

High Conviction Idea

LT FOODS LTD



- *Value Migration leading to Margin Expansion*
- *Moving up the Value Chain towards a branded foods company*
- *Forward Integration as a consumer play to drive re-rating*
- *Expanding Global Footprints*

LT FOODS LTD | FMCG

..... Daawat Kabool Karo!

LKP

Value Migration leading to Margin Expansion

LT Foods (LTF) is one of the leading specialty rice producers in India with more than seven decades of operations. The company has a wide range of rice portfolio suitable to every cuisine and ethnicity. LTF forayed into organic food and ingredient business in the year 1999 through its subsidiary Nature Bio-Foods Ltd. Recently, LTF also forayed into value added business of health and convenience products with the launch of rice based snack Kari Kari, Quick Brown rice, Cuppa rice and sauté sauces. LTF has major brands in: Rice business - Daawat, Devaaya, Royal, Indus Valley, 817 Elephant, Chef's Secret, Heritage and Rozana; Organic Business – Daawat and EcoLife; New Product Business – Kari Kari, Daawat and Royal. LTF has exports in more than 60 countries with presence in major geographies like North America, Middle East, Europe and Africa among others. The company generates around 85% of its revenues from the core rice business followed by 9% from the organic business. The new product business is still at the nascent stage, while the company targets this business to contribute between 12-15% in next few years. For the last 10 years, LTF has been consistently growing its revenues at a CAGR of c.15%. LTF has streamlined its operations to reduce its exposure to price risk and geographic risk through diversification and better hedging activities. We expect the company to continue the momentum going forward with key focus on margin expansion and return on capital. **We Initiate Coverage on LT Foods with a target price of ₹186.**

Moving up the Value Chain towards a branded foods company

Traditionally, Rice is a commodity business dominated by regional unorganized players. However, over the years players like LTF and KRBL have transformed this business into a consumer company by establishing renowned brands like Daawat and India Gate respectively. LTF has focused on building a leading national brand in the basmati rice segment through various branding and advertising activities. The company is also diversifying into value added business such as organic foods and health & convenience products

Forward Integration as a consumer play to drive re-rating

LTF is diversifying away from its traditional rice business to more value added business of organic food & ingredients and health & convenience products. Both the business command higher margins than the rice business and has a huge market opportunity size. Recent consumer trend indicates increase in focus towards healthy and organic foods along with ready to eat products owing to time poverty. With the launch of products in the health & convenience business such as Ready to heat rice under the Royal brand, Daawat Quick Brown rice, Daawat Sehat, Kari Kari snacks and range of sauté sauces, LTF has tapped a larger audience. All the products have performed extremely well in the initial launch stage and the company is in process to scale up the operations. In the organic business as well, the company has launched various agro based products under the brand-EcoLife which is well accepted in the market.

Expanding Global Footprints

LTF has a well-diversified geographic presence with exports in more than 60 countries. The company has established its presence in major economies such as North America (37%), Europe (9%), and Middle East (14%) among others. LTF has set up a ready-to-heat plant in Houston, USA and a manufacturing facility in Rotterdam, Netherlands. The Europe business has now turned around and is growing its revenues with positive EBIDTA margins. The US business is growing at a good rate with higher realization across product categories.

Rating	Buy
Current Market Price (₹)	56
3 Year Price Target (₹)	186
Potential upside (%)	232

Stock Data

FV (₹) :	1
Market Cap Full (₹ bn) :	18
Promoters Pledge (%) :	NIL
52-Week High / Low (₹) :	66 / 15
2-Year High / Low (₹) :	66 / 13
1 Year Avg. Dly Traded Volume (in lakh)	22
BSE Code / NSE Symbol :	532783 / DAAWAT
Bloomberg :	LTFO: IN

Shareholding Pattern (%)

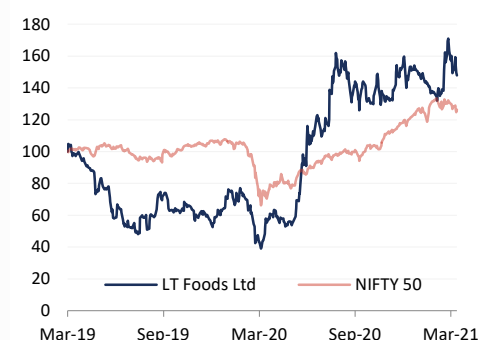
	Dec-20	Sep-20	Jun-20	Mar-20
Promoter	56.81	56.81	56.80	56.80
FPIs	1.56	1.55	1.44	1.42
MFs	3.47	5.07	5.06	5.06
Corporate Bodies	3.41	2.51	2.55	2.68
Others	34.75	34.06	34.15	34.04

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
LT Foods	6%	2%	11%	238%
Nifty 50	-0.2%	6%	31%	68%

* To date / current date : March 26, 2021

LT Foods vs Nifty 50

Investment Rationale

Moving up the Value Chain towards a branded foods company

Rice business is viewed as a commodity business where the share of unorganized players is significant. However, over the years LTF has transformed its business into a FMCG business by building reputed brands like 'Daawat', 'Devaaya', 'Royal', 'Indus Valley', '817 Elephant' and 'Rozana'.

Branded Product Portfolio of LT Foods

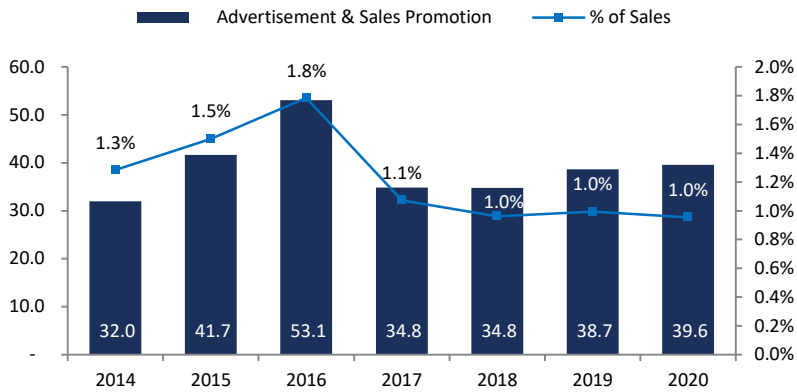


The company has focused extensively on branding and distribution to create a separate market for its branded basmati rice. Industry dynamics is also changing with consumers preferring branded basmati rice over the loose and unbranded basmati rice. LTF has also forayed into other businesses such as Organic and Snacking which are value added business with higher margins. Diversification into business other than Basmati is a right step towards attaining the goal of becoming a larger FMCG player.

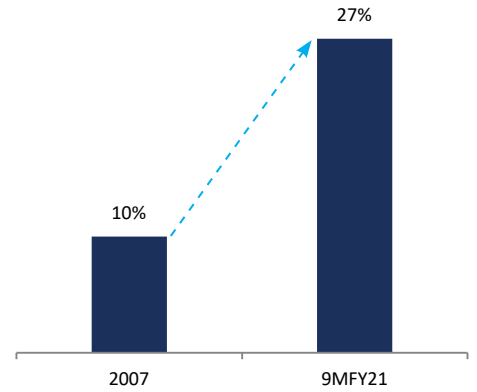


To strengthen brand presence and recall, the company undertook various marketing initiatives including participation in various food festivals and others events. Branding initiatives like 360-degree marketing and television campaigns were also undertaken to promote Biryani, Pulav and Brown Rice recipes using Daawat basmati rice. LTF scaled up its secondary marketing with aggressive branding at modern trade stores. LTF also focused on social media platforms to stay engaged and strengthen its connect with its consumers about its brands. Daawat basmati rice YouTube channel has one of the highest subscribers, keeping users engaged with innovative, traditional and modern rice recipes. To fortify its marketing campaigns and branding initiatives, LTF continued their association with Master Chef Sanjeev Kapoor during the year. LT Foods has also engaged with renowned Bollywood personalities such as Amitabh Bachchan.

ASP Spend over the years (₹ in crores)



Market Share Gain



Source: Company, LKP Research

Trend change is also one of the factors helping LTF to transform itself into a FMCG company. With the increase in disposable incomes, consumers are preferring to purchase superior quality basmati rice which are offered by the branded players for their cooking needs. Also, LTF has an extensive range of basmati rice offerings suitable for every type of rice recipes which the consumer can select from. This helps LTF to maintain a brand loyalty in the mind of the consumer. LT Foods Quick cooking brown rice has emerged as the fastest growing product in the new innovations segment. Launched with a clear-focused brand approach, highlighting the unique Dawaat benefit of a genuine quick cooking brown rice, it has garnered significant appreciation from its targeted consumer base.

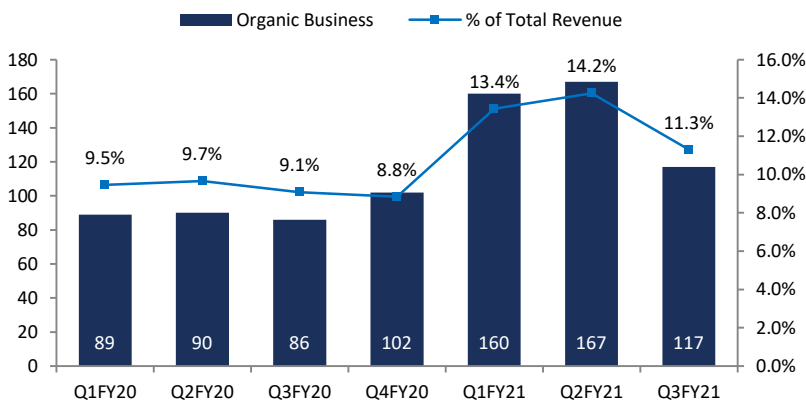
Forward Integration as a consumer play to drive re-rating

LT Foods value added business comprises of two segments – Organic Business & New Product Portfolio

Organic Business

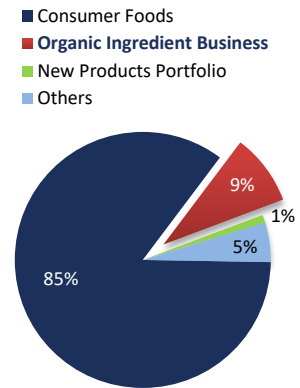
LTF is one of the early entrant in the organic food business with more than two decades of experience. The company has expanded its product portfolio to include organic cereal grains, flour, pulses, oil and oil seeds, nuts spices, herbs, millets and sweetener under the brand ‘EcoLife’. The organic business currently accounts for 9% of the total revenue of the company. However, LTF expects this business to hold a double digit share in revenue growing at a double digit growth rate going forward. LTF operates its organic business through its wholly owned subsidiary Nature Bio Foods Ltd (NBFL). NBFL has recently acquired 30% stake in Leev, Netherlands through its subsidiary Nature Bio Foods BV. Leev is an organic specialty food company with a portfolio comprising of breakfast bars, healthy snacks, baking range & gluten free, low sugar products that promotes an active and healthy lifestyle. Leev is also expanding its product portfolio by venturing into organic wholegrain category such as oats and flax seeds. This acquisition will enable LTF to supply its organic ingredients to Leev and capitalize on its strong consumer base of more than 2500 stores in Europe. The organic business has a high entry barrier as it requires around 3 years of cultivation through organic methods to produce pure organic harvest fit for consumption and distribution as an organic product. LTF joined hands with more than 60,000 farming families from villages across India having a cultivated land of 80,000+ hectares of certified organic land in India. LTF has also established two wholly owned subsidiaries in Netherlands and in the USA to further boost sales in the overseas market and foray into newer geographies. To satisfy the ‘organic’ demand in International markets, the company has also introduced a range of ‘ready to heat’ products, specially curated for their valued patrons.

Organic business gaining higher revenue share



Source: Company, LKP Research

Organic segment share in FY20



The global organic food market is expected to grow at a CAGR of 16.4% between 2014-22 to reach \$327.6 billion owing to the increase in health awareness, higher disposable income, its eco-friendly nature and increasing awareness about the advantages of organic food and government impetus to develop this sector. India is among the largest producers of organic food, with every state in the country chipping in with their contribution towards this sector. Over the last few years, production has improved considerably owing to growing demand for organic products. By 2024, the market is projected to touch \$2 billion.

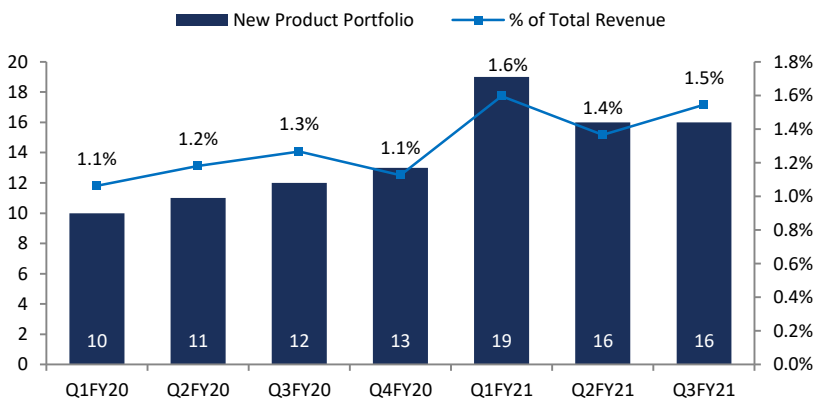
New Product Portfolio

LTF has recently launched its health and convenience product range which includes products such as Daawat Quick Brown rice and Daawat Sehat under the health segment and Daawat Sauté Sauces, Daawat Cuppa Rice, Royal Ready-to-heat and Kari Kari under the convenience segment. Currently, the new product portfolio accounts for only c.1% of the total revenue share, however, the company is planning to take this share to around 12%-15% in next five years.

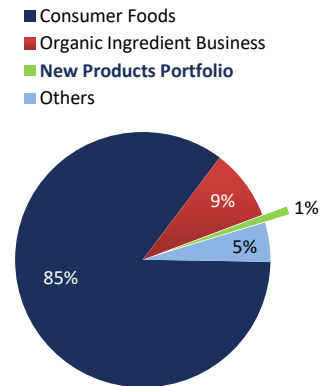
LTF has launched a premium rice based snack 'Kari Kari' in JV with Japan's snack food major Kameda Seika. Kari Kari snack performed well with the consumers and the company is now planning to take this brand international. Other pilot product such as the Cuppa rice is also gaining a good traction in the market and now the company is planning to expand this product to a full scale plant. Currently, the cuppa rice is majorly servicing the railway demand, where they are receiving repeated orders. The company targets a 15-20% of the total revenue share from the new products business where the Kari Kari and the Cuppa Rice are expected to be the major contributors.



New Product Portfolio to Drive higher Growth



New Product segment share in FY20



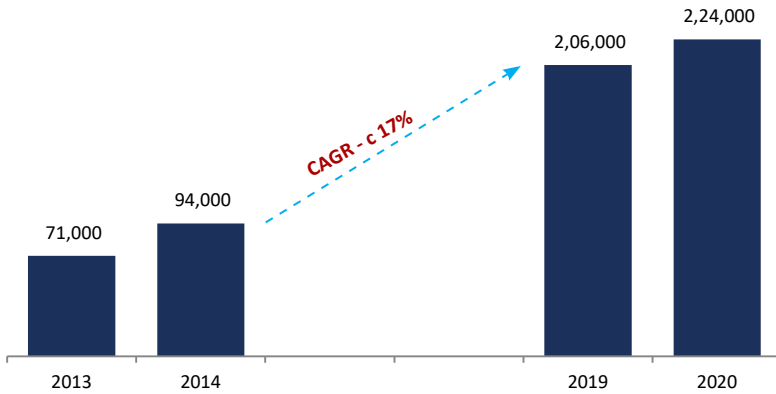
Source: Company, LKP Research

Other product in this segment is the Ready-to heat (RTH) products which have established a good presence in the US market. The ready to heat business under the brand Royal, which is about 70% of the total RTH sales have almost doubled in the first half versus year ago. RTH continues to gain new listings and new distribution in already listed chains and does well for LTF to maintain its business growth in the future. The company is driving more trial and consumption with the launch of new flavors to continue RTHs broad appeal across consumer ethnicities. Currently, almost 65% - 70% of the new products is made up by the US ready to heat products. The company is targeting this to be around 12% to 15% of the total revenue and these are brands that come with a superior margin profile.

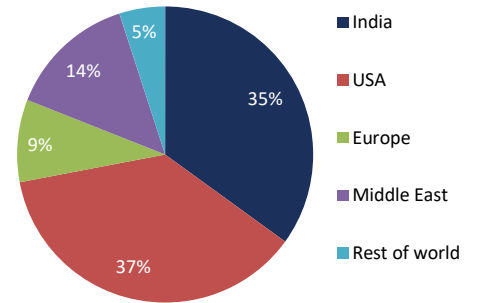
Expanding Global Footprints

LT Foods has a well-diversified market reach with exports to more than 60 countries including North America, Europe, Middle East, and Rest of the World. The Company's international business comprises of various leading brands like Daawat, Royal, Indus Valley, Devaaya, Daawat Rozana and 817 elephant across key international markets. LTF enjoys higher price realization for their products in the international market, in turn improving their margin profiles.

International volumes (MT)



Diversified revenue across geographies



Source: Company, LKP Research

LT Food's International Presence



North America

LT Foods has a strong market presence in the North American region with more than 50% market share of Basmati rice imports in the USA. The company offers brands like Royal, Daawat and 817 Elephant in these regions. Royal brand commands a market share of c.37% in the USA basmati segment as measured by Nielson. The other two brands are offered by the company to target the customer base of Asian Diaspora. In addition to Basmati rice, LTF also offers Jasmine rice, Arborio rice, Wheat Flour, and Ready-to-Heat rice in North America servicing several different channels of business including multi-cultural (Ethnic channel), grocery, club, mass, food service and e-commerce channels. The company has setup a RTH plant in Houston, USA to capture more market share in the value added product segment. The USA accounts for 35% of the total revenue of the company and is also one of the fastest growing geographies in terms of basmati and value added products. USA is a strategic priority market for LTF, where they have been expanding the product portfolio and leveraging the market leadership position to maintain the momentum of growth.



Europe & ROW

Europe and ROW accounts for 14% and 5% respectively of the total revenue share. Europe is another strategic market for the company, where they have ventured through green field operations and penetrated the market with a new avatar of the brand, Daawat. The region has recorded more than 80% YoY growth in its revenue that stood at ₹468 crore in FY 19-20 which has been surpassed in the 9MFY21 with record revenue of ₹590 crores and PAT of ₹15 crores. Despite macro-economic challenges, the Company registered a healthy EBITDA margin of 3.6%. Driven by strong marketing initiatives, the Company has expanded its retail and geographic presence across Europe. The company has a manufacturing facility in Rotterdam, Netherlands that will help them save on heavy import duty on white basmati rice. LTF has expanded its reach in new countries and also expanded to new customers such as Jumbo with more than 600 store supermarket chain in Europe. To better service this demand from expanded reach; LTF has made further investment in additional packaging lines. LTF Europe has also expanded its product portfolio and recently launched boil in bag variant under the brand "Daawat". The company is focused on scaling the European business to new highs and to achieve that goal they have recently hired a new Managing Director in the current fiscal to strengthen the team.

Middle East

Middle East accounts for ~45% of the world's total basmati rice consumption and around 9% of the total revenue share of the company. Middle East plays a vital role in the overall basmati rice market dynamics and also is an important geography for the company's growth. The Company has a strong market presence in various countries in the region including UAE, Kuwait, Qatar, Oman, Yemen, Saudi Arabia and Iraq with presence across all channels and price points – Modern Trade, Self Service, Traditional Trade and Food Service.

LTF holds around 10% market share in the premium basmati rice segment in these regions as per AC Nielsen. To further strengthen its footprint in lucrative Middle East markets like Qatar, Oman, Bahrain, UAE, Saudi Arabia and Kuwait, LTF acquired "Gold Seal Indus Valley" and "Rozana" brand from HUL in FY17. The recent equity association with Saudi Agricultural & Live Stock Investment Company (SALIC) marks a landmark moment for the Company's corporate journey in Middle East. We expect this region to continue providing a good growth opportunity in both the core basmati business and also the value added business.

Strong distribution network augurs well for the company

LT Foods transformation into an FMCG company requires a strong distribution network. The company has over the years built an extensive network of distributors and retailers in the domestic as well as global market. The company serves its customers through 1,18,000 retail outlets in India, 7,200 modern trade channels including hypermarkets, supermarkets, Cash n Carry etc and all leading e-commerce platforms. The company has more than 800 distributors across the globe out of which more than 700 distributors are in India and more than 100 distributors in the overseas market. Because of the strong distribution network, LTF has built a strong end-to-end control over the entire value chain in key products. Recently, LTF has digitized its supply chain network which led to further improvement in vehicle turn-around-time to 14 hours from 36 hours, while the loading time to trucks have improved to 2 hours from 6 hours earlier. The implementation of advanced automated systems and daily systematic operating procedures review has further streamlined the operations.

E-Commerce Partners



Presence across
Leading
e-commerce platforms

Modern Trade Channel



3,600+
Modern Trade
Stores in India

95+
Cash N Carry Stores

1,280+
Mini Markets

825+
Hypermarkets

1,240+
Supermarkets

Key HORECA Customers

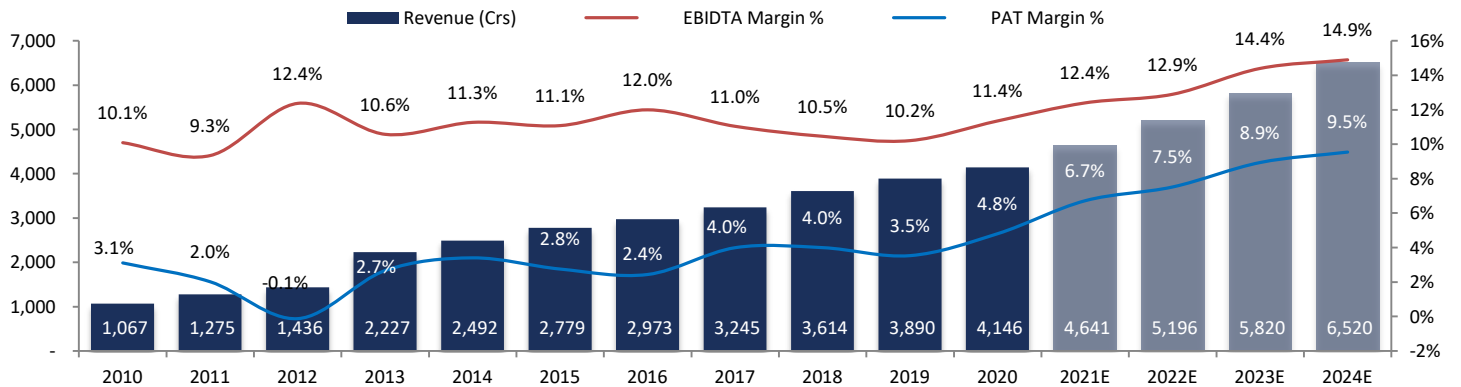




Financial Analysis

LT Foods has registered strong growth over the years led by expansion in the product categories as well as the market reach through both organic and inorganic means. The company has grown its revenue at a CAGR of c.14.5% during FY10-20 while the operating profits and PAT grew at a CAGR of c.15.9% and c.20% respectively. Going forward, we expect LTF to grow its Revenue/EBIDTA/PAT at a CAGR of around 12%/20%/33% respectively on account of stronger sales from the higher margin business and geographies.

Consistent Growth along with Improving Margins

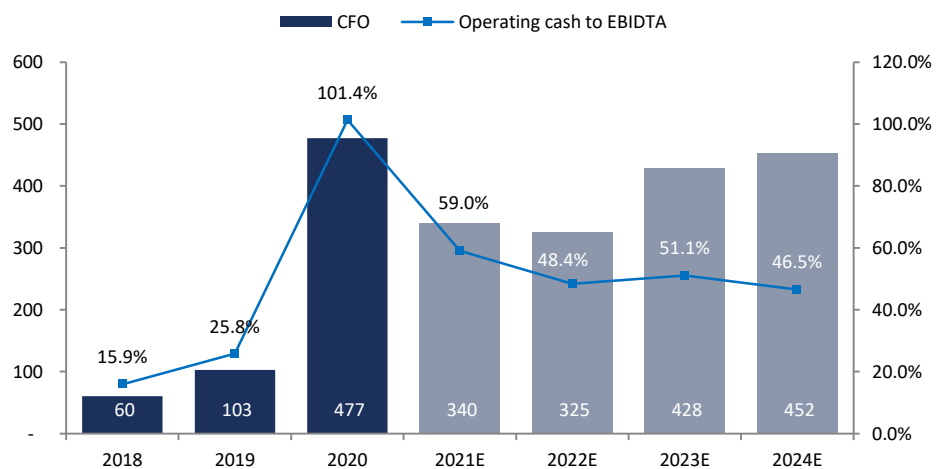


Source: Company, LKP Research

The improvement in the margins has been on back of change in the product mix, strong cash flow generation, optimizing the working capital cycle and continuous repayment of debt.

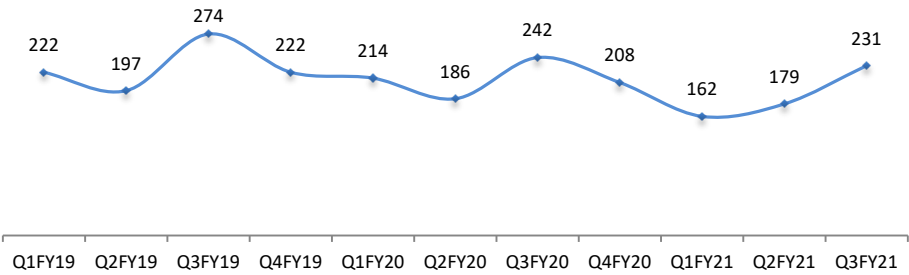
LTF has improved its cash flow from operations (CFO) over the years supported by reduction in the inventory days. Basmati rice is required to be aged upto 24 months to enhance and intensify its taste, aroma and cooking characteristics. The company is required to store a large inventory of paddy and rice in turn blocking a large sum of cash flow into inventories. LTF's is working on optimizing its inventory days which can be seen from the below chart where year on year the inventory days is declining. The overall decline in the inventory days has aided the company in generating higher cash flow from operation taking its operating profit to CFO conversion rate higher.

Strong CFO Conversion backed by...



Source: Company, LKP Research

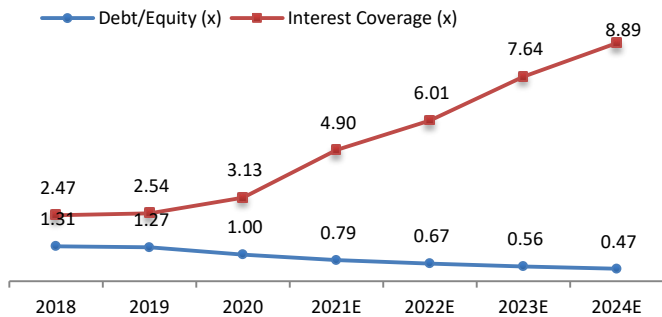
... improving Inventory Days



Source: Company, LKP Research

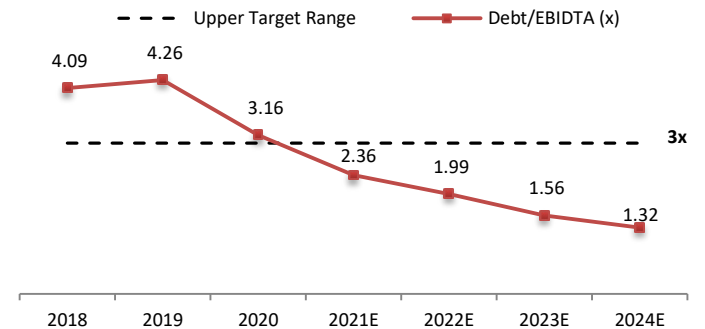
Higher cash flow from operations is aiding the company in lowering its debt and maintaining the desired debt to EBIDTA ratio. LTF targets its Debt/EBIDTA ratio to hover in the range of 2x to 3x going forward which currently stands around 2.2x. Majority of the company's debt is in the form of short term borrowings required to maintain a high inventory. LTF has laid out a plan to effectively utilize its free cash flow where 50% of it will be utilized in the growth of the business, roughly 25% in the reduction of borrowing and partly will go into dividend (20-30% of profits).

Further Improvement in the Leverage Scenario



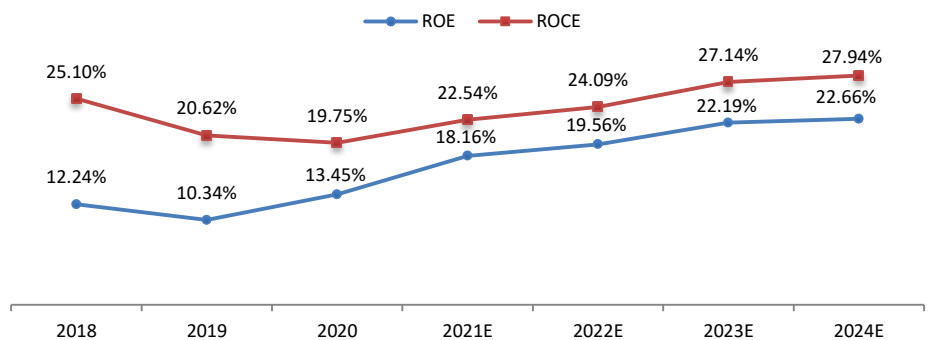
Source: Company, LKP Research

Debt/EBIDTA (x) maintained lower than the target



The reduction in overall debt and higher margins will lead to better operating and financial efficiency in turn rewarding the stakeholders with better returns. The ROE/ROCE of the company is also expected to improve along with above mentioned parameters. LTF is already on the path to improving its operating efficiency leading to improvement in the ROE/ROCE. The ROE has expanded by around 121 bps in the last three years, while there was a dip in the ROCE due to higher capex and acquisition. The result of the capex and acquisition will bear fruit going forward resulting in ROCE improvement.

Operational Efficiency leading to higher returns



Source: Company, LKP Research

Outlook & Valuation

LT Foods is one of the leading players in the Indian Basmati rice business with more than seven decades of business operations. The company has transformed its business from a commodity business to a branded consumer business with leading brands. Basmati rice industry being a commodity business commands lower valuation whereas LTF through its aggressive branding and diversification into value added products is aiming for higher valuation than the overall industry.

LTF is on the growth path with new product launches across international markets gaining more traction and capturing higher market share in the domestic market. New product launches such as Kari Kari, Quick Brown Rice and Cuppa Rice along with new tie up with SALIC and Leev will pave the way for new a leg of growth focusing on margin expansion and higher returns. We expect the company to grow its revenue at a CAGR of 12% between FY20-24E with EBITDA margin expanding by 350 bps to reach 15% margin profile which the company is targeting to be the sustainable margin level. We expect the PAT to grow at a CAGR of 33% between FY20-24E on account of further reduction in finance cost and expansion in operating margins.

We value the company at a P/E of 10x FY24E EPS of ₹18.61. We Initiate Coverage on LT Foods Ltd with a BUY and a target price of ₹186.

Key Financials							
YE Mar	2018	2019	2020	2021E	2022E	2023E	2024E
Total Sales (₹ Cr)	3,614	3,890	4,146	4,641	5,196	5,820	6,520
EBITDA Margins (%)	10.5%	10.2%	11.4%	12.4%	12.9%	14.4%	14.9%
PAT Margins (%)	4.0%	3.5%	4.8%	6.7%	7.5%	8.9%	9.5%
EPS (INR)	4.80	3.96	5.77	9.18	11.55	15.50	18.61
P/E (x)	11.83	14.34	9.84	6.18	4.91	3.66	3.05
P/BV (x)	1.35	1.37	1.23	1.06	0.91	0.77	0.66
EV/EBITDA (x)	8.23	8.73	6.96	5.47	4.57	3.49	2.89
ROE (%)	12.24%	10.34%	13.45%	18.16%	19.56%	22.19%	22.66%
ROCE (%)	25.10%	20.62%	19.75%	22.54%	24.09%	27.14%	27.94%

Key Managerial Personnel	
Name	Designation
Mr. Vijay Kumar Arora	Chairman
Mr. Ashwani Kumar Arora	CEO, CFO & Managing Director
Mr. Surinder Kumar Arora	Managing Director
Mr. Ashok Kumar Arora	President
Ms. Monika Chawla Jaggia	Company Secretary

Overall Global Rice Market	500 million MT
Basmati Rice Market	7.5 million MT
India caters to	80% of basmati production
Indian Basmati production	6.5 million MT
Basmati exported from India	4.5 million MT

Industry Overview

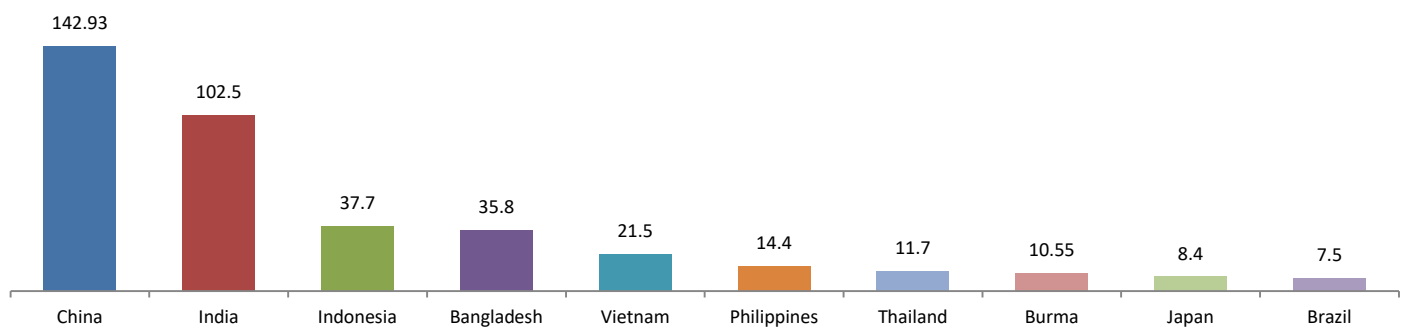
The Global rice market is valued at around \$275 billion and is projected to grow at a CAGR of 0.88% during FY19-24. Rice is the staple food of more than half of the world's population and more than 500 million metric ton of rice is produced annually, across the globe. It is the second-most important cereal crop after maize and ensures food security for numerous developing countries in East Asia and the Southeast Asian regions, with India being among the leading rice producers in the world (China being the leader). Global consumption of rice has increased on year-on-year basis, especially of basmati and regional rice.

The Indian rice market is divided into organized as well as unorganized sector. Traditionally, the Indian rice market was dominated by the unorganized sector as people used to buy rice in bulk because of its higher consumption. With rapid urbanization and higher disposable income the Indian rice sector is getting transformed slowly and gradually from unorganized to organized sector which is also called a packed rice segment. Overall the Indian rice market is segmented in basmati, non-basmati, packed, unpacked and further segmented into its types. Basmati rice contributes a small portion in Indian market but generates the highest share through overall export of rice.

Rice sector is a competitive market in India; there are many vital players; also, they are getting fierce competition from the new entrants and the local players. India is among the largest producers and the exporters of rice globally. The unorganized rice market is mainly driven because the major consumption of rice happens in the Tier 2 and Tier 3 region where the consumer prefers unpacked rice. However, in the last few years, a shift towards urbanization has increased, and the size of the families is getting smaller, which have allowed them to move towards the packed rice products. The adaption of packed rice has increased in recent years, and basmati rice holds more substantial portion in the overall packed rice. The whole packaged rice market is driven by the revenue generated by packed basmati rice which is forecasted to grow at considerable CAGR of around 11%. With the changing trends, there is a shift in the habit in the consumption of rice as consumers are now moving towards health rice segments because of increased awareness about health products. Brown rice and organic rice are considered into the health rice segment because of its nutritive content, and also the recent entry of black rice is gaining consumer's confidence.

In India, there are few major branded players in the Basmati rice business which dominate the local as well as the export markets. The major peers of LTF in the organized sector include KRBL, Kohinoor foods, Amir Chand Jagdish Kumar (Export) Ltd, Sarveshwar Food, Misthann Foods Limited, Adani Wilmar Limited, Amira Pure Foods Limited, Dunar Foods. The leading packed rice brands are India Gate, Dawaat, Kohinoor, Golden Harvest and Aeroplane. Private label brands like Big Basket, Amazon, Flipkart, and Grofers are trying their hands in this sector plus the edible oil sector like Fortune brand have started penetrating in this sector.

Rice consumption worldwide in 2019/2020, by country (in million metric tons)



Source: Company, LKP Research

Middle East is the largest consumer of rice in the world with a consumption share of ~45%. The below table indicates India's top five export destination all of which are located in the Middle East Region which accounted for c.71.5% export share in 2019-20.

Top India's Rice Export Destinations for the Year 2019-20							
Rank	Country	2017-18		2018-19		2019-20	
		Qty in MT	%	Qty in MT	%	Qty in MT	%
1	Iran	877,422	22%	1,483,698	34%	1,319,155	30%
2	Saudi Arabia	792,480	20%	867,741	20%	974,125	22%
3	Iraq	429,966	11%	385,733	9%	465,890	10%
4	U A E	429,326	11%	282,378	6%	208,519	5%
5	Kuwait	166,874	4%	154,748	4%	197,104	4%
6	Yemen Republic	167,688	4%	201,927	5%	203,330	5%
7	U S A	126,791	3%	135,608	3%	148,391	3%
8	U K	180,508	4%	111,925	3%	115,713	3%
Total Exports from India		4,056,759		4,414,562		4,454,616	

Source: DGCIIS, LKP Research

Tension between India and the major export destination - Iran

A Recent US sanction on Iran has created a rift between the Iranian and Indian government with the end of oil imports from Iran to India. Iran expected India to be more resilient to US pressure and has expressed disappointment over India for taking up US orders so easily. As a result of this displeasure, Iran is planning to stop import of basmati rice and other food products from India (however, there are exports still going to Iran). Iran advised India to take actions that meet the interests of both countries. On the other hand, Iran is set to improve trade relations with Pakistan (second largest basmati rice producer in the world). The Indian exporters and farmers will have to bear the consequences of the trade relations between the nations.

Business Overview

LT Foods is a specialty food company with presence in more than 60 countries. The company is one of the leading consumer food companies in India in specialty rice offering Daawat, one of the most renowned brands in the market. The company offers premium quality basmati rice, regional rice, rice-based snacks, saute' sauces and other products on the health and convenience platform. It has established a prominent presence through brands including Daawat, Rozana, Chef Secretz and Heritage across different price points. Leveraging its wide distribution network, LTF has strengthened its presence across various trade channels including General Trade, Modern Trade, HORECA and e-commerce. In the International market, the company's business comprises of various leading brands like Daawat, Royal, Indus Valley, Devaaya, Daawat Rozana and 817 Elephant. The flagship brand Royal is the #1 selling Basmati brand in the United States. LTF commands more than 50% market share of all Basmati imports into the United States. Royal has roughly 37% market share of the U.S. basmati segment as measured by Nielsen.

The company's business operations are divided into three segments which are the Core rice business of Basmati Rice & Other Specialty Rice, Organic Food business and the New Product business.

Operational performance				
Business Segment	Brands	Products offered	End-users	Percentage share in total revenue*
Basmati and other Specialty Rice		<ul style="list-style-type: none"> • Basmati Rice • Regional Rice • Quick Cooking Brown Rice • Jasmine Rice • Arborio Rice 	Institutional customers and Direct consumers	85%
Organic food and ingredients		<ul style="list-style-type: none"> • Cereal Grains • Pulses • Oil and Oil • Seeds • Nuts • Spices • Herbs • Millets • Sweeteners • Basmati Rice • Regional Rice 	Institutional customers and Direct consumers	9%
Health & Convenience Foods		<ul style="list-style-type: none"> • Rice-based snacks • Ready to Heat • Saute Sauces • Cuppa Rice • Staples • Fortified Rice 	Direct consumers	1%

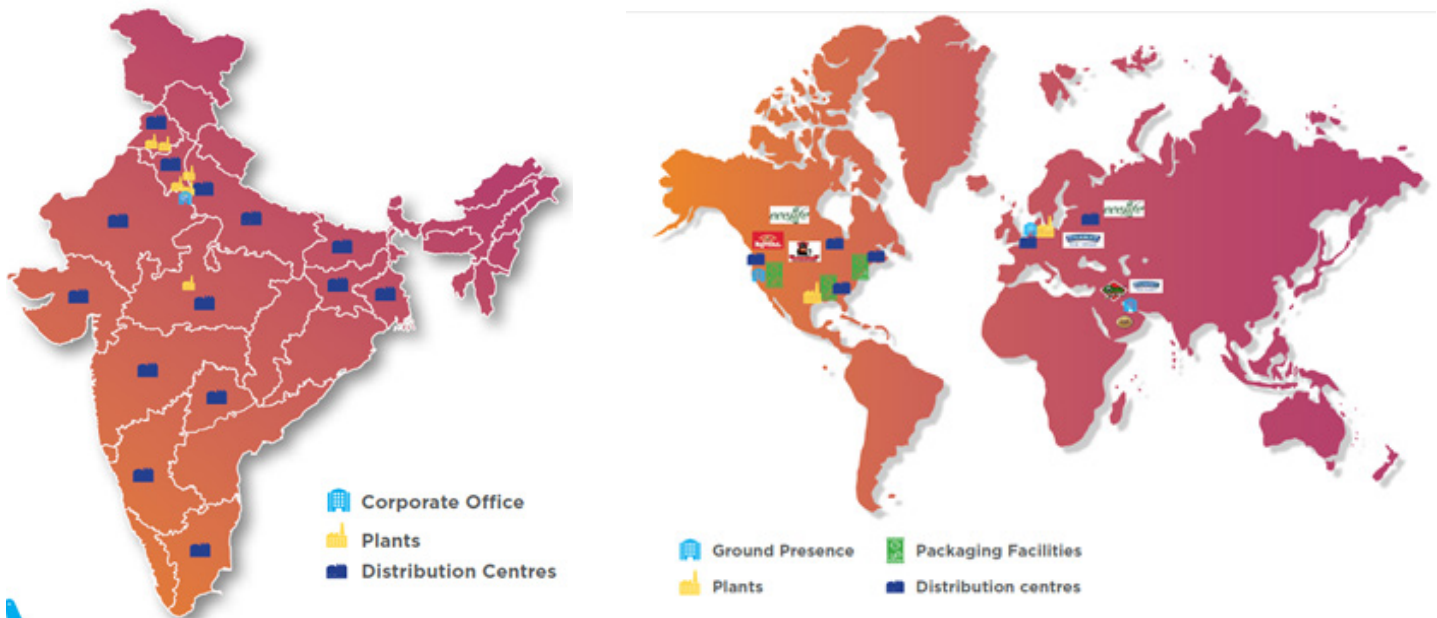
Source: Company, LKP Research

Over the years, the company has setup five manufacturing & processing facilities in India, one in Europe, three packaging units & a ready-to-heat facility in US and one snacks factory in India.

Capacities	Metrics	Quantity
Domestic		
Central India	Mt/day	700
Bahalgarh, Haryana	Mt/day	750
Kamaspur, Haryana	Mt/day	150
Amritsar, Punjab	Mt/day	360
Snack Plant -Kari Kari	units/day	3,000
International		
Europe	Mt/day	200
United States	pouches/day	35,600

Source: Company, LKP Research

Global Footprint



Source: Company, LKP Research

Key Risks & Concerns**Susceptibility to volatile raw material prices and regulatory changes**

LTF starts the paddy purchase in third quarter and stores it for the rest of the year. Being a commodity, the prices of rice and paddy are susceptible to factors like supply, demand, rain and availability of healthy land. The company usually enters into an understanding with customers for supply of rice, though this is not binding. Hence, exposure to risks related to any steep decline in paddy prices, subsequent to procurement, remains high. Additionally, exports of agricultural commodities, including rice, are highly regulated. However, having strong brands, wide geographical reach and sourcing capabilities have helped the group maintain profitability.

Geopolitical Risks

LTF is a global rice company having exports in more than 60 countries. Any geopolitical tensions between major economies can cause supply & demand glut in turn affecting the prices of raw material and final products. As Iran is the major consumer of rice it indirectly affects the prices of raw material and final products. LTF also imports raw material from Iran but is appropriately hedged for any uncertain events.

Exchange Rate Risk

LTF derives 65% of its revenue from the global market making it susceptible to exchange rate fluctuations. However, the company has put in place a well-framed hedging policy that mitigates any potential risk due to currency volatility and cause a financial impact.

Income Statement

₹ Cr	2018	2019	2020	2021E	2022E	2023E	2024E
Total Revenue From Operations(Net)	3,613.7	3,890.4	4,146.1	4,640.8	5,196.2	5,819.7	6,519.9
% Growth		7.7%	6.6%	11.9%	12.0%	12.0%	12.0%
Expenses							
Cost Of Material Consumed (incl. changes in inventory)	2,615.6	2,766.7	3,012.8	3,271.8	3,663.3	4,102.9	4,563.9
Purchases of stock-in-trade	55.8	171.4	54.7	51.0	57.2	64.0	71.7
Employee Benefit Expenses	135.0	151.9	180.3	232.0	259.8	232.8	260.8
Other Expenses	429.2	403.1	427.6	510.5	545.6	582.0	652.0
Total Expenses	3,235.7	3,493.2	3,675.4	4,065.4	4,525.9	4,981.7	5,548.4
EBITDA	378.0	397.2	470.7	575.5	670.3	838.0	971.5
<i>EBITDA Margin</i>	<i>10.5%</i>	<i>10.2%</i>	<i>11.4%</i>	<i>12.4%</i>	<i>12.9%</i>	<i>14.4%</i>	<i>14.9%</i>
Other Income	36.2	24.1	37.9	29.6	34.1	40.5	46.3
Depreciation and Amortization Expenses	50.1	69.0	91.4	76.5	80.0	83.6	87.1
Share of loss of joint ventures (net of tax)	-1.8	-0.0	-3.8	-5.0	2.0	4.8	6.2
EBIT	362.4	352.3	413.4	523.6	626.4	799.8	936.9
<i>EBIT Margin %</i>	<i>10.0%</i>	<i>9.1%</i>	<i>10.0%</i>	<i>11.3%</i>	<i>12.1%</i>	<i>13.7%</i>	<i>14.4%</i>
Finance Cost	146.6	138.7	132.3	106.8	104.2	104.6	105.3
Profit / (Loss) before exceptional items and tax	215.8	213.6	281.2	416.8	522.1	695.2	831.6
Exceptional Items	-	-	-4.2	-	-	-	-
PBT	215.8	213.6	276.9	416.8	522.1	695.2	831.6
<i>PBT Margin %</i>	<i>6.0%</i>	<i>5.5%</i>	<i>6.7%</i>	<i>9.0%</i>	<i>10.0%</i>	<i>11.9%</i>	<i>12.8%</i>
Tax Expense	71.4	76.2	77.6	104.9	131.4	175.0	209.3
Profit / (Loss) for the year	144.4	137.5	199.3	311.9	390.7	520.2	622.3
<i>PAT Margins %</i>	<i>4.0%</i>	<i>3.5%</i>	<i>4.8%</i>	<i>6.7%</i>	<i>7.5%</i>	<i>8.9%</i>	<i>9.5%</i>

Source: Company, LKP Research

Balance Sheet

₹ Cr	2018	2019	2020	2021E	2022E	2023E	2024E
Equities And Liabilities							
Shareholders' funds							
Share capital	32.0	32.0	32.0	32.0	32.0	32.0	32.0
Reserves and surplus	1,147.5	1,297.1	1,449.3	1,685.3	1,965.8	2,312.4	2,714.1
	1,179.4	1,329.1	1,481.3	1,717.3	1,997.8	2,344.3	2,746.1
Non-Controlling Interest	55.4	105.4	117.8	136.0	157.4	181.8	208.9
	1,234.9	1,434.5	1,599.2	1,853.3	2,155.1	2,526.1	2,955.0
Non-current liabilities							
Long term Borrowings	192.9	249.8	230.1	203.8	177.4	151.4	125.8
Other Financial Liabilities	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Lease Liabilities	-	-	249.2	249.2	249.2	249.2	249.2
Long term Provisions	6.1	8.0	6.4	7.1	8.0	8.9	10.0
Deffered Tax Liabilities (Net)	5.6	12.2	1.9	1.9	1.9	1.9	1.9
Other Longterm Liabilities	4.2	3.8	7.0	7.8	8.7	9.8	11.0
	208.9	274.0	494.6	469.9	445.3	421.3	398.0
Current liabilities							
Short-term borrowings	1,323.3	1,420.6	1,227.9	1,127.9	1,127.9	1,127.9	1,127.9
Trade payables	341.7	283.8	260.8	282.5	316.4	354.3	394.2
Other Financial Liabilities	75.1	128.7	96.9	103.3	112.5	122.5	133.6
Lease Liabilities	-	-	28.9	28.9	28.9	28.9	28.9
Short term Provisions	1.7	2.9	3.4	3.8	4.2	4.7	5.3
Current Tax Laibilities (Net)	46.0	19.0	24.2	24.2	24.2	24.2	24.2
Other current liabilities	30.3	21.9	84.5	94.6	105.9	118.6	132.8
	1,818.2	1,876.9	1,726.5	1,665.1	1,719.9	1,781.1	1,846.9
Total	3,262.0	3,585.4	3,820.3	3,988.3	4,320.3	4,728.5	5,199.8
ASSETS							
Non-current assets							
Fixed assets							
Tangible assets	470.1	508.7	541.6	518.1	491.1	460.7	426.7
Capital work-in-progress	27.5	42.2	17.2	17.2	17.2	17.2	17.2
Investment Property	3.0	-	-	-	-	-	-
Right of use assets	-	-	269.4	269.4	269.4	269.4	269.4
Goodwill	70.6	74.7	76.0	76.0	76.0	76.0	76.0
Intangible assets	22.6	17.8	19.0	15.9	12.9	9.8	6.7
Investment accounted for using the equity method	9.9	32.2	28.5	28.5	28.5	28.5	28.5
Financial Assets:							
Non-current investments	4.4	3.8	4.9	4.9	4.9	4.9	4.9
Long-term loans and advances	10.1	10.9	10.1	10.1	10.1	10.1	10.1
Other fiancial assets	136.3	141.1	141.7	158.6	177.6	198.9	222.8
Non-current tax assets (net)	36.2	36.6	39.2	39.2	39.2	39.2	39.2
Deffered Tax Assets (Net)	12.2	20.8	33.8	33.8	33.8	33.8	33.8
Other non-current assets	6.2	7.7	6.6	7.4	8.3	9.3	10.4
	809.1	896.6	1,187.9	1,179.1	1,168.9	1,157.6	1,145.6
Current assets							
Inventories	1,728.7	1,891.2	1,750.2	1,820.7	1,987.7	2,169.1	2,413.1
Financial Assets:							
Trade receivables	468.0	534.9	619.6	699.3	783.0	876.9	982.4
Cash and Cash Equivalents	19.5	29.2	19.1	18.4	29.4	39.1	34.3
Other Balances with Banks	9.6	8.5	5.8	5.8	55.8	155.8	255.8
Short-term loans and advances	18.3	7.9	8.8	8.8	8.8	8.8	8.8
Other financial assets	16.0	29.2	11.2	12.5	14.0	15.7	17.6
Current Tax Assets(net)	0.6	-	-	-	-	-	-
Other current assets	192.3	188.0	217.6	243.6	272.8	305.5	342.2
	2,452.9	2,688.9	2,632.4	2,809.2	3,151.4	3,570.9	4,054.3
Total	3,262.0	3,585.4	3,820.3	3,988.3	4,320.3	4,728.5	5,199.8

Cash Flow

	2018	2019	2020	2021E	2022E	2023E	2024E
CASH FLOW FROM OPERATING ACTIVITIES							
Profit / (Loss) before Tax	215.8	213.6	276.9	416.8	522.1	695.2	831.6
Depreciation and Amortization	50.1	69.0	91.4	76.5	80.0	83.6	87.1
Interest	145.0	135.1	129.8	104.4	98.3	92.9	87.5
Other Operating Activities	8.2	4.8	24.5				
Working capital changes	(255.5)	(216.4)	33.4	(153.2)	(244.5)	(268.6)	(344.6)
Income tax paid	(103.5)	(103.7)	(78.9)	(104.9)	(131.4)	(175.0)	(209.3)
NET CASH GENERATED BY OPERATING ACTIVITIES (A)	60.2	102.5	477.2	339.6	324.6	428.1	452.2
CASH FLOWS FROM INVESTING ACTIVITIES							
Capital Expenditure	(229.4)	(113.3)	(84.5)	(50.0)	(50.0)	(50.0)	(50.0)
Change in Investments	(4.6)	(25.8)	1.1	-	(50.0)	(100.0)	(100.0)
Other Investing Activities	1.6	3.6	2.5	2.4	5.9	11.7	17.9
NET CASH GENERATED / (USED) IN INVESTING ACTIVITIES (B)	(232.4)	(135.6)	(80.9)	(47.6)	(94.1)	(138.3)	(132.1)
CASH FLOW FROM FINANCING ACTIVITIES							
Interest paid	(145.8)	(137.8)	(130.9)	(106.8)	(104.2)	(104.6)	(105.3)
Dividend paid including DDT	(4.8)	(6.1)	(25.1)	(57.7)	(88.9)	(149.2)	(193.4)
Other Financial Activities	310.4	187.7	(247.8)	(128.2)	(26.3)	(26.3)	(26.1)
NET CASH GENERATED / (USED) IN FINANCING ACTIVITIES (C)	159.8	43.9	(403.8)	(292.7)	(219.5)	(280.2)	(324.8)
Net Change in Cash (A+B+C)	(12.4)	10.9	(7.5)	(0.7)	11.0	9.7	(4.8)
Cash & cash equivalents at the end of the year	19.5	29.2	19.1	18.4	29.4	39.1	34.3

Source: Company, LKP Research

Financial Ratios

₹ Cr	2018	2019	2020	2021E	2022E	2023E	2024E
Per Share data (INR)							
EPS	4.80	3.96	5.77	9.18	11.55	15.50	18.61
Cash EPS	6.93	6.46	9.09	12.14	14.72	18.88	22.18
BV/Share	42.02	41.56	46.31	53.69	62.46	73.30	85.86
DPS	0.15	0.15	0.65	1.50	2.31	3.87	5.02
Payout (%)	3%	4%	11%	16%	20%	25%	27%
Growth Ratios (%)							
Sales Growth	11.37%	7.66%	6.57%	11.93%	11.97%	12.00%	12.03%
EBIDTA Growth	5.53%	5.08%	18.49%	22.26%	16.48%	25.02%	15.92%
EBIT Growth	1.97%	-2.78%	17.35%	26.64%	19.64%	27.69%	17.14%
EBT Growth	11.88%	-1.01%	29.64%	50.49%	25.28%	33.13%	19.63%
PAT Growth	12.81%	-4.82%	44.99%	56.48%	25.28%	33.13%	19.63%
Valuation Ratios (x)							
P/E	11.83	14.34	9.84	6.18	4.91	3.66	3.05
Cash P/E	8.19	8.79	6.24	4.67	3.86	3.01	2.56
EV/Sales	0.86	0.89	0.79	0.68	0.59	0.50	0.43
EV/EBITDA	8.23	8.73	6.96	5.47	4.57	3.49	2.89
P/B	1.35	1.37	1.23	1.06	0.91	0.77	0.66
Mcap/Sales	0.44	0.47	0.44	0.39	0.35	0.31	0.28
Working Capital Ratios (x)							
Fixed Asset Turnover Ratio	6.95	6.84	7.18	8.42	9.97	11.93	14.47
Asset Turnover Ratio	1.11	1.09	1.09	1.16	1.20	1.23	1.25
Inventory Days	236.20	234.94	208.26	200.00	195.00	190.00	190.00
Trade Receivables Days	47.27	50.18	54.55	55.00	55.00	55.00	55.00
Trade Payables Days	46.69	35.26	31.04	31.04	31.04	31.04	31.04
Profitability Ratios (%)							
EBITDA Margin	10.5%	10.2%	11.4%	12.4%	12.9%	14.4%	14.9%
EBIT Margin	10.0%	9.1%	10.0%	11.3%	12.1%	13.7%	14.4%
EBT Margin	6.0%	5.5%	6.7%	9.0%	10.0%	11.9%	12.8%
PAT Margin	4.0%	3.5%	4.8%	6.7%	7.5%	8.9%	9.5%
Return Ratios							
ROE (%)	12.24%	10.34%	13.45%	18.16%	19.56%	22.19%	22.66%
ROCE (%)	25.10%	20.62%	19.75%	22.54%	24.09%	27.14%	27.94%
ROA (%)	4.43%	3.83%	5.22%	7.82%	9.04%	11.00%	11.97%
Liquidity & Leverage Ratios (x)							
Current Ratio	1.35	1.43	1.52	1.69	1.83	2.00	2.20
Interest Coverage Ratio	2.47	2.54	3.13	4.90	6.01	7.64	8.89
Net Debt/Equity Ratio	1.58	1.46	1.16	0.94	0.78	0.62	0.50
Debt/EBIDTA Ratio	4.09	4.26	3.16	2.36	1.99	1.56	1.32
Financial Leverage	2.77	2.70	2.58	2.32	2.16	2.02	1.89
Gearing Ratio (%)	60.6%	58.6%	53.3%	48.1%	42.9%	36.6%	31.3%

Source: Company, LKP Research

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