

Dear Member,

We are pleased to inform you that Value Pick of March 2018 is released by our team. Value Pick stock of the month is LT Foods Ltd (**BSE Code: 532783, NSE Code: DAAWAT**). LT Foods has a market capital of Rs. 2922 crores and operates in food processing industry.

1. Company Background:

LT Foods is an emerging global food company with focus on basmati and other specialty rice, organic foods and convenience rice based products. The company is engaged in milling, processing and marketing of branded and non-branded basmati rice, and manufacturing of rice food products in the India and international market.

Its operations include contract farming, procurement, storage, processing, packaging and distribution. Its rice product portfolio comprises brown, white, steamed, parboiled, organic, quick cooking brown rice, value added and flavored rice. The Company's brands include Daawat, Royal, EcoLife, an organic food brand that includes rice, pulses, oil seeds, cereal grains, spices, nuts and fruits and vegetables and Heritage, a basmati rice brand. Its brands also include Gold Seal Indus Valley, Rozana and 817 Elephant which have been recently acquired by the company.

The company has five manufacturing units located at Bahalgarh & Kamaspur (Haryana), Amritsar & Varpal (Punjab) and Bhopal (Madhya Pradesh) in India with a combined milling capacity of ~103 tonnes per hour. The company commissioned a rice processing plant at Rotterdam (Netherlands) in June'17 to cater to European market.

Vijay Kumar Arora is the Chairman of LT Foods. Under his leadership, the company has grown into a leading processor and exporter of packaged basmati rice. Like Daawat, LT Foods today has several premium rice brands in its portfolio. Plus, business continues to grow healthily for the company which now plans to move into nutritious rice-based snacks.

In 2016-17 the consolidated revenue of the company reached more than Rs. 3300 Crore with a growth of 11.5% on Y-o-Y basis. LT Foods has a global presence in 65 countries including India, Middle East, UK, Europe and US.

2. Recent Developments:

i) Modernization of Organic Facility to gain market share in India and International Markets – Jan 2018

Ecolife, the organic foods brand of Nature-Bio Foods Limited which is a wholly owned subsidiary of LT Foods recently announced the modernization and automation of its existing organic facility. As per management, EcoLife will continue to gain more market share in India as well as international markets. The company already has a diverse organic food portfolio. Nature- Bio Foods Limited has upgraded and modernized its manufacturing facility in Sonapat, Haryana to produce a wide range of organic foods.

Nature Bio Foods Limited is working with more than 80,000 farmer families across 15 states in India to produce organic food products & ingredients. The facility has processing facilities and quality control processes. Nature Bio Foods organic range of products include basmati rice and other rice, spices, pulses, soyabean, nuts and oilseeds.

ii) LT Foods to invest \$20 million for branding & expansion – Dec 2017

LT Foods will be investing \$20 million for branding and expansion in Europe, as it eyes a six times increase in sales from the branded segment over the next four years.

The company is extensively working on expanding its geographical footprint and product portfolio in these markets and plans to invest \$20 million with increased sales from the current 5,000 tonnes to 30,000 tonnes. The company has been focusing on Europe as the next growth region and has recently opened a new plant in Rotterdam, Netherlands to cater to both Europe and UK.

As per management, the company is eyeing to gain 5 percent market share in the branded segment of this region with distribution expansion and continuous brand investments.

iii) LT Foods in JV with Japan's Kameda Seika for new health snack – Oct 2017

LT Foods Ltd has announced the launch of Kari Kari, a premium rice-based health snack, in joint venture with Japanese rice cracker maker Kameda Seika.

Kari Kari will be initially be available in four flavours across Delhi and the National Capital region, Mumbai and Bengaluru. It will cost Rs50 for a 70g packet and Rs99 for a 150g packet. Rice-based backed snack is a new category that company is trying to create with its Japanese partner for the Indian market.

LT Foods will hold 51% stake in the joint venture Daawat Kameda India (Pvt.) Ltd while Kameda Seika will hold the rest. The company will invest around \$5 million in the first phase.

The entry into the premium snacks market is part of the company's plan to cross the \$1 billion mark by 2022, through diversification into ready-to-make, ready-to-eat and organic staples across 65 countries where the company has presence.

3. Financial Performance:

L T Foods consolidated net profit rises 16.32% in the Dec 2017 quarter

Net profit of L T Foods rose 16.32% to Rs 38.56 crore in the quarter ended Dec 2017 as against Rs 33.15 crore during the previous quarter ended Dec 2016. Sales rose 19.15% to Rs 940.93 crore in the quarter ended Dec 2017 as against Rs 789.73 crore during the previous quarter ended Dec 2016.

L T Foods consolidated net profit rises 36.03% in the Sept 2017 quarter

Net profit of L T Foods rose 36.03% to Rs 33.98 crore in the quarter ended Sept 2017 as against Rs 24.98 crore during the previous quarter ended Sept 2016. Sales rose 2.90% to Rs 853.10 crore in the quarter ended Sept 2017 as against Rs 829.03 crore during the previous quarter ended Sept 2016.

4. Investment Rationale:

i) The basmati rice industry is highly competitive and fragmented in nature, marked by the presence of some established players and numerous medium to small sized players. Further, the industry faces sizeable inventory price risks on account of high inventory levels and volatility in realisations, especially in the export market. Given that majority of the basmati paddy is procured during the months of October-December (procurement season) and is held for 8-24 months for ageing purposes (which fetches higher realisations), the business is inherently working capital intensive. However, this risk is partly mitigated by strong brand strength which ensures steady order inflow. For LT Foods, branded sales account for ~75% of total basmati rice sales which has supported its margins.

ii) Steady industry demand as India enjoys competitive advantage in basmati rice exports, with Pakistan being the only other basmati rice exporter. As per industry reports, 70% of global basmati rice is produced in India and the balance in Pakistan. India is the largest producer and exporter of premium basmati rice. Basmati rice is grown only in certain parts of India and Pakistan due to conducive agro-climatic and soil conditions.

iii) Over the years, the LT Foods has emerged as one of the leading basmati rice players in the country. Well accepted brands (Daawat, Heritage, Royal, etc) and wide geographical reach with exports to more than 65 countries. Recently, the company set up a rice processing plant of 60,000 MT in Rotterdam (Netherlands) to tap the European market. Also in FY17, it acquired Gold Seal Indus Valley and Rozana brand from HUL in order to strengthen its footprint in lucrative Middle East markets like Qatar, Oman, Bahrain, UAE, Saudi Arabia and Kuwait.

iv) The company has launched many value added products like fast cooking brown rice, convenience sauces, and blend of white and brown rice and organic food range (under brand ecoLife) which are high growth segments for the company. In order to expand the product portfolio further and move up the value chain, LT Foods entered into a JV with Kameda Seika (leading Japanese snack company) to manufacture rice-based snacks. Value added products offer higher margins and expected to improve company's profitability and return ratios in coming years.

v) In Dec'17, LT Foods raised INR 400 crores via QIP with an aim to strengthen balance sheet by repaying around 150 crore in debt and utilizing the balance funds for working capital requirement. Debt repayment is expected to bring down interest payment, which will aid operating profits of the company in coming quarters.

vi) Basmati rice is a capital intensive business due to higher inventory cost. Basmati needs to be aged from 10 to 24 months which leads to higher working capital. However, LT Foods has shown significant improvement in its working capital management by reducing inventory days from 213 in FY12 to 161 days in FY17. This improvement in inventory days is expected to continue considering strong cash flow generation and better operating efficiency with further reduction in debt levels.

vii) LT Foods has shown consistent revenue growth over years with improvement in profitability on account on rising contribution from branded business, increase in geographical expansion and inclusion of high margin valued added and organic products. Established track record of operations along with long experience of the promoters in the basmati rice industry is expected to augur well for LT Foods in coming years.

viii) The company has registered sales CAGR of 18.2% and profit CAGR of 31.8% with ROE of 19.6% over last 5 years. The company's management has paid uninterrupted dividend since 2013, dividend yield at current price is 0.14%. The company price to book value is 2.51.

ix) As of Mar'18, promoter's shareholding in the company is 56.01% and 8.95% of total holding is pledged. Institution shareholding in the company is 17.54% which includes investments of DSP Blackrock, SBI, Reliance Capital etc.

5. Key Concerns & Risks:

- i) Operating in an agro-based industry, the company's operations and profitability remain vulnerable to raw material availability, its quality and pricing which further depend on climatic conditions
- ii) High working capital requirements in order to maintain inventory of paddy and basmati rice for ageing, exposes the company to inventory price risk.
- iii) Exposure to foreign exchange risk as majority of the turnover is contributed to by exports. However the LT Foods follows a selective hedging policy.

6. Saral Gyan Recommendation:

As per our estimates, LT Foods can deliver PAT of 184 crores for full financial year 2018-19 with annualized EPS of Rs. 5.75. At current price of 91.25, stock is available at forward P/E multiple of 15.9X based on FY18-19 earnings which makes it attractively valued compared to other companies in the Industry.

Recent initiatives by the company to expand its geographical presence, diversify revenue base and leverage the established brand, have the potential to improve profitability. Considering company's ambitious target to achieve six times increase in sales from the branded segment over the next four years by building brands & expanding geographical reach, strong earning visibility over long term and reasonable valuations of the company compared to other listed players in the Industry, Saral Gyan team recommends "Buy" on **LT Foods Ltd** at current market price of Rs. 91.25 for target of 140 over a period of 12 to 18 months.

Buying Strategy:

- 80% at current market price of 91.25
- 20% at price range of 80-85 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

Regards,

Team – Saral Gyan,
Saral Gyan Capital Services.

LEGAL DISCLAIMER: Saral Gyan Capital Services (hereinafter referred as 'Saral Gyan') is an independent equity research Company. Use of the information herein is at one's own risk. This is not an offer to sell or solicitation to buy any securities and Saral Gyan will not be liable for any losses incurred or investment(s) made or decisions taken/or not taken based on the information provided herein. Information contained herein does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. Before acting on any recommendation, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek an independent professional advice. All content and information is provided on an 'As Is' basis by Saral Gyan. Information herein is believed to be reliable but Saral Gyan does not warrant its completeness or accuracy and expressly disclaims all warranties and conditions of any kind, whether express or implied. As a condition to accessing Saral Gyan content and website, you agree to our Terms and Conditions of Use. The performance data quoted represents past performance and does not guarantee future results.

DISCLOSURE WITH REGARDS TO OWNERSHIP AND MATERIAL CONFLICTS OF INTEREST:

- a. 'subject company' is a company on which a buy/sell/hold view or target price is given/changed in this Research Report
- b. Neither Saral Gyan, it's Associates, Research Analyst or his/her relative have any financial interest in the subject company.
- c. Neither Saral Gyan, it's Associates, Research Analyst or his/her relative have actual/beneficial ownership of one percent or more securities of the subject company
- d. Neither Saral Gyan, it's Associates, Research Analyst or his/her relative have any other material conflict of interest at the time of publication of the research report.

DISCLOSURE WITH REGARDS TO RECEIPT OF COMPENSATION:

- a. Neither Saral Gyan nor it's Associates have received any compensation from the subject company in the past twelve months.
- b. Neither Saral Gyan nor it's Associates have managed or co-managed public offering of securities for the subject company in the past twelve months.
- c. Neither Saral Gyan nor it's Associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.
- d. Neither Saral Gyan nor it's Associates have received any compensation for products or services from the subject company.
- e. Neither Saral Gyan nor it's Associates have received any compensation or other benefits from the subject company or third party in connection with the research report.

GENERAL DISCLOSURES:

- a. The Research Analyst has not served as an officer, director or employee of the subject company.
- b. Saral Gyan or the Research Analyst has not been engaged in market making activity for the subject company.

Definitions of Terms Used:

- a. Buy recommendation: This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- c. Buy at lower price: This means that the investor should wait