LT Foods Ltd

BSE SENSEX	NIFTY50
39,616	11,871

Stock Info

M.Cap. (INR b)	9.3
Avg daily Turnover, INR m	34.5
Equity Shares (m)	320
Face Value (INR)	1
52-Week Range (INR)	27/73
1/6/12m Rel.Per (%)*	-17/-44/-70
Free float (%)	44

*Relative to BSE Sensex

Financials Snapshot (INR bn)

Y/E Mar	FY19	FY20E	FY21E
Net Sales	38.9	41.5	45.2
EBITDA	4.0	4.4	5.0
PAT	1.3	1.6	2.0
EPS (INR)	4.0	5.0	6.3
Gr. (%)	-6.0	27.6	24.2
BV/Sh (INR)	41.6	46.4	52.3
P/E (x)	7.3	5.7	4.6
P/BV (x)	0.7	0.6	0.6
EV/E (x)	6.4	5.7	4.9
Div. Yield (%)	0.5	0.7	0.9
RoE (%)	10.1	11.5	12.7
RoCE (%)	8.0	8.7	9.5

* Closing price as on 7th June, 2019

Shareholding pattern (%)

As On	Mar-19	Dec-18	Sep-18
Promoter	56.0	56.0	56.0
MFs	9.1	11.9	12.0
FPIs	1.6	1.7	2.8
Others	33.4	30.3	29.2

Investors are advised to refer through disclosures made at the end of the Research Report.

CMP: INR29 TP: INR45(+57%) Buy

European business stabilizes, Focus shifts to Margin improvement

For Q4FY19, on a consol. basis, LT Foods (LTFL) reported weak operational performance. Revenue/EBITDA down 6%/5% YoY with EBITDA margin flat at 8.8%. PAT declined 38% YoY on account of higher depreciation and finance cost. In order to achieve better profitability, the company is likely to focus on better margin business in India (premium segment of branded basmati like Daawat) & higher profitable geographies. Company's European business has ramped up as expected and is likely to contribute positively going ahead. We expect Revenue/EBITDA/PAT CAGR of 8%/12%/26% over FY19-21E. Company is expected to witness growth and profitability improvement on account of increasing share of premium branded business, focus on higher margin segments, ramp up in European subsidiary and bounce back in organic foods segment. Maintain BUY with a TP of INR 45/share.

Higher depreciation and interest along with one off cost impacts bottom line: For Q4FY19, on a cons. basis, LTFL's revenue/EBITDA/PAT declined 5.8%/5.1%/38.4% YoY. Gross Margins expansion of 177bp to 24% was offset by higher employee cost (up 79bp to 4.4% of sales) and other expenses (up 92bp to 10.8% of sales mainly due to one off loss of INR38mn on account of write off of JV with Geneva rice mill). Higher depreciation cost (up from INR143mn to INR214mn YoY) & interest (INR439mn vs INR402mn in Q4FY19) led to PAT decline of 38.4% YoY.

Outlook remains strong on back of company's focus on profitability improvement: Management has guided for a focused approach to target growth in higher margin business in India where it has a strong brand in Daawat. From FY20 onwards, European subsidiary is expected to start contributing positively at EBITDA level. Company expects to achieve a capacity utilization of 50% in FY20 for its European subsidiary. Post a year of consolidation, Organic segment which is a higher margin business is likely to bounce back mainly on account of strong industry tailwinds (Global Organic F&B market is expected to register a CAGR of 18% over CY19-22E) and company's positioning in global organic business (NBFL accounts for ~90% of India's organic food exports). Specialty segment consisting of rice based snacks, brown rice etc. saw a robust growth of 37% YoY to ~INR490mn and the growth momentum is likely to continue.

Quarterly Consolidated Performance (INR mn)

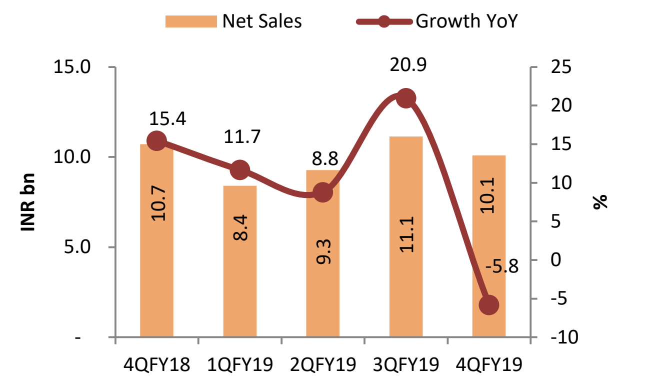
Y/E March	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	10,087	10,706	*-5.8*	11,139	*-9.4*
EBITDA	888	936	*-5.1*	1,095	*-18.9*
EBITDA Margin %	*8.8*	*8.7*	7bps	*9.8*	-102bps
Adj. PAT	197	320	*-38.4*	350	*-43.7*

Result Update

Alpesh Thacker – Research Analyst (Alpesh.thacker@motilaloswal.com)

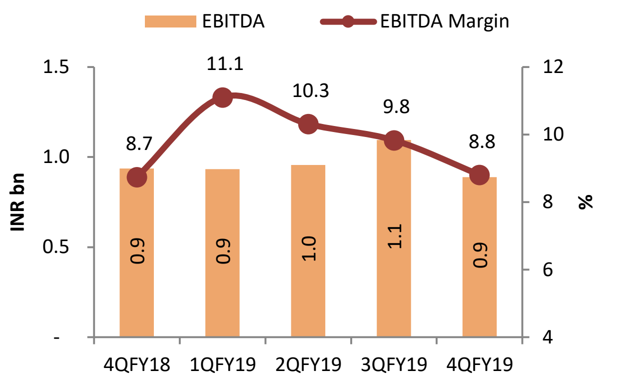
Q4FY19 in Charts

Exhibit 1: Revenue growth trend



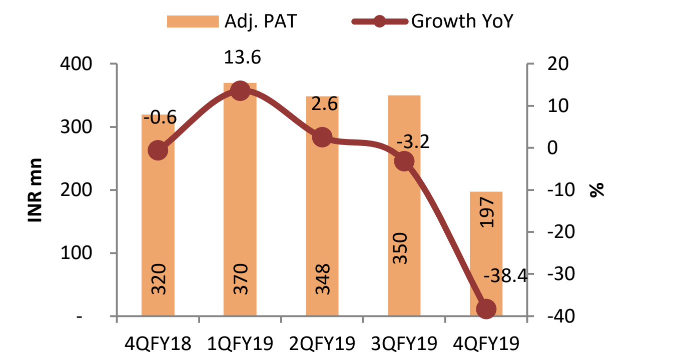
Source: Company, MOSL

Exhibit 2: EBITDA margin bottoming out



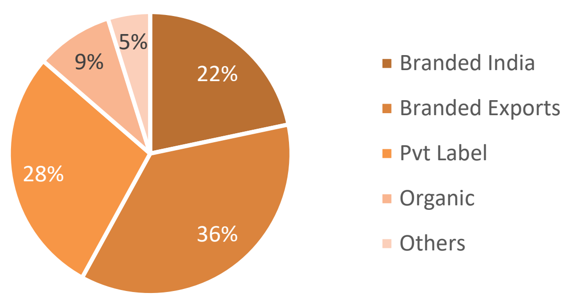
Source: Company, MOSL

Exhibit 3: Adj. PAT & PAT growth trend



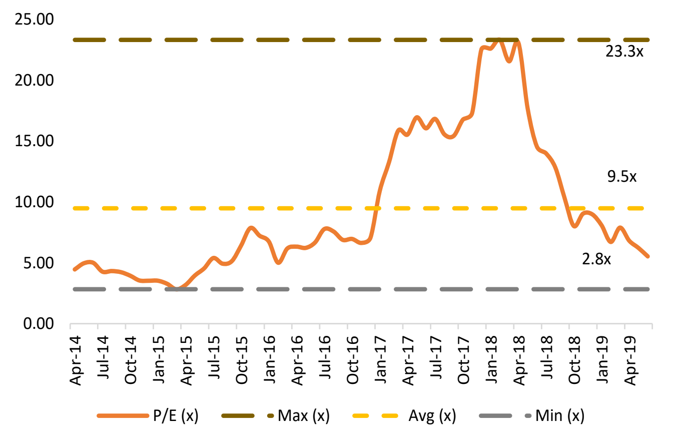
Source: Company, MOSL

Exhibit 4: Segmental revenue mix (4QFY19)



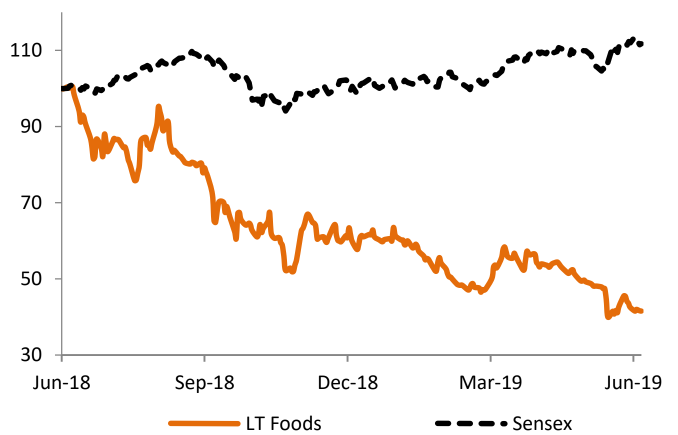
Source: Company, MOSL

Exhibit 5: 1 year forward PE (x)



Source: Capitalline, MOSL

Exhibit 6: 1-year stock performance rebased to 100



Source: Capitalline

Q4FY19 Concall highlights

- ✓ FY19 growth of 7.3% was mainly on account of growth in branded sales (up 9% YoY).
- ✓ Gross Margin declined by 160bps in FY19 on account of higher paddy prices in FY18.
- ✓ Inventory levels:
  - Paddy – 202k MT @ INR32
  - Rice – 128k MT @ INR61
- ✓ Branded basmati as % of total basmati business stood at 70% in FY19 compared to 64% in FY18.India branded business grew 6% YoY, with realization up from INR51/kg to INR53/Kg up by 3%.
- ✓ Company has sold off its stake in Geneva rice mill JV and booked a loss of INR38mn as the business was not profitable for the company.
- ✓ Bulk business has recovered post GST and the business saw a growth of 19% YoY.
- ✓ A&P spend stood at 3.4% of branded business in FY19.
- ✓ International business grew 11% YoY mainly on account of better realization at INR102/Kg (up 23%).
- ✓ European operations have ramped up as per plan and the revenue stands at INR2,580mn (INR1180mn in FY18).
- ✓ Organic business grew by 3% YoY. 90% of the business is from ingredients sales.
- ✓ Management has guided for EBITDA margin (inc. other income) expansion of 170bp to 12.5% in FY20 and 420bp to 15% in FY2022. Margin expansion will largely be driven by price increase, product mix change, better economies of scale in India and better operational efficiency.
- ✓ Company has envisaged a capex of INR400mn in FY20 which includes setting up of soya mill for NBFL, silos for storage of paddy and maintenance capex.
- ✓ Operations in USA/Europe and owned distribution channel leads to higher employee cost for the company compared to competition.
- ✓ Payment cycle:
  - USA ~40 days
  - Europe – 60-65 days
- ✓ In Europe, company expects EBITDA margins of 8-10% once company operates on full capacity utilization.
- ✓ European Business:
  - In FY 19: Revenue - INR2580, EBITDA Loss - INR110mn
- ✓ Company expects to be an INR65,000mn company by FY23 with focus on higher margin business.
- ✓ Company is expecting a positive outcome on fire insurance claim and the result for same is expected by end of CY19.

Exhibit 7: Quartertly Results

Y/E March	FY18				FY19			
(INR millions)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net Sales	**7,522**	**8,527**	**9,210**	**10,706**	**8,400**	**9,278**	**11,139**	**10,087**
YoY Change (%)	*7%*	*3%*	*17%*	*15%*	*12%*	*9%*	*21%*	*-6%*
QoQ Change (%)	*-19%*	*13%*	*8%*	*16%*	*-22%*	*10%*	*20%*	*-9%*
Total Expenditure	6,570	7,531	8,349	9,771	7,468	8,321	10,045	9,199
EBITDA	**953**	**996**	**861**	**936**	**932**	**956**	**1,095**	**888**
Margins (%)	*12.7%*	*11.7%*	*9.3%*	*8.7%*	*11.1%*	*10.3%*	*9.8%*	*8.8%*
Depreciation	120	91	115	143	162	148	166	214
Interest	375	348	334	402	315	284	299	439
Other Income	95	16	175	73	132	44	29	88
PBT	**553**	**573**	**587**	**463**	**587**	**567**	**658**	**324**
Tax	208	193	198	114	184	192	274	112
Rate (%)	38%	34%	34%	25%	31%	34%	42%	35%
PAT (before MI & asso.)	**344**	**379**	**389**	**349**	**402**	**376**	**385**	**212**
MI and share of asso.	-19	-40	-27	-29	-32	-27	-35	-15
Reported PAT	**326**	**340**	**362**	**320**	**370**	**348**	**350**	**197**
YoY Change (%)	*11.4%*	*36.0%*	*17.3%*	*-0.6%*	*13.6%*	*2.6%*	*-3.2%*	*-38.4%*
Margins (%)	*4.3%*	*4.0%*	*3.9%*	*3.0%*	*4.4%*	*3.8%*	*3.1%*	*2.0%*

Source: Company, MOSL

Risk and concerns

- ✓ **Slower than expected ramp up of European business:** Newly commenced European business made an operational loss of INR110mn in FY19. For FY20, Management has maintained 50% capacity utilization for European subsidiary (INR3,200 mn of revenue).Any slowdown in ramp up or cost overrun could delay the turnaround of the European business impacting profitability.
- ✓ **Extreme Currency fluctuation:** LTFL derives ~55% of its revenue from exports business. LTFL has adopted a policy of selective hedging based on the risk perception of company's management and any unfavorable movement in exchange rate fluctuation (USD INR) can impact profitability of the company.
- ✓ **Volatility in raw material prices:** The cost and availability of basmati paddy is impacted by many factors like inadequate irrigational facilities, unfavorable climatic conditions, change in crop patterns and farmer's preference for other crops that yield better realization. These factors can impact basmati production impacting volumes and realization.

Financials and Valuations

Consolidated - Income Statement							(INR Million)
Y/E March	**FY15**	**FY16**	**FY17**	**FY18**	**FY19P**	**FY20E**	**FY21E**
Net Sales	**27,346**	**29,734**	**32,448**	**36,137**	**38,904**	**41,502**	**45,229**
Change (%)	10.5	8.7	9.1	11.4	7.7	6.7	9.0
EBITDA	**2,638**	**3,566**	**3,582**	**3,780**	**3,972**	**4,404**	**4,980**
Margin (%)	9.6	12.0	11.0	10.5	10.2	10.6	11.0
Depreciation	466	515	551	501	690	712	742
EBIT	**2,172**	**3,051**	**3,031**	**3,279**	**3,282**	**3,692**	**4,238**
Int. and Finance Charges	1,511	1,478	1,568	1,466	1,387	1,392	1,360
Other Income	451	63	481	362	241	265	292
PBT	**1,112**	**1,195**	**1,945**	**2,176**	**2,136**	**2,564**	**3,169**
Tax	348	471	649	714	762	846	1,046
Tax Rate (%)	31.3	28.8	33.4	32.8	35.6	33.0	33.0
Min. Int. & Assoc. Share	-39	-4	-124	-115	-109	-103	-117
Reported PAT	**725**	**721**	**1,172**	**1,347**	**1,265**	**1,615**	**2,006**
Adjusted PAT	**725**	**1,161**	**1,172**	**1,347**	**1,265**	**1,615**	**2,006**
Change (%)	-7.4	60.2	0.9	14.9	-6.0	27.6	24.2
Margin (%)	2.7	3.9	3.6	3.7	3.3	3.9	4.4

Source: Company, MOSL

Consolidated - Balance Sheet							(INR Million)
Y/E March	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Share Capital	265	267	267	320	320	320	320
Reserves	4,363	5,101	6,382	11,475	12,971	14,510	16,420
Net Worth	**4,627**	**5,368**	**6,649**	**11,794**	**13,291**	**14,829**	**16,740**
Minority Interest	345	343	471	554	1,054	1,054	1,054
Debt	16,388	15,579	15,762	15,162	16,704	16,054	15,954
Total Capital Employed	**21,360**	**21,290**	**22,881**	**27,567**	**31,171**	**31,938**	**33,748**
Gross Fixed Assets	6,383	6,757	7,359	9,791	10,860	11,275	11,728
Less: Accum. Depriciation	2,679	3,145	3,657	4,158	4,848	5,560	6,302
Net Fixed Assets	**3,704**	**3,612**	**3,702**	**5,633**	**6,012**	**5,715**	**5,425**
Capital WIP	147	244	395	275	422	422	422
Investments	69	64	76	74	361	361	361
Current Assets	**20,521**	**20,650**	**23,064**	**26,516**	**28,852**	**30,414**	**33,276**
Inventory	13,622	12,996	14,470	17,287	18,912	20,069	21,783
Debtors	3,179	3,757	4,628	4,680	5,349	5,706	6,218
Cash and Bank Balance	212	323	415	291	377	351	602
Loans and Advances & OCA	3,508	3,574	3,551	4,258	4,214	4,288	4,673
Curr. Liability & Provisions	**3,094**	**3,353**	**4,470**	**5,053**	**4,684**	**4,974**	**5,736**
Account Payables	1,000	1,494	2,179	3,417	2,838	3,014	3,270
Current Liabilities	1,748	1,310	2,225	1,515	1,695	1,800	2,292
Other Long Term Liab. & Provs.	346	549	66	121	150	160	173
Net Current Assets	**17,428**	**17,296**	**18,594**	**21,463**	**24,169**	**25,440**	**27,540**
Appl. of Funds	**21,360**	**21,290**	**22,881**	**27,567**	**31,171**	**31,938**	**33,748**

Source: Company, MOSL

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)							
Adj. EPS	**2.3**	**3.6**	**3.7**	**4.2**	**4.0**	**5.0**	**6.3**
Cash EPS	3.7	5.2	5.4	5.8	6.1	7.3	8.6
BV/Share	14.5	16.8	20.8	36.9	41.6	46.4	52.3
DPS	0.2	0.1	0.1	0.2	0.2	0.2	0.3
Payout (%)	8.8	6.7	4.1	4.3	4.5	4.8	4.8
Valuation (x)							
P/E	14.1	8.8	8.7	7.6	8.1	5.7	4.6
Cash P/E	8.6	6.1	5.9	5.5	5.2	4.0	3.4
P/BV	2.2	1.9	1.5	0.9	0.8	0.6	0.6
EV/Sales	1.0	0.9	0.8	0.7	0.7	0.6	0.5
EV/EBITDA	10.0	7.1	7.1	6.6	6.7	5.7	4.9
Dividend Yield (%)	0.5	0.4	0.4	0.5	0.5	0.7	0.9
FCF per share	-1.4	7.6	4.6	-6.1	-1.3	6.0	5.1
Return Ratios (%)							
RoE	17.0	23.2	19.5	14.6	10.1	11.5	12.7
RoCE	9.1	10.6	10.8	9.9	8.0	8.7	9.5
Working Capital Ratios							
Asset Turnover (x)	1.3	1.4	1.4	1.3	1.2	1.3	1.3
Inventory (Days)	182	160	163	175	177	176	176
Debtor (Days)	42	46	52	47	50	50	50
Creditor (Days)	13	18	25	35	27	27	26
Leverage Ratio (x)							
Net Debt/Equity	3.5	2.8	2.3	1.3	1.2	1.0	0.9

Source: Company, MOSL

Consolidated - Cash Flow Statement **(INR Million)**

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	1,112	1,635	1,942	2,158	2,136	2,564	3,169
Depreciation	466	515	551	501	690	712	742
Interest & Finance Charges	1,453	1,404	1,440	1,288	1,387	1,392	1,360
Direct Taxes Paid	-495	-338	-507	-1,035	-547	-846	-1,046
(Inc)/Dec in WC	-2,451	-689	-1,106	-2,567	-2,640	-1,211	-1,850
CF from Operations	**85**	**2,527**	**2,320**	**346**	**1,027**	**2,612**	**2,376**
Others	5	445	-53	105	-241	-265	-292
CF from Operating incl EO	**90**	**2,972**	**2,267**	**451**	**786**	**2,347**	**2,084**
(Inc)/Dec in FA	-553	-537	-795	-2,386	-1,216	-415	-452
Free Cash Flow	**-463**	**2,435**	**1,472**	**-1,936**	**-430**	**1,932**	**1,632**
(Pur)/Sale of Investments	-18	0	-68	-30	287	0	0
Others	-9	1	42	92	132	162	175
CF from Investments	**-580**	**-536**	**-820**	**-2,324**	**-798**	**-253**	**-278**
Issue of Shares	8	46	0	3,812	0	0	0
Inc/(Dec) in Debt	1,840	-930	118	-708	1,542	-650	-100
Interest Paid	-1,458	-1,406	-1,443	-1,307	-1,387	-1,392	-1,360
Dividend Paid	-69	-63	-48	-48	-58	-77	-96
CF from Fin. Activity	**321**	**-2,353**	**-1,372**	**1,749**	**98**	**-2,119**	**-1,556**
Inc/Dec of Cash	**-168**	**82**	**75**	**-124**	**86**	**-25**	**250**
Opening Balance	348	179	253	318	291	377	351
Closing Balance	**179**	**262**	**327**	**195**	**377**	**351**	**602**

Source: Company, MOSL

This report is intended for distribution to Retail Investors.

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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