPEX is in the range of Rs. 25 crore and the Revenue will build up in 5 years, so we are planning to do for the 5 years around Rs. 100 crore of Revenue.

Vikas Jain Right. One last question though, my friend Alpesh did ask something on the sidelines of this. But as a recent report that came out for October, I could see that there was a steep fall in the export that happened of Rice, it was down by 30%, though I understand that we are discussing till 30th of September on this call. But what is your guidance looking at this report that came in which suggests a 30% fall in the export volume for Rice as a commodity? How do you guide us for H2? Do you expect a similar kind of trend to continue?

Ashwani Arora So I do not know which report we are referring but you know as far as Basmati is concerned, it is the demand stands there rather growing there either in the Middle East, Iran has also sorted out with this rupee payment. So, we do not think that as far as Basmati is concerned, there will be any dip in the export from India rather you know it will be growing.

Vikas Jain Do we have any exposure to Iran because as I remember that we were not exporting to Iran at all?

Ashwani Arora So, as far as LT Foods is concerned, we do not have any exposure in Iran. I was not talking overall as an industry. As LT Foods, we said we are growing more than double-digit and that momentum will be there.

Moderator Thank you. The next question is from the line of Vipul Shah from RW Equity.

Vipul Shah Just wanted to understand, are you sharing the broad structure of the deal which has been announced by Nature Bio Foods?

Ashwani Arora So I just explained, I will repeat that, the deal is Rs. 140 crore in which, the first Rs. 60 crore tranche has come; Rs. 40 crore tranche will come in this financial year; Rs. 40 crore is the need-based, they are committed, whenever in the business the need will be there so we will call that money.

Vipul Shah No, sir, I go that. The point I am asking is as of today, it is a fully owned subsidiary of LT Foods. So for this investment how much stake Rabobank going to get?

Ashwani Arora So it will be decided by year end but it will be around 20%.

Vipul Shah Okay. And lastly, what has been, I believe last year FY 2018, Nature Bio did around Rs. 350 crore of top-line, if you can just share what is the Revenues which we have recorded in the first-half?

Ashwani Arora So I told in my initial speech, Rs. 190 crore which is 13% growth over last year.

Vipul Shah I missed that. So thank you so much.

Moderator Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna Could you guide us what is the growth in this quarter and the first-half in the Dollar-3; Dollar-2; and Dollar-1 category?

Ashwani Arora So in the premium category, we have grown by 13%.

Bajrang Bafna This is for the quarter or for the first-half?

Ashwani Arora First-half.

Bajrang Bafna Okay. And what is the growth in the mid-price category, Dollar-2?

Ashwani Arora 14%.

Bajrang Bafna And what is in the economy, value range?

Ashwani Arora There is a little de-growth here. So muted you can say.

Bajrang Bafna Okay. And what is the broad guidance that we could get because now, as you guided that 30% of the crop arrived and cost 6% - 7% higher. But going by the trend, can we assess that this will be the range within that 6% - 7% during the entire season.

Ashwani Arora This year the cost of the crop has not grown as the demand is growing. But because of the low sentiment, we are not expecting, so maximum it can go 10% but let us see how the market behaves.

Bajrang Bafna And when we give this number of Rs. 29.5, does it constitute more of this 1509 or the other Pusa category?

Ashwani Arora Rs. 29.5 is our mandi price landed.

Bajrang Bafna Yes. So this year are we expecting this 1509 pickup will be more as compared to last year vis-à-vis the Pusa category.

Ashwani Arora So at LT Foods, we mainly deal in the branded and we have our plans. But as far as 1509, it is quite acceptable. So whatever the production has been this year, I am sure it will get consumed.

Bajrang Bafna Okay. So we are also participating in that 1509, in this 30% that we procure till date?

Ashwani Arora Yes, a little bit.

Bajrang Bafna Okay. And broadly since, we were not able to see the kind of margins which we were expecting in the first-half, though you said you have taken some price hikes off late which will help us in the H2. So broadly, you know the broad guidance of the company to grow the EBITDA margins to the tune of 3% in over next few years. So in second-half will there be some pick-up and might we be in the guided trajectory for the company per se both in terms of top-line as well as the EBITDA margins?

Ashwani Arora So the top-line you know we will keep the growth momentum which you see historically. As far as EBITDA is concerned whatever you know the guidance has been given because of, as Europe was not included in that, if you normalize that we are improving, if you see the full year 2017 - 2018, the EBITDA was 11.35 and this first-half it is 11.56 in spite of Europe and definitely it will be improving going forward.

Bajrang Bafna On the Europe side, you guided in the second-half, we could be doing somewhere around Rs. 150 crore which is almost double what we have done in H1. So I got it right?

Ashwani Arora Yes.

Bajrang Bafna Yes. And what could be the broader trajectory for Europe next year? Can we see some sort of profitability coming in Europe next year?

Ashwani Arora We are planning to break-even in the second-half.

Bajrang Bafna Okay. So next year we might see some sort of sanity in numbers from Europe?

Ashwani Arora That is what the plan is.

Bajrang Bafna And for the benefit of all participants, can you just broadly throw some light because offlate there has been a lot of restrictions and the stringent behavior that we have seen from Europe and the similar thing is getting replicated by the Middle East region also and maybe in future U. S. will do. So you have taken certain steps where every field is marked by some of your representatives and then the satellite monitoring. So just broadly if you could throw some light, I think we will be really benefited as a community that the commodity business is getting more and more into business where it is a not a tom, dick, and harry business, it require lot of technological approach also to handle the growth momentum and the kind of quality which these developed economies are expecting from our country. That will be really helpful.

Ashwani Arora Sure, thank you. So in LT Foods, we are in an extension program for the last 6 years, so we work with around 10,000 farmer, where we give them the best practices, which seed and which kind of pesticide to use and which kind of pesticide not to use. So we work with the big companies like Bayer and Syngenta and as you said, we use all the latest technology where we keep tracking the health of the crop and based on that we advise how much so that we can have compliant product and I am happy to tell that for the last 3 years - 4 years, it has been a very successful venture for us. And we as a company, we spend a lot of money on the backward integration and that is why we are comparatively successful in that part of the world. And we are the only company which is registered on the sustainability program and we work on the sustainable farming also.

Bajrang Bafna Okay. And this year the produce that we are going to get, we are ensured that the kind of the quality that we get to export to European or the Middle East region, considering the stringency. So will that be some sort of benefit I would say more benefit to our company vis-à-vis the rest of the industry because we are putting a lot of efforts by putting workforce on the ground then the satellite monitoring of all these 50,000 acres - 60,000 acres currently. So we will be in some sort of advantageous position in terms of getting better produce from these farmers and then getting some sort of better pricing in these regions where this sort of stringent norms have already come up like Europe and the Middle East?

Ashwani Arora So I will say that this will be our edge over the competition to remain in the market in a more sustainable approach. As far as an advantage on the price is concerned, that is not the agenda. The agenda is to get a compliant product and that will keep us strong in the market. So rather we pay a little bit premium.

Bajrang Bafna So when we pay a little bit premium as compared to the rest of the varieties. So in the International market, the pricing which we will get will definitely be at some sort of premium.

Ashwani Arora Yes, definitely, you get the first chance to market and definitely you get a premium whatever you pay to the farmers.

Moderator Thank you. The next question is from the line of Arpit Bansal, an Individual Investor.

Arpit Bansal So I wanted to know the rationale behind Rabo investment. So like you have been saying for some time that we would not be doing any CAPEX for the next 3 years to

5 years and it would be only maintenance CAPEX. So what would this Rs. 100 crore be used for?

Ashwani Arora So this Rs. 100 crore will be used for mainly working capital and some will be creating a value-added product in organic portfolio and partly the money will be used to build the brand in India, we are launching the 'Ecolife' brand in India and globally.

Arpit Bansal So I was checking the Nature Bio-Foods 2018 statements, over there the total assets that we declared is around Rs. 250 crore and that is like the total assets and working capital was around Rs. 30 crore - Rs. 40 crore something like that. So in that light Rs. 100 crore seems to be like a very big investment. So the total assets for Nature Bio-Foods that is Rs. 217 crore, two-one-seven including inventories like non-current assets as well as current assets**.**

Ashwani Arora Okay. So what is your question?

Arpit Bansal Yes. So the current equity is like Rs. 68 crore only and we are infusing like Rs. 100 crore more of equity. So how does it affect?

Ashwani Arora You know Rs. 40 crore we have not yet decided to take or not but Rs. 100 crore we are taking and as I said it will be used mostly for the working capital and brand building and we are launching the organic brand and partly, on creating a value-added product on the organic side.

Arpit Bansal Okay. Also, Vivek Sir, in his Presentation mentioned that, for LT Foods the Organic segment is expected to grow by 21% CAGR for the next 5 years. But I heard you mentioned somewhere that like at least this quarter we got 13% and you would be doing on similar lines?

Ashwani Arora We have grown 49% till last year and we have forecast for the next. So this year was a little consolidation and I think, in the next coming year, we will pick-up.

Arpit Bansal So what would be our normal expectations, 15%?

Ashwani Arora I will say, we will maintain the growth momentum.

Arpit Bansal Okay. He mentioned that in next 3 years to 5 years, we are aiming for a profit after tax margin of say 10% or something, like currently we are around 4% and going to 10% is a big leap. So how do we plan to do that?

Ashwani Arora Okay. So this year we are 4.3% so what is your question?

Arpit Bansal Yes. So Vivek sir, mentioned in his Presentation that we are projecting, the profit after tax will be 10% in the next 3 years to 5 years. So I am wondering

Ashwani Arora Which Presentation you are referring?

Arpit Bansal So there was this some sort of summit in the U. S. where you signed up for the contract Rabo.

Ashwani Arora I do not know which document you are referring. But for sure, the plan is to grow to keep the momentum and grow the bottom-line.

Arpit Bansal Okay. What will be the guidance for long-term 5-year sort of?

Ashwani Arora So as I said we will keep our growth momentum and as from the scale whatever the bottom-line impact will come, so almost we have done with the CAPEX, we have created infrastructure, our brands are strong. So as the top-line will grow, so will the scale that will be a benefit to the bottom-line.

Arpit Bansal Okay. As far as the total business is concerned, do we plan to do any equity infusion in the next 3 years to 5 years?

Ashwani Arora Not yet on the cards.

Arpit Bansal Okay. Also, in the last concall you mentioned for debt reduction, we would be seeing something like Rs. 50- 60 crore for the whole year but when I see the balance sheet which you have uploaded debt is lower by like Rs. 150 crore.

Ashwani Arora Yes. So in India where we have raised the money, so we have reduced the debt by Rs. 272 crore in the first half. Last year, first half-year was Rs. 1,201 crore and now in India, the debt is Rs. 929 crore and the debt has gone up because of the long-term loan, we have taken for the European and the American facility. So the debt in India has reduced by Rs. 272 crore as compared to last half-year.

Arpit Bansal Yes. All of that was like already accounted in the Annual Report, right? But the results that you uploaded today when I compare those two results there is a difference like for total debt it is down by Rs. 150 crore as compared to March 2018, so I am wondering.

Ashwani Arora So you are talking about March number or which number?

Arpit Bansal I am comparing September number with March number.

Ashwani Arora September with March. Yes, Rs. 1,548 crore and now, it is down by Rs. 150 crore, you are right, yes.

Arpit Bansal Yes. So like there was no specific guidance for this I guess at least in the previous concall we did not mention anything like that, so abruptly how did this happen, how did we manage?

Ashwani Arora So you mean to say debt reduction?

Arpit Bansal Yes, because all the QIP money was already used for debt reduction and as working capital, right?

Ashwani Arora So September if you see the history, you know the inventory goes down and the debt goes down, yes.

Arpit Bansal So we expected to come back again in the coming quarter?

Ashwani Arora Yes because the procurement season has started.

Arpit Bansal Okay, yes, that makes sense. Also, sir, there is confusion with the full capacity of the European plant, so it is like Rs. 400 crore or Rs. 600 crore?

Ashwani Arora It is around Rs. 500 crore.

Arpit Bansal Okay, it is around Rs. 500 crore and we propose that the breakeven would be around Rs. 250 crore something.

Ashwani Arora So we are expecting, yes.

Arpit Bansal Okay. And what sort of margins, do we expect from that business?

Ashwani Arora On the European business?

Arpit Bansal Yes. Like you mentioned that now we would be avoiding import duties because of the Brown rice so I expect the margins to be higher, so what is your take on that?

Ashwani Arora So the plan is to, after the breakeven on EBITDA level, we are planning to have on a standalone basis, on European, 6% to 7% EBITDA.

Arpit Bansal Okay, that is pretty good. Also, in general for the standalone business, the margins have been very low like for past many years. So any specific reason for that and do we expect it to improve or is it like standard.

Ashwani Arora On standalone basis?

Arpit Bansal Yes.

Ashwani Arora So in standalone basis, we capture mainly the India sales and…

Arpit Bansal But when I check the standalone numbers there is a good mix of import as well as export.

Ashwani Arora Yes that is what I am saying. Mainly India and export. And India you know there is a lot of brand investment and there is a fixed cost. So it will get converted on a certain scale. So as you are seeing its improving, it will keep on improving the standalone result also.

Arpit Bansal Okay. Also, what Indian brands like what type of rice's or brands are included in the standalone business because Daawat is a separate subsidiary for us. So what will be important to be considered?

Ashwani Arora No, Daawat Food is mainly manufacturing company, so all the brands are in standalone. All the brands reside in LT Foods, Daawat Food is only a manufacturing arm.

Arpit Bansal Okay. So then if all the brands are with the standalone business then I would expect the margins to be very high for the standalone business compared to others

Ashwani Arora As I said in India, we are investing in the brand, so from now onwards after Rs. 1,000 crore sales that is the benchmark kind of which we have kept in mind. So now the margin will start improving. So a lot of investment has gone.

Arpit Bansal So like where do we account for these expenses like in the 'other expenses' section?

Ashwani Arora Yes.

Arpit Bansal So like can you specifically point me to like what particular head do we note it under?

Ashwani Arora Just give me a moment. So in the meantime, they are getting the numbers, I will repeat you know, so in standalone we mainly capture India sales and export to the subsidiaries like LT Foods America, the rest of the margin is captured there in another subsidiary like LT Foods, Dubai. So as the India scale will go up, the margin will start to improve.

Arpit Bansal And this, is one of my observation. So like I stay in the U. S. and I use Royal but these packaging for Royal which I get it is from the Middle East. So I get confused since Royal….

Ashwani Arora No. The Royal is never at the packing from the Middle East. It is a Jute Bag or…

Arpit Bansal Yes, the Jute Bag.

Ashwani Arora From where you buy?

Arpit Bansal I am in New York State.

Ashwani Arora No, you buy from Ethnic Store or Costco or which kind of?

Arpit Bansal Indian store.

Ashwani Arora Indian stores. So the packaging is done in India and it has nothing to do with the Middle East.

Arpit Bansal Okay. Like if I find a difference should I send you the pictures?

Ashwani Arora Sorry.

Arpit Bansal Like if I find a difference in that statement can I send you the pictures.

Ashwani Arora Sure, we will really appreciate.

Arpit Bansal Sure, okay, thank you so much. Then you mentioned for the consumer business in India we are growing by 13% for 1kg, 5kg, and 10kg packing.

Arpit Bansal Okay. And then you said that for 1kg, 5kg, and 10kg contribution is like 90%, right?

Ashwani Arora Yes.

Arpit Bansal And you also mentioned that last quarter we did a similar on year-on-year basis last time you did 44,000 tonnes and this time it is 42,000 tonnes. So I could not do the math so for 44,000 tonnes, 90% would be like 40,000 tonnes and that means 4,000 tonnes from the 25kg segment and 40,000 tonnes should grow by.

Ashwani Arora We told you in this quarter the sale is approximately is. 43,000 tonnes, yes. Last year was 45,000 tonnes branded sales. Yes. So I have clarified just now. So the growth is in 1kg and 5kg, which is 1kg and 5 kg, is around 17,000 tonnes - 18,000 tonnes

Arpit Bansal Okay, 17,000 tonnes - 18,000 tonnes. Okay, now that makes sense. So also I was looking at the effect of currency fluctuations over like 4 years - 5 years or like mostly we have on a net basis gained in 3 years out of the 5 years. So is it because we hedge it properly, it happens that way or if the currency goes higher, we will definitely benefit or if it goes lower we would get impacted.

Ashwani Arora Normally, Basmati is very unique to India and whatever the currency devaluation, so we are living in a competitive world. So we have to see how the competition is behaving, so accordingly we will have to move on. So it is not that, all the currency benefit will come.

Okay, thank you. Any question left, you can approach to our IR department, we will be very happy to answer all your queries.

Moderator Thank you. The next question is from the line of Nitesh Vashisth, an Individual Investor.

Nitesh Vashisth Yes, my question is that like after the QIP, EPS is constantly decreasing because of this the stock price is falling. So when can we expect the EPS to increase?

Ashwani Arora Because of the 2 - 3 factors, the EBITDA is low and we are going to improve in the coming half year and the next four years. So as per plan, we will definitely improve on that.

Nitesh Vashisth Okay, thanks.

Moderator Thank you. The next question is from the line of Samir Kapadia from Rockstud Capital.

Samir Kapadia Just 2 quick questions. One you said in your opening remarks that you are doing a lot of branding exercises and another thing is you are adding value-added products as well. So just wanted to understand about how would the margins improve going forward because of such exercise?

Ashwani Arora No, brand building is different, so it is always a long run thing. But what I can say is with all these exercises, the brand is getting strong. And we are keeping an eye on the trend and as a Rice brand, we wanted to be the first one to capture the coming trends and that is how we are introducing the value-added thing. So it will not be a short-run thing, it is all long run.

Samir Kapadia In the long-run, do you see the PAT margins which are currently somewhere around 4% to improve it. If so by what context

Ashwani Arora Yes, definitely it will improve on as per plan, yes.

Samir Kapadia So can you give some guidance per se like you know 6% - 5%, how it will move over a period of time?

Ashwani Arora It should improve 1.5%.

Samir Kapadia Over a period of?

Ashwani Arora 1.5 years.

Samir Kapadia And any further plans in terms of debt reduction?

Ashwani Arora The plan is to grow but the plan is not to increase the debt but rather reduce the debt. But all depends on how the paddy prices behave. But the goal is to for sure not increase but to reduce.

Samir Kapadia I am speaking in the content, like I heard that you have already incurred recently a lot of CAPEX and going forward for the next at least 4 years - 5 years there is no such requirement. So in that sense, whatever cash which we generate would be.

Ashwani Arora So for that the cash will either go to the reduction of the debt or for the growth you have to keep the inventory. But as I said, the goal is to reduce the debt and for sure not to increase the debt. But it depends entirely on the Paddy prices how it is going to behave.

Samir Kapadia Okay. And lastly, is there anything in regards whereby the subsidy which has been provided for the exports or something which is going to impact the overall industry in terms of the export sales?

Ashwani Arora As far as Basmati rice is concerned there is no subsidy.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Ashwani Arora Thank you so much, everyone. Thank you.

Moderator Thank you. Ladies and Gentlemen, on behalf of LT Foods Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.
